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A Review On Mahatma Jyotiba Phule Shetkari Karj Mukti Yojana (Agriculture Loan Waiver) Scheme In Nagpur District

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Abstract

Over the last decade, debt cancellation programmes for farmers have become a common governmental tool. Many worries that loan waivers would vitiate the repayment culture in the agriculture sector and harm the financial stability of banks despite widespread agreement on the theoretical logic for such debt forgiveness and its profound contextual significance. Although there has been increasing empirical study in this area, the current data base on the effects of large-scale loan waivers remains thin. This work examines and synthesises the literature and statistics on the effects of loan waivers, focusing on the impact on farmers' access to bank loans. This article finds that the widespread negative effects on the formal banking industry may be exaggerated, even if loan waivers are an ineffective technique to increase agricultural incomes in the long run. The study explores potential next steps for developing a debt relief programme and highlights research gaps.

Keywords: Financial Stability, loan Waiver Scheme, Bank Credit, Agricultural Income.

Introduction

The effects of loan waivers on banks' ability to lend money are a contentious topic of dispute. Some thoughts on the matter are as follows. Governments often resort to loan

waivers as a means of alleviating economic hardship and gaining political support. However, they may lead to undesirable outcomes. Election-time promises from politicians to cancel debt might damage the budget and the economy as a whole. Financial institutions are exposed to potential losses due to loan waivers. Banks take a financial hit when borrowers get loan cancellations. This may reduce their available capital and limit their future lending. The expectation that future debts would be forgiven by the lender is called "moral hazard," and it may result from loan waivers. This might cause borrowers to lose self-control, since they may not feel pressured to make timely loan payments.

Credit Discipline Loan waivers may have a negative impact on both borrowers' and lenders' ability to responsibly manage their debt. It may become more difficult for creditworthy applicants to get loans if neither borrowers nor lenders took their payback responsibilities seriously. Sectoral Effects: Loan waivers often focus on agriculture and other specialised industries. While helping struggling farmers, this may cause credit market distortions. As a consequence, lending standards may tighten across other industries. As an alternative to debt forgiveness programmes that benefit everyone, governments may try things like income support programmes or providing direct aid to certain industries that are struggling. These methods may aid without disrupting existing credit systems.

Consequences on the Economy Loan cancellations may have far-reaching repercussions on the economy. The cost of borrowing for firms and people may be affected if inflation rises, the currency declines, and interest rates go up. The ability of new and small enterprises to get finance may be affected by loan waivers. As a result of the bad debt they are carrying, banks may become less willing to provide credit to startups and smaller companies. In the long run, loan waivers may hurt the economy and the banking industry. It may damage banks' bottom lines, dampen investor enthusiasm, and slow the economy. Instead of depending primarily on loan waivers, governments should implement responsible fiscal and monetary measures to solve economic hardship. A thriving credit market also requires reliable

methods of assessing risk, keeping tabs on accounts, and making recoveries.

Finally, loan waivers may help certain people or businesses in the short term, but they may have serious long-term effects for the economy and the financial system as a whole. Governments should consider the benefits and drawbacks of such actions and look into other, more long-term, focused remedies to economic suffering.

Literature Review

Seasonal fluctuations in farmers' returns and the shifting trend from subsistence to commercial farming (Abedullah et al. 2015) make agriculture the most credit-dependent industry. There is a considerable positive association between agricultural financing at affordable prices and agricultural productivity, according to recent research (Sriram 2007, Wakilur et al 2011). Working capital limits are loosened, farmers are encouraged to adopt new technology, and fixed resources are used more intensively, all of which improve agricultural output, according to Carter's (1989) argument. With access to credit, farmers may better manage their land and other fixed assets, maintain a steady level of consumption throughout the growing season, and ultimately increase agricultural output while decreasing their reliance on expensive black markets. Farmers who had access to credit were able to raise their income and build capital more quickly than their counterparts who did not, as documented by Sarker (2006).

Heady and Jensen (1958) found that the availability of short-term finance improved agricultural productivity by facilitating the timely delivery of necessary inputs. However, existing research show that formal financial institutions in Bangladesh, such as banks, NGOs, and farmer cooperatives, provide just a fraction of what is needed to meet the capital requirements of the agricultural sector. The International Fertiliser Development Centre (IFDC) and the Bangladesh Agricultural Research Council (BARC) performed a large-scale farm survey in 1979–1981, and they found that just 14% of farm families had access to finance in that year, and that number dropped to 11% the following year. The poll also found that big and medium-sized landowners were the

most likely to have acquired financing from traditional banking institutions.

Nepal Rastra Bank's Banking Development and Research Unit (2014) looked at issues that farmers in the Kailali district faced while trying to get and utilise agricultural loans. The effects of such loans on farmers' technical efficiency and output were analysed in this research. In the end, researchers discovered that farmers' access to financing boosted output and helped them become more technically proficient. Due to many paperwork and stringent terms and conditions, tenant farmers have limited access to conventional loan sources. According to Hossain and Bayes (2009), just 26% of rural Bangladesh's total institutional credit goes towards agriculture. They also revealed that just 1.5% of farmers with less than 0.20 hectors of land had access to bank credit, whereas 20% of farmers with more than 2.0 hectors of land were able to get loans from financial institutions. Banks and other government agencies often demand collateral before extending credit, which makes financing unavailable to small and landless farmers.

In order to determine how much of an effect loans to sharecroppers have on GDP development, Abdul Bayes and Patwary (2012) undertook a survey research. Sharecropper farmers who obtained loans from BRAC had a 2.2 times greater likelihood of seeing improvements in their economic situations than farmers who did not do so, according to the survey results. Since the poorest in the village are given the chance to improve their economic state, the research concludes that BB should continue its unique programme under the policy of inclusive finance.

Objectives of the study

To study the positive and negative aspects associated with farm loan waiver.

o To conduct analysis of the impact of farm loan waiver on the Indian Economy.

o To find out alternative ways to enhance farmers' welfare

The following are the goals of this research:

- Examine the benefits and drawbacks of forgiving agricultural loans.
- Examine the effect that cancelling agricultural loans

would have on the Indian economy.

- To explore available options for improving farmers' well-being.

Research Methodology

In order to gauge the prevalence of sharecropping in areas where this specialised credit scheme is being implemented, the survey team first gathered district-level data from the Collector Office. Based on those findings, the researcher chose 60 collector offices throughout Vidarbha's six divisions. We spoke to 883 different sharecroppers. The output from the raw data was obtained using the statistical application STATA. Results for quantitative analysis were determined using OLS.

Discussion

Loan waivers have been controversial because of the potential impact they might have on government finances. How states pay for them and how they plan to work the expenses into their budgets will have a significant impact on the effects of the loan waiver. However, there is a risk that borrowing money or reducing spending elsewhere would prevent necessary agricultural improvements from being made that might ultimately benefit farmers. However, when relied upon by the government, it may also affect inflation rates by contributing to a rise in state budget deficits. Given that loan waivers are often stretched over many years, even a single waiver for a farm loan may have consequences beyond the current fiscal year. Farmers in Andhra Pradesh, Telangana, and Tamil Nadu, for example, received debt waiver benefits in the year of implementation, but their state governments will reimburse lending institutions in installments over the course of five years. By the 2017–2018 school year, Telangana has received its full refund. Given the variation across states that have adopted such loan waivers, the resulting effects on state budget shortfalls are likely to be very non-uniform. However, such evidence is notoriously difficult to collect and verify.

Figure 1: Investments and New Project Approvals in High- and Low-Impact Industries

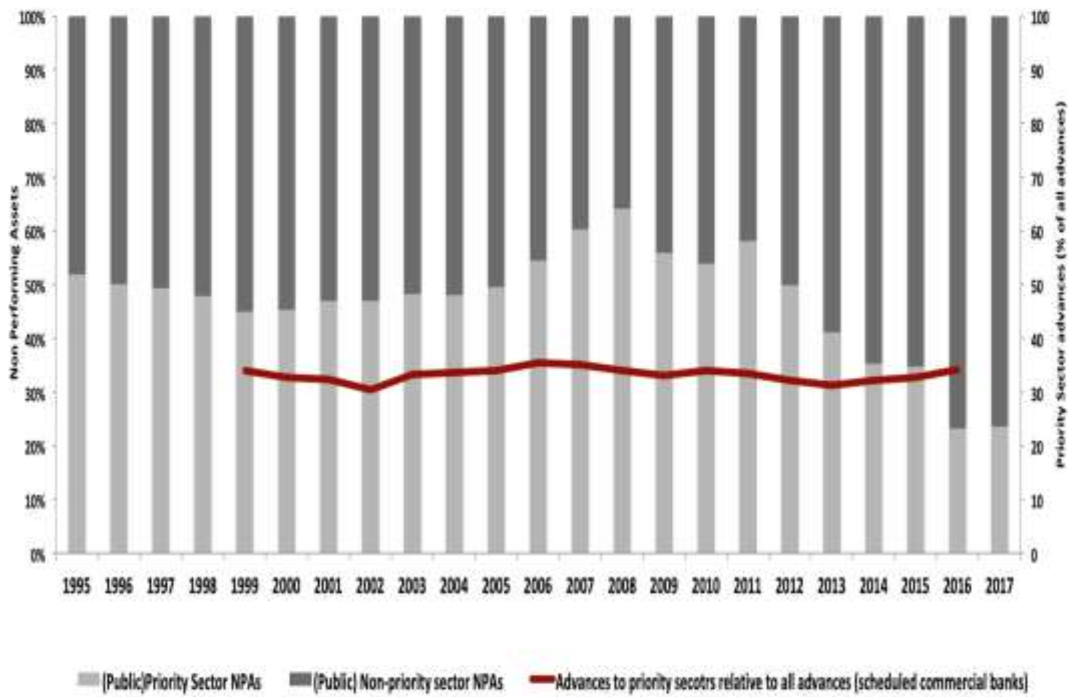
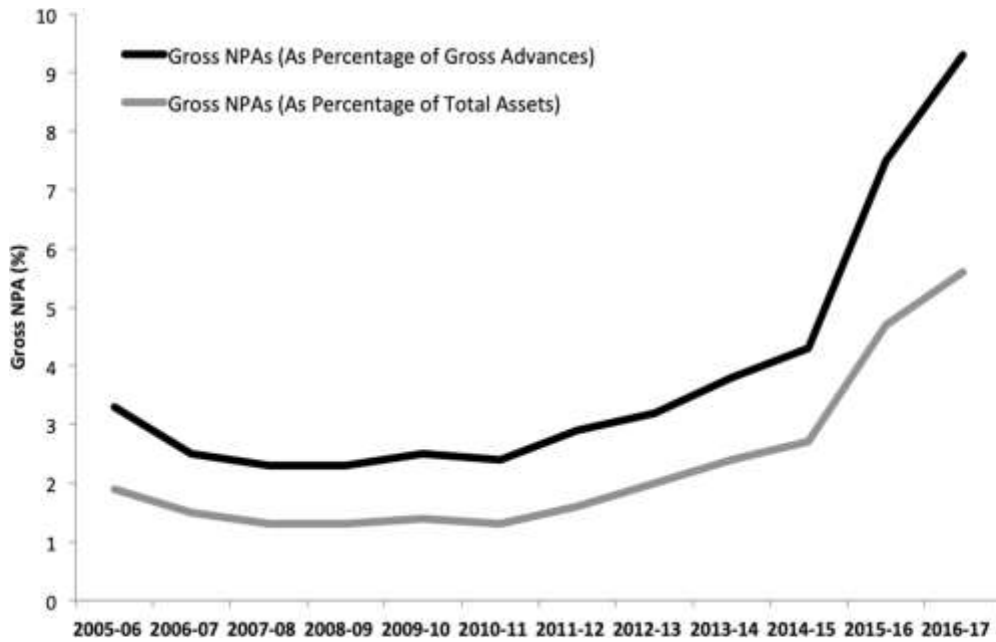


Figure 2: Banks with Scheduled Commercial Activities and a Gross Nonperforming Asset Ratio



Source: Reserve Bank of India

However, the strain on state budgets is reason for serious worry, and not only in the states that have declared exemptions. Seven of the nine loan waivers declared in India before 2016 were from states with lower debt/GSDP ratios than the average for all Indian states. The only two states with greater debt percentages (Uttar Pradesh in 2012 and Kerala in 2006) provided relatively small exemptions (less than 1% of state budget). After 2016, the tendency began to shift. To begin, three out of the seven states that announced waivers were in the highest debt category. Second, huge exemptions ranging from 8.5% to 12% of state budgets have been implemented in the three states with the highest levels of debt. For the eight states that have made loan waiver announcements during 2014-2015, the contribution to budget deficit is between 0.1 and 0.9 percentage points. After factoring in loan waivers, the average budget deficit for the first four is around 3%.

According to the Reserve Bank of India, previous exemptions had a lasting effect on market borrowings. The Reserve Bank of India (RBI) has issued a warning that rising state development loan (SDL) yields might impose a heavier future interest burden on states if the government borrows more broadly. Since the overall cost of borrowing rises for everyone when the government starts to borrow, observers remark that this might also crowd out private borrowers if there is a limited pool of investible resources. Therefore, if funded by SDL issuance, state government agricultural loan waivers may compete with corporate borrowings.

This may cause a 20-40 basis point (bps) increase in the consolidated Gross Fiscal Deficit - Gross Domestic Product (GFD-GDP) ratio of the states, depending on possible sources of financing, the additional burden including (i) additional market borrowing and (ii) pruning of wasteful expenditure. Inflation expectations and actual inflation may both rise in response to a government running a larger deficit.

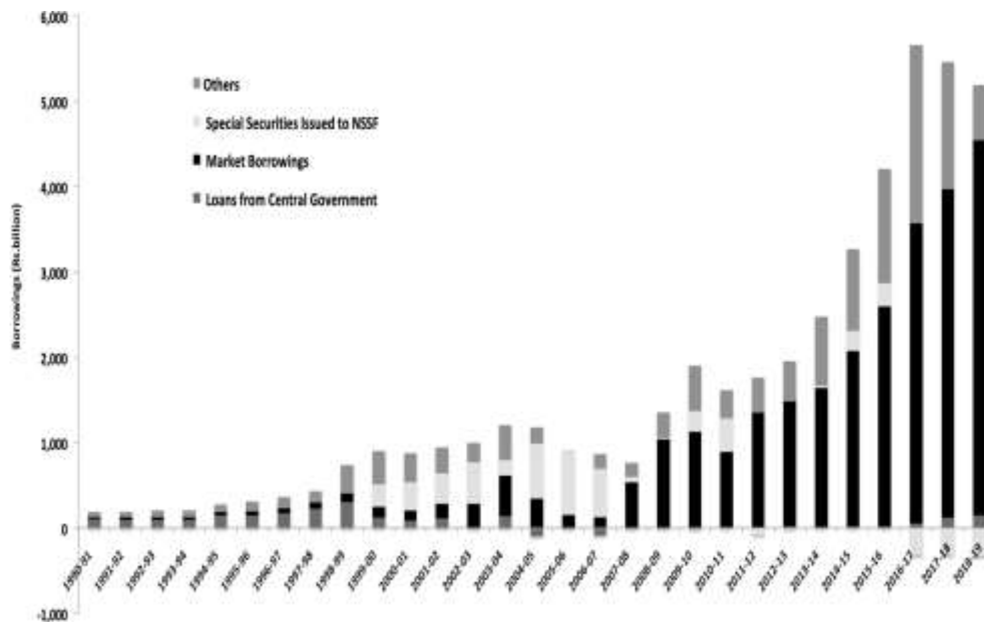
Theoretical worries are notoriously difficult to back up with data. Given that money, even for governments, is fungible, it may be pointless to try to trace the origin of public financing for debt forgiveness. The pathways or causal chain via which the effects of loan waivers manifest themselves for state

governments cannot be reliably identified, despite the fact that empirical study has attempted to establish a link between the two. Recent loan waivers may have contributed 20-40 bps to the aggregate GFD-GDP ratio of the states. The subsequent rise in borrowing costs would have a chilling effect on capital outlays. The waiver is anticipated to have an effect on developmental investment, as seen by the slowdown in capital outlay growth in several waiver-granting states during 2017–18. Private investment may be discouraged as a result. Concerns have also been raised about the potential impact on inflation in the economy. With the combined fiscal deficit budgeted at 5.9% for 2017–2018 and inflationary momentum remaining benign, ceteris paribus, a permanent increase in inflation of around 20 basis points, beginning in 2017–2018, is possible if the combined fiscal deficit for 2017–2018 rises by 40 basis points on account of farm loan waivers.

Figure 3 shows that governments are increasingly using market borrowings to close their budget gaps. Although it's tough to pin this on loan waivers, they have significant knock-on effects since they encourage governments to borrow money on the open market.

Figure 3: Borrowing by State Governments on the Market

Source: Reserve Bank of India



Conclusion

Despite a growing body of study, there is still no clear

evidence on how loan waivers affect various parties. Here, we consider next steps and highlight areas where further study is needed. The available data seems to be limited to evaluating the immediate impact of a single loan cancellation. There is, however, still a major void. Possibly no survey or research evaluates the significance of loan waivers granted repeatedly to the same recipients. The possible long-term detrimental effects of loan waivers on repayment culture may be better understood if we followed such a group over time. The reaction of state governments to loan waivers in their finance schemes is another important factor to consider. Do they always pay for them out of reduced capital spending allocations, and if so, from what areas of the budget do they come? What would happen if resources were reallocated in this way? Indicative evidence based on data from the whole economy was also included in the report in an effort to shed light on the possible effects of widespread countrywide exemptions. Existing research is very mixed, but there is reason to suspect there could be unfavourable implications related to the pressure on state finances and its consequences. The macroeconomic effects of loan waivers have received little attention, thus further study is needed.

Some people think it's a bad idea to forgive debt on farms. However, it fails to take into account the frequent practise of writing off sizable defaults for commercial sectors. In addition, the latter is on a considerably grander scale than the agricultural industry. This might make agricultural debt forgiveness programmes less harmful to the national budget. Indeed, it may be argued that using loan waivers as a political device to serve particular interest groups is not a problem per se provided such loan waivers cover an essential hole in the collection of coping methods farmers have access to.

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