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Loan waivers: No silver lining for farm sector

BY [ATMADIP RAY](#), ET BUREAU | UPDATED: DEC 26, 2018, 01.18 PM IST

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In a country where bank loans worth Rs 10 lakh crore qualify to be categorised as bad, the wave of competitive populism in bailing out [farmers](#) is building further stress for lenders. From the largest State Bank of India to the most valuable HDFC Bank -- all have their share of repayment woes, sown in the rural hinterland.

"The expectations of loan waiver itself start building up delinquencies. Further, the impact is not limited to crop loans, or to any particular size of loans," said Prakash Agrawal, head - financial institutions, at India Ratings.

Five of the six largest public sector banks reported a rise in the delinquency level in their agricultural loan portfolio, despite normal monsoons in 2016 and 2017, and marginally deficient monsoon in 2018, the rating firm said.

SBI saw nearly 11.5% of its agri loan portfolio of Rs 1.91 lakh crore turning bad in the September quarter, compared with 9.93% a year ago. This was despite the fact that bank's sticky loan book shrunk to Rs 94,810 crore from Rs 110,855 crore in March.

The List Grows...

Farm-loan waivers by the newly elected Congress governments of Madhya Pradesh, Chhattisgarh and Rajasthan; and also by Bharatiya Janata Party-led Assam government, add to the long list of states that have waived loans to keep poll promises. Andhra Pradesh, Telangana, Punjab, Rajasthan and Karnataka have waived loans since 2014.

Many believe that UPA government's debt waiver in 2008 had helped Prime Minister Manmohan Singh secure a second term. The [BJP](#) promised such waivers in Uttar Pradesh and Maharashtra that helped it secure the two assemblies.



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In anticipation, farmers stop repaying while banks go slow on fresh lending until and unless state governments with debt waiver package reimburse the amount written off.

"The competitive politics of farm loan waiver is killing the banking industry. It provides incentives to people to default. It's a wrong way to address the real issue," said United Bank of India Managing Director Ashok Kumar Pradhan.

The unintended outcome of this could be reduced availability of credit to the farmers, forcing them to resort to money lenders.



Farm-loan waivers could not repair damages that better infrastructure definitely could.


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State Largesse

States	Year	Headline Size (₹ Cr)	Government
Andhra Pradesh	2014	43,000	TDP
Assam	2018	600	BJP
Chhattisgarh	2018	6,100	Cong
Karnataka	2018	8,165	JD(S)-Cong
Madhya Pradesh	2018	38,000	Cong
Maharashtra	2017	34,000	BJP
Punjab	2018	10,000	Cong
Telangana	2014	17,000	TRS
Tamil Nadu	2016	6,095	AIADMK
Rajasthan	2017-'18	8,000/18,000	BJP/Cong
Uttar Pradesh	2017	36,369	BJP

Source: RBI reports, India Ratings & others



Breaking of the Credit Cycle

An SOS from the National Bank for Agriculture & Rural Development to state governments requesting quick release of funds to banks shows the urgency of the institution for flow of funds during the busy sowing season. Demand for crop loans reaches its peak between late November and February and delay in loan disbursement means added stress to farmers.

"Recovery gets impacted when governments announce [loan waivers](#)," said Nabard chairman Harsh Kumar Bhanwala. This squeezes liquidity for banks, especially for the cooperative banks, which have deep penetration into the nation's agrarian heartland. "My concern is that farming in Rabi season should not get affected. The credit cycle must continue," Bhanwala said.

Beyond the Immediate

When a poll promise becomes a reality, it's not just farmers who stop repaying debt. Anecdotes from a leading north India-focused microfinance firm show that in Jeevan Nagar, Bansiya, or Kadta villages in Sagar district of Madhya Pradesh, 70 of the firm's women borrowers refused to pay back a day after new chief minister Kamal Nath completed the formality. "We had to communicate to them... that it is not meant for every rural borrower. At the end of the day, 63 of the 70 paid, while the rest were still hopeful of a waiver. They would realise the real scene may be in another few days," said the head of the firm.

The success of the microfinance revolves around the efficiency of payment collections. In an economy where loan waiver takes centre-stage, regularity of repayment becomes a challenge. It does not matter that waivers typically pertain to loans from mainstream banks, regional rural banks or cooperative banks. It becomes a difficult task for lenders to regularise repayment cycle.

"Suddenly the collection activity becomes much more costly," said Vineet Rai, chairman of Aavishkaar-Intellectap Group, the owner of Kolkata-based microfinance firm Arohan Financial Services.

Farm Distress

"Loan waivers are almost always a bad idea" economist Kaushik Basu tweeted last week. "But even rich nations have limited liability laws which allow for loan waivers in special cases. India's demonetization caused such acute distress for agriculture that now is a special case where farmers deserve limited liability waiver," Basu argued.

Dry spells in the West and South added to the woes. The southwest monsoon season ended with rainfall 9.4% short of the long-period average. Rainfall distribution has been somewhat patchy with states such as Karnataka and Gujarat being hit the most.

"The situation has worsened with a delay in the northeast monsoon, along with a deficit of 49%, as of December 12 " Crisil said.

The vagaries of nature underscore that farmers do not need loan waivers but long-term solutions. State governments are spending a cumulative Rs 1.5-1.8 lakh crore. The state-sponsored bounty strains their finances without securing any long-term objective.

"The real benefit to small and marginal farmers, with less than 2 hectares of landholding size, will not come from loan waiver programmes. This is because only 15% of small farmers have access to institutional credit, and loan waiver schemes typically cater to farmers who have availed formal loans, Nilanjan Banik, professor at Bennett University argued in an EPW journal.

These states could have done better by investing the money in deepening minor irrigation. Institutional mechanisms such as crop insurance could have been widened. Water levels in reservoirs have plunged due to the weak monsoons in September and October. Sowing of paddy is down by about 28%.

Farm-loan waivers could not repair such damages that better infrastructure definitely could.

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