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Agriculture Loan Bank Accounts – A Waiver Scenario Analysis

Rajendra Raghumanda, Ravi Shankar and Sukhbir Singh¹

Abstract

Many state governments have announced farm debt waiver schemes with varying features / coverage to provide relief to indebted farmers. This note presents a scenario-based analysis of possible size of debt waiver using account level data on bank credit. The estimates range from ₹ 2.2 lakh crore to ₹ 4.2 lakh crore, depending on the extent of coverage under the waiver schemes. In all cases, however, loan waiver by states could adversely impact their fiscal position.

I. Introduction

Agricultural credit is a critical resource support to farm sector in India, given the dependence of a large section of its population on agricultural activities. In the recent times, multiple challenges have led to stress in the agricultural sector, which also got manifested in episodes of untimely deaths of distressed farmers. Farm loan waiver is often suggested as a possible solution to such distress situations.

The first ever nation-wide farm loan waiver was announced in 1990. Subsequently, the Government of India implemented the *Agricultural Debt Waiver and Debt Relief Scheme* in 2008 to address the then prevailing agrarian crisis.

In the recent years too, there have been demands for similar policy response and some of the state Governments have implemented such schemes. Andhra Pradesh and Telangana implemented their loan waiver schemes in 2014 and Tamil Nadu in 2016. In the current year, four states (namely, Maharashtra, UP, Punjab and Karnataka) have announced farm loan waiver scheme, with varying criteria. The coverage and quantum of debt relief announced by these states are presented in Table 1.

¹Ravi Shankar is Director and Rajendra Raghumanda and Sukhbir Singh are Research Officers in the Department of Statistics and Information Management. The findings and views in this paper are entirely those of the authors and should not necessarily be interpreted as the official views of Reserve Bank of India.

Table 1: Recent Loan Waiver Schemes - Main Features

State	Amount estimated to be waived (Rounded to ₹ '000 crore)	Amount Criteria
Maharashtra	34,000	Up to ₹ 1.5 lakh each for all farmers for crop loans
Uttar Pradesh	36,000	Up to ₹ 1 lakh of crop loans for Small and Marginal Farmers
Punjab	10,000	Up to ₹ 2 lakhs for small & marginal and flat ₹ 2 lakhs for loans above ₹ 2 lakhs
Karnataka	8,000	Only crop loans from co-operative banks of amount up to ₹ 50,000

Source: Media reports.

However, loan waiver is often considered to be an imprudent policy due to its resultant fiscal burden as well as the adverse impact on credit discipline/banking habits of borrowers.

This note attempts to assess the overall quantum of farm debt waiver under various scenarios, based on the data reported by banks as at end-March 2016, which is the cut-off date for some of the loan waivers announced recently.

II. Bank Credit to Agriculture – Stylised Facts

II.A Data

The study uses account-level data from the Reserve Bank of India's Basic Statistical Returns on credit (BSR-1) as reported by the scheduled commercial banks (SCBs) [including regional rural banks (RRBs)]. Loans extended by co-operative banks are not captured in BSR-1.

II.B Composition of Bank Credit to Agriculture

There were nearly 77 million agriculture credit accounts² with SCBs as on March 2016 with the average size of credit at ₹ 1.16 lakh. Around 70 per cent of these are crop loans, which account for nearly 67 per cent of the outstanding loan amount (Table 2). As on the cut-off date, a majority of these crop loan recipients (38 million) had outstanding loans up to ₹ 1 lakh and their average loan amount was ₹ 44,088. The loans for investment in equipment (e.g., tractors) had a share of nearly 27 per cent and 23 per cent in the number of accounts and the loan amount respectively (Table 2).

² As per National Sample Survey (NSS) Round 70, rural India had an estimated total of 90.2 million agricultural households in 2013.

Of the total 77 million agriculture credit accounts under consideration, about 39 million accounts were held by small and marginal farmers having land holding up to 2 hectares.³ For small and marginal farmers, crop loans constituted over 75 per cent of their total loan amount. The size of the crop loans is normally small – around 74% of crop loan accounts of small and marginal farmers were ‘up to ₹ 1 lakh’.

Table-2: Distribution of Agriculture Credit of SCBs – March 2016

Direct agriculture loans - All accounts

Amount outstanding range	Number of accounts (in lakh)				Amount outstanding (in ₹ crore)			
	Allied Activity	Crop Loan	Investment Loan	Grand Total	Allied Activity	Crop Loan	Investment Loan	Grand Total
Up to 1 Lakh	46	380	121	547	12882	167580	48377	228839
More than 1.0 Lakh and up to 1.5 Lakh	2	64	18	84	2748	74329	21489	98567
More than 1.5 Lakh and up to 2.0 Lakh	1	27	9	37	1987	46287	16230	64504
More than 2.0 Lakh	3	69	28	101	34988	316036	151525	502549
Grand Total	53	539	176	768	52605	604233	237620	894459

Of which - Small and Marginal farmers

Amount outstanding range	Number of accounts (in lakh)				Amount outstanding (in ₹ crore)			
	Allied Activity	Crop Loan	Investment Loan	Grand Total	Allied Activity	Crop Loan	Investment Loan	Grand Total
Up to 1 Lakh	16	221	51	288	5110	95675	19955	120741
More than 1.0 Lakh and up to 1.5 Lakh	1	35	7	42	1062	40412	7799	49274
More than 1.5 Lakh and up to 2.0 Lakh	0	13	3	17	718	22963	5671	29353
More than 2.0 Lakh	1	29	10	40	5916	110398	42106	158420
Grand Total	19	298	70	387	12807	269449	75532	357788

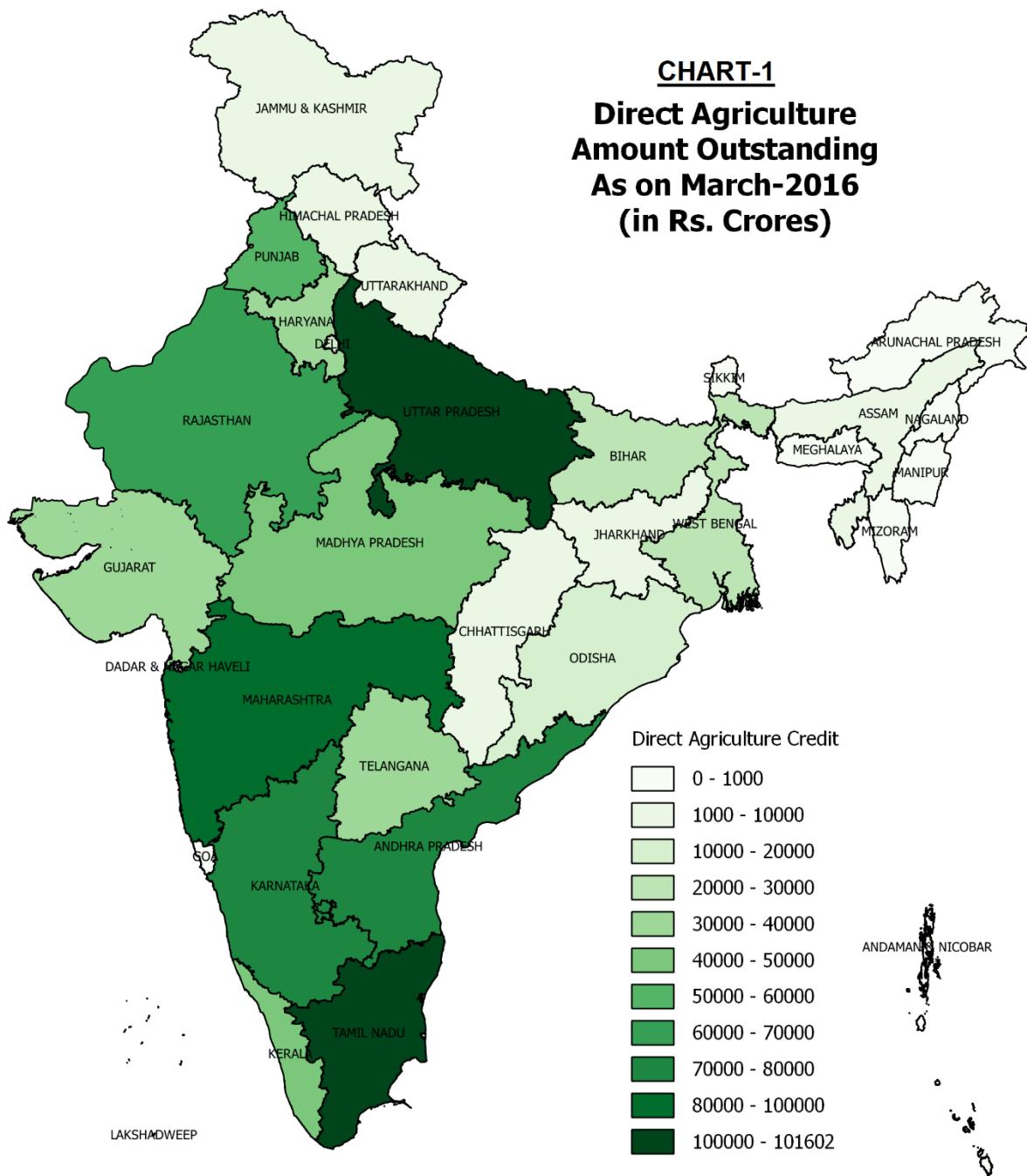
Note: Totals may not match due to rounding-off.

Crop loans are loans extended for growing of food, cash and plantation crops. Loans for farm machinery, irrigation, and soil/land development, etc., are grouped as investment loans. Loans for dairying, poultry, fisheries, forestry, etc., form allied activities.

II. C Regional Distribution of Bank Credit to Agriculture

Tamil Nadu (11.4 per cent), UP (11.3 per cent), Maharashtra (9.0 per cent), Karnataka (8.7 per cent) and Andhra Pradesh (8.5 per cent) are the top five states, which together account for about half of the total agriculture credit (Chart 1).

³ The NSS Round 70 estimated about 78 million households having land holding up to 2 Hectares. A hectare is equal to 10,000 square metres.



III. Assessment of Debt Waiver

State Governments have generally focussed on crop loans to small and marginal farmers in designing their waiver schemes with the twin objective of larger coverage and comparatively lesser burden on state finances. They have also prescribed different criteria for farm loan waiver schemes, based on their budget constraints. As such, an assessment of total loan waiver at national-level would entail assumptions on coverage and eligibility criteria.

In view of the above empirical facts, the following uniform criteria are considered for this analysis:

- i. Entire outstanding amount of loans up to ₹ 1 lakh would be waived, and
- ii. An amount of ₹ 1 lakh would be waived for loans of more than ₹ 1 lakh.

III.A Assessment of Aggregate Loan Waiver – Scenario Analysis

Under the above criteria, the states have the choice to either waive off all agricultural loans (taken for various purposes) or only crop loans. Similarly, the coverage of loan waiver could either be extended to all loan accounts or to small and marginal farmers having land holdings of size up to 2 Hectares. The quantum of farm loan waiver has been assessed under the following four alternative choices / scenarios:

Scenario 1: All Agriculture loans are waived

This scenario envisages coverage of loan waiver to be extended to all farm loan accounts irrespective of the type of loan or size of land holdings. In such a scheme, coverage would be maximum but the burden on the state finances would also be higher. The quantum of bank loans from SCBs is assessed to be about ₹ 4,50,000 crore by applying these selection criteria to account-level loan data at the national level. The amount is revised to ₹ 4,33,000 crore when adjusted for the estimated coverage already announced by the four states.

Scenario 2: All crop loans are waived

This scenario envisages covering majority of farmers but excludes investment loans and also loans towards allied activities. In this scenario, the total waiver could amount to ₹ 3,27,000 crore which moves up to ₹ 3,34,000 crore when adjusted for the amount already announced recently by the four states.

Scenario 3: Agriculture loans of only small and marginal farmers are waived

In a scenario where the coverage of loan waiver could be restricted to the small and marginal farmers to limit the fiscal burden, the total waiver amount is assessed to be about ₹ 2,20,000 crore. This estimate may move up to ₹ 2,56,000 crore with the coverage announced by the four states.

Scenario 4: Only crop loans of small and marginal farmers are waived

The empirical data suggests that loan waiver coverage might be limited to smaller sized crop loans availed by small and marginal farmers, to strike a balance between the two objectives - supporting the farmers and budget constraints. In such a scenario, the total loan waiver would amount to ₹ 1,73,000 crore at the national level. Once adjusted for the already announced schemes, the estimated waiver amount turns out to be ₹ 2,18,000 crore. Given the public policy environment, this scenario seems closer to reality.

III.B Fiscal Deficit - Impact

The estimated loan waiver amounts for SCBs at all-India level for different scenarios are summarised in Table 3 along with the impact on outstanding liabilities of the states and centre as percentage to GDP. State-wise assessment of the scenario-based loan waiver is provided in Statement-1. As per these scenarios, the crop loan waiver for small and marginal farmers alone would result in waiver of more than 65% of the outstanding crop loans.

Table 3: Aggregate Amount to be waived – Assessment for SCBs (₹ crore)

	All accounts		Of which, Small and Marginal Farmers	
	All Agriculture Loans (Scenario-1)	Out of which: Crop Loans (Scenario-2)	All Agriculture Loans (Scenario-3)	Out of which: Crop Loans (Scenario-4)
Amount to be waived (₹ crore)	450,198	326,856	219,604	172,896
% Share in total agriculture credit in March 2016	50.3	36.5	24.6	19.3
Ratio to GDP for 2017-18* (%)	2.7	1.9	1.3	1.0
Ratio to GDP for 2015-16 (%)	3.3	2.4	1.6	1.3
Outstanding liabilities (centre + states) to GDP ratio after waiver (per cent)	71.4	70.5	69.7	69.3
Amount to be waived (₹ crore) if actual estimates for the 4 states that have announced waiver are taken	433,666	334,137	256,172	218,344

*Using the Union Budget estimate of GDP for 2017-18 at ₹ 16,847,455 crore
Outstanding liabilities and GDP figures pertain to 2015-16.
Outstanding liabilities to GDP ratio without considering any loan waiver is 68 per cent.

IV. Summing Up

The scenario-based analysis gives the agriculture loan waiver amount in the range of ₹ 2.2 lakh crore in Scenario-4 (all crop loans of small and marginal farmers- more likely scenario) to ₹ 4.2 lakh crore in Scenario-1 (All agriculture loans - less likely scenario). Nearly 17 per cent of the agricultural credit that is given by cooperative banks⁴, etc. is not covered here, and its adjustment would take Scenario-4 amounting to around ₹ 2.4 lakh crore, once adjusted for the given amount for the four states.

These estimates would vary from the actual situation, based on claims processed and identification of eligible beneficiaries. States are following varying criteria (amount, nature, institutions, etc.) for loan waiver schemes. The nature of financing of increased expenditure would be important for overall macroeconomic impact. States may resort to other additional revenue mobilisation measures / expenditure cuts / additional borrowings, etc., to part-finance the loan waiver. In all cases, however, loan waiver by states would adversely impact their fiscal position.

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⁴ NABARD Annual Report 2015-16, Table 1.3 which gives agency-wise share of credit flow to agriculture and same is assumed for agriculture loans outstanding for this exercise.

STATEMENT-1
EXPECTED AMOUNT FOR AGRICULTURE LOAN WAIVER (SCBs ONLY)
(As per March-2016 BSR-1 Data)

(Amount in ₹ crores)

States/UTs	Coverage of Loan Waiver			
	All Farmers		Small and Marginal Farmers	
	All Agri Loans	Out of which Crop Loans	All Agri Loans	Out of which Crop Loans
ANDAMAN & NICOBAR ISLANDS	54	29	13	13
ANDHRA PRADESH	46,254	28,523	20,702	14,745
ARUNACHAL PRADESH	88	76	27	23
ASSAM	6,554	4,819	3,325	2,592
BIHAR	22,092	17,638	12,463	10,467
CHANDIGARH	45	20	14	6
CHHATTISGARH	3,411	2,679	1,399	1,081
DADRA & NAGAR HAVELI	13	9	5	4
DAMAN & DIU	11	2	4	1
GOA	301	117	104	38
GUJARAT	15,248	11,314	6,864	5,172
HARYANA	10,200	7,689	4,297	3,413
HIMACHAL PRADESH	2,619	1,847	1,238	982
JAMMU & KASHMIR	2,478	2,092	685	539
JHARKHAND	4,608	3,659	1,600	1,308
KARNATAKA**	34,637	21,486	14,703	10,270
KERALA	29,914	21,356	19,456	14,463
LAKSHADWEEP	5	2	0	0
MADHYA PRADESH	20,837	15,839	5,165	3,428
MAHARASHTRA**	35,026	23,551	15,899	10,924
MANIPUR	249	129	119	69
MEGHALAYA	483	393	36	25
MIZORAM	186	96	78	44
NAGALAND	192	165	16	12
NCT OF DELHI	161	57	70	30
ODISHA	10,847	6,532	2,215	1,387
PUDUCHERRY	1,203	858	424	348
PUNJAB**	12,377	9,466	4,958	4,008
RAJASTHAN	26,702	21,850	16,543	13,981
SIKKIM	59	40	28	19
TAMIL NADU	66,878	48,481	31,901	26,373
TELANGANA	21,902	15,438	15,306	11,403
TRIPURA	1,195	893	776	627
UTTAR PRADESH	57,129	47,703	30,574	27,620
UTTARAKHAND	2,585	1,966	1,176	924
WEST BENGAL	13,656	10,042	7,421	6,558
ALL INDIA	4,50,198	3,26,856	2,19,604	1,72,896

The amount is calculated considering the scenario of entire outstanding amount in loan account up to Rupees one lakh amount being waived and, for the accounts with above Rupees one lakh outstanding, an amount of Rupees one lakh being waived.

** These states already announced the loan waiver. However, the criteria of waiver are different.

Source: Basic Statistical Return of SCBs in India for agricultural credit.