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Can Minimum Income Schemes and Loan Waivers help Farmers in India?

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Summary

The Indian Prime Minister Narendra Modi launched the PM-Kisan Samman Nidhi Scheme on 24 February 2019. Involving an expenditure of ₹750 billion (S$15 billion), the scheme would provide a minimum income of ₹6,000 (S$117) per year to around 120 million small and marginal farmers. The scheme has been criticized by many as a populist effort by the Modi government for securing the votes of farmers.

Political parties running various state governments have been trying desperately to appease farmers. This is evident from several Indian states announcing farm loan waivers during the last couple of years. The Congress announced waivers in the states it won elections last year and has promised to write off all agricultural loans if it is voted back into power. BJP state governments and those that belong to regional parties have also announced waivers at various points in time in the recent past. The announcements have overlooked the fiscal damages they inflict on state government finances. Waivers have been persisted with notwithstanding the fact that they benefit only a select group of indebted farmers and do not influence economic prospects of vast numbers of agricultural labourers.

Minimum income support schemes, like the PM-Kisan announced by the central government, or Rythu Bandhu and Kalia by Telangana and Odisha, are also not panaceas for increasing farmer incomes. The schemes are encountering difficulties in implementation due to improper land records and problems in identifying beneficiaries. As this paper argues, Indian political parties are shying away from implementing policies that could have helped in increasing farmer incomes. Efforts like amending state Agricultural Produce Marketing Committee (APMC) Acts and encouraging large investments in food supply chains can help farmers in reaching wider markers and getting higher prices. Unfortunately, these are being avoided in favour of politically appealing, but economically suboptimal options, like loan waivers and minimum income.

Introduction

The Indian Prime Minister Narendra Modi launched the country's biggest ever support scheme for farmers - *PM-Kisan Samman Nidhi Scheme* - on 24 February 2019 in Uttar Pradesh. The scheme would provide annual income of ₹6,000 (S$117) to small farmers owning up to 2 hectares of land. The scheme is the latest in a series of efforts to address farmers' distress. While several states have been writing off bank loans of farmers, the states of Telangana and Odisha have launched income support schemes. The paper reviews these efforts and argues them to be driven largely by political populism. The positive economic impacts of the schemes are limited for farmers. The essential economic reforms for raising farmer incomes are being avoided by political parties due to risks of alienating political constituencies.

Glut of Loan waivers

During the last couple of years, Indian states have been competing with each other in writing off farm loans. Beginning from April 2017, eight major Indian states have announced such waivers. These include Karnataka, Madhya Pradesh, Chhattisgarh, Maharashtra, Tamil Nadu, Punjab, Telangana and Uttar Pradesh. The total amount of loans being written off by these states are around ₹1.9 trillion (S$37 billion)[1], which is about 1 per cent of the Indian GDP. Indeed, as Table 1 reveals, during the last five years, various Indian states have cancelled agricultural loans that are significant proportions of their Gross State Domestic Product (GSDP).

Table 1: Farm Loan Waivers by Indian States

Year	State	Amount (₹ billion)	Waiver (% of GSDP)
2014	Andhra Pradesh	240	4.6
2014	Telangana	170	3.4
2016	Tamil Nadu	60	0.5
2017	Maharashtra	340	1.3
2017	Uttar Pradesh	360	2.7
2017	Punjab	100	2.1
2018	Rajasthan	80	0.9
2018	Karnataka	340	2.4

Source: Reserve Bank of India (RBI) State Finances Report, 2018; Note: Excludes estimates for Madhya Pradesh, Chhattisgarh and Rajasthan that waived loans in late 2018

While loan waivers have been rampant in recent years, their origin can be traced back to 1987, when they were announced for the first time by Haryana. Furthermore, while it is mostly state governments that are waiving off loans, there are two instances of the central governments doing so as well: the *Jan Morcha* government under Prime Minister V.P. Singh in 1990; and the Congress-led United Progressive Alliance (UPA) government under Prime Minister Manmohan Singh in 2008.

[1] '8 states. ₹1.9 trillion. It's raining farm loan waivers, but are farmers really gaining?', *Livemint*, 21 December 2018. **https://www.livemint.com.** Accessed on 5 March 2019.

A close look at waivers since 1987 suggests that these are party-neutral. It is not just state governments belonging to national political parties like Congress and BJP that have announced waivers. Governments belonging to the Left parties and regional parties have been equally active in this regard[2]. In more recent months though, Congress has been particularly active in announcing waivers. Apart from waiving off loans in states where it formed governments after assembly elections in 2018 (Chhattisgarh, Rajasthan, Madhya Pradesh), Congress President Rahul Gandhi has promised waiving of all agricultural loans if the Congress is voted back into power in the impending general elections[3]. The Congress clearly sees rural distress as one of the biggest challenges for the Modi government and is using debt write-offs as a popular political slogan. The tactic, which has also been deployed by the BJP-ruled state governments, and enjoys pervasive political appeal begs the question: do they actually benefit farmers?

Indebted farmers would welcome loan waivers. But such generosity benefits only a section of among them, those that hold bank loans. Many indebted farmers avail loans from informal money lenders and do not benefit from bank loan waivers. The waivers also do not help landless agricultural labourers, who comprise more than half of the rural work force. These labourers are not eligible for bank loans as they do not own land. Among the farmers who benefit from the waivers, the documentation and procedural requirements for certifying 'eligibility', delay the write-off for many. More resourceful farmers capable of addressing these requirements are better placed to obtain the benefits. These are usually the richer farmers owning more land, highlighting the systemic bias in the process of loan waivers against small farmers.

Regular announcements of loan waivers also tend to create chronic expectations among farmers. Low returns on investments in inputs for a particular cropping cycle, against the backdrop of waivers being pronounced all over, tend to reduce efforts in increasing returns through higher productivity on crop yield, on the hope of more waivers to be announced soon. The expectation generates a perverse set of disincentives among various actors. Many farmers take waivers for 'granted' and go slow in servicing loans. Even worse, farmers working hard to pay off outstanding loans, mostly the small and marginal ones, feel cheated by waivers, as the latter cover all, irrespective of quality of performance in servicing loans. On the other hand, banks become more and more cautious in lending to farmers. Several farmers lose their creditworthiness as bank balance sheets turn red due to the piling up of unrecovered loans. More circumspect banks imply lower credit flow to agriculture and allied activities forcing several farmers to turn to informal sources of credit, increasing their vulnerability to long-term indebtedness.

The other deleterious impact of loan waivers is on state government finances. Debt write-offs imply the transfer of pending loans from balance sheets of banks to state government

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[2] A detailed account is provided by Phadnis, Ajit and Gupta, Aishwarya (2018), 'The politics of farm loan waivers : A comparative study', https://www.isid.ac.in/~epu/acegd2018/papers/AjitPhadnis.pdf Accessed on 5 March 2018

[3] 'After Basic Income, Congress's Next Big Promise: Farm Loan Waiver for All', NDTV, 3 February 2019; https://www.ndtv.com/india-news/after-basic-income-congress-next-big-promise-farm-loan-waiver-for-all-1987631

budgets. In their rush to waive loans, states have been picking up high liabilities that are worsening their fiscal conditions. The latest estimates of fiscal deficits (third quarter of 2018) of larger Indian states accounting for 90 per cent of total state government budgets in India show aggregate deficit at its worst during the last eight years[4]. States announcing loan waivers last year, such as Karnataka, Chhattisgarh, Rajasthan and Madhya Pradesh, are beyond their budgeted fiscal deficits within three quarters of the year. The situation reflects a worsening of the fiscal conditions of states. As the Reserve Bank of India's estimates indicate[5], total debt waivers as a proportion of the state GSDP's have been rising, with such proportions having increased for 16 states. In a haste to announce waivers, states are overlooking their fiscal conditions and budgetary difficulties leading to an overall deterioration of the public finances for the country.

Shift to minimum income schemes

Economically, loan waivers are not sustainable. They're also not inclusive and, as argued earlier, help only a select group of farmers. While politically waivers are appealing, their inherent limitations restrict them from being politically profitable options in the long term. Most importantly, they're not a solution to the core factor driving agrarian distress, which is the inability of most farmers to increase their incomes in a sustainable manner.

Realizing the limitations of loan waivers, state and central governments are shifting to a different economic policy: guaranteeing a minimum income to farmers. Telangana was the first state to roll out such a scheme (*Rythu Bandhu*) on 10 May 2018, followed by Odisha (*Kalia*) on 31 December 2018. Both schemes are precursors to the *PM-Kisan* scheme. The key elements of the three schemes are in Table 2.

Table 2: Comparative Features of Farmer Income Support Schemes

	PM-Kisan	**Rythu Bandhu**	**Kalia**
Income and Expenditure	₹6000 (S$117) per annum in three instalments of ₹2000 (S$39). A total of ₹750 billion (S$15 billion) provided in the Union Budget	₹4000 (S$78) per acre per farmer each season, i.e ₹8000 (S$156) per acre per annum. The total budgetary outlay	a) ₹5000 (S$97) in the Kharif and Rabi seasons for five cropping seasons during 2018-19 and 2021-22. b) ₹12,500 (S$243) to 1 million landless

[4] 'States running high fiscal deficits too', Economic Times, 1 March 2019; https://economictimes.indiatimes.com/markets/stocks/news/states-running-high-fiscal-deficits-too/articleshow/68211676.cms Accessed on 6 March 2019.

[5] RBI State Finances Report, 2018.

	for FY2019 and ₹200 billion (S$4billion) for the remaining part of FY 2018.	is ₹120 billion (S$2.3 billion).	agricultural households. c) ₹10,000(S$194) to 1 million vulnerable agricultural households and landless labourers. The total budgetary outlay for FY2019 is ₹44.6 billion (S$0.9 billion).
Eligible Beneficiaries	Small and marginal farmer households with combined landholding of up to 2 hectares.	Cultivating farmers.	a) Small and marginal farmers owning up to of up to 2 hectares of agricultural land. b) Landless agricultural households, landless agricultural labourers and sharecroppers.
Coverage	Expected to cover 120 million small and marginal farmers.	Around 6 million, till now.	Details are yet to be available.

Source: a) PM-Kisan Samman Nidhi, Ministry of Agriculture & Farmers Welfare, Government of India (https://pmkisan.nic.in) b) Guidelines for Implementation of Agriculture Investment Support Scheme ("Rythu Bandhu") in Telangana State (http://www.news19.in/wp-content/uploads/2018/08/rythu-bandhu.pdf) c) KALIA Scheme –Odisha Farmers Financial Assistance and Interest Free Crop Loan Scheme (https://pmil.in/odisha-govt-scheme/kalia-scheme/) All sources accessed on 7 March 2019.

The *PM-Kisan* scheme has received the maximum attention among all three, largely because of the huge budgetary support it entails, and also because it comes right before the general elections. Though the scheme focuses on small and marginal farmers, it excludes landless labourers and tenant farmers. Thus, in spite of overlooking fiscal considerations, the scheme has not been able to be inclusive. The *Rythu Bandhu* also excludes landless labourers. Till now, it is only *Kalia* that has tried to address the concerns of this vast community.

Implementation of the schemes are facing administrative challenges. The biggest problem is identifying beneficiaries. The *PM-Kisan* scheme has to rely on states for providing data on eligible beneficiaries. Indian states continue to suffer from poor land records, which are yet to be fully digitised. Given that the *PM-Kisan* funds would be transferred to beneficiaries in their bank accounts that should be linked to their unique identity numbers (*Aadhar*), the digital interconnectedness between land records, bank accounts and Aadhar is vital for the success of the scheme. Along with administrative issues, the *PM-Kisan* scheme has several excluded categories resulting in a fairly high rate of rejection of submitted applications received so far[6]. Administrative issues are affecting its progress in Telangana and Odisha, not helped by Telangana undertaking exhaustive updating of land records and Odisha working on identifying eligible sharecroppers.

Political optics and economic failure

Agriculture is a critical constituency in India's political economy. While its share in the country's economy is less than 15 per cent, it accounts for more than half of the country's total livelihoods. Its prospects have profound impact for the well-being of several in the country and are therefore meaningful in influencing electoral outcomes. Steps taken for improving the economic conditions of farmers are therefore politically appealing. Unfortunately, farm loan waivers can't raise farmer incomes; they can, at best, provide short-term relief for tiding over financial difficulties. Thus, notwithstanding the glut of loan waivers in the last couple of years, governments are showing the tendency to move to farmer income support schemes. But even these are incapable of guaranteeing higher farmer incomes. The latter requires farmers fetching higher prices on their crops.

The central and state governments in India, unfortunately, appear unwilling to allow markets to be more active in generating higher incomes for farmers. Amending state Agriculture Produce Marketing Committee (APMC) Acts can enable farmers to sell crops to a much bigger market. At the same time, large-scale investments in developing cold-storage and food supply chain infrastructure can help farmers in reaching more consumers, including in global markets. Unfortunately, these measures would irk several lobbies with entrenched interests, such as state commission agents for procuring crops, hoarders and local informal retailers, all of whom political parties are hesitant to upset. Thus, farmers' welfare continues to be addressed by fiscally damaging instruments like farm loan waivers and minimum income support schemes, which are more political optics, rather than being economically meaningful measures.

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[6] 'Modi Launches PM- Kisan Scheme, Rs 2000 transferred to One Crore Farmers', *The Wire*; 24 February 2019; https://thewire.in/agriculture/modi-launches-pm-kisan-scheme-rs-2000-transferred-to-one-crore-farmers Accessed on 8 March 2019

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