

Farm Loan Waiver

CURRENT AFFAIR

- * Maharashtra government announced a loan waiver for farmers who had up to Rs 2 lakh in pending loans between April 1, 2015 and March 31, 2019.

What to study?

- * For Prelims: Which states announced farm loan waivers in last one year.
- * For Mains: Advantages and Disadvantages of farm loan waivers, the need for viable solution to farm distress.
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What is Farm Loan Waiver?

- * When there is a poor monsoon or natural calamity, farmers may be unable to repay loans. The rural distress in such situations often prompts States or the Centre to offer relief — reduction or complete waiver of loans.

WHY IN SPOTLIGHT???

- * Maharashtra by doing so has become the only state to have offered two consecutive farm loan waivers within two-and-a-half years of each other.
- * The previous loan waiver was announced by the Devendra Fadnavis government in June 2017.

Why banks give loans?

- * At the start of the cropping cycle, banks extend short term credits to farmers to finance their need of capital for purchase of seeds, etc. Financial institutions usually provide this loan at 7% interest.
- * Timely repayments allows farmers to get a 3% interest subvention from the central government and a further 2% subvention from the state government, thus effectively reducing the interest rate to just 1%.

Why defaults???

- * A spate of extreme weather events, like droughts, floods, hailstorms etc, often results in farmers defaulting on their repayment.
- * Defaulting farmers become ineligible for new capital from the banks and are forced to knock at the door of private money lenders.

2017 Waiver

- * Faced with an unprecedented farmers' strike, the Fadnavis-led government had announced a loan waiver scheme in June 2017.
- * Irrespective of the size of landholding, the scheme waived off outstanding crop loans up to Rs 1.5 lakh per family.
- * Farmers who made regular repayments got Rs 25,000 as incentive for good credit behaviour.

New Scheme

- * Mahatma Jyotirao Phule Shetkari Karja Mukti Yojana.
- * State government sources said this scheme would see Rs 26,000 crore of outstanding loans of over 36 lakh accounts being waived off.

Difference between the two waivers

- * In the latest scheme, farmers with more than Rs 2 lakh outstanding are not eligible for the scheme.
- * Also, the scheme has no incentive for farmers who are regular in their repayments.
- * A new provision in the present scheme is that families with more than one loan account are eligible for waiver in each one of their accounts.
- * The last waiver was limited to one account per family.
- * Also, this time farmers will not have to file online forms to avail their waivers. It had led to major confusion last time.

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