

Economic Impact of Farm Debt Waiver Scheme on Farmers Livelihood in Punjab

Sanjay Kumar, J.M.Singh, D.K. Grover and Tejinder Kaur

AERC, Department of Economics and Sociology, Punjab Agricultural University, Ludhiana, Punjab

Abstract

The present study was undertaken to evaluate the impact of 'Farm Debt Waiver Scheme' announced by the Governments of Punjab in 2017 on the extent of indebtedness and livelihood of beneficiary farmers in Punjab. The data were collected for the pre-debt waiver and post debt waiver period by randomly selecting 180 beneficiary farmers¹. The results brought out that there was no change in the primary occupation of beneficiaries, however, some of them invested in dairy enterprise. After loan redemption, higher change in income was observed in case of beneficiaries having income more than Rs. four lakh. There was slight change in the operational holding due to farmers taking more area under lease while household expenditure escalated after redemption of loan. Major benefit of crop loan waiver scheme was availed by beneficiaries taking loan from co-operative societies. Institutional loan waive off resulted in significant decline in the dependence of sampled households on non-institutional sources of finance. Thus, loan waiver scheme helped the farmers to diversify their pattern of savings in more rational manner and there was decline in indebtedness. The farmers reported that they lost man days to fulfil the requirements for availing scheme benefits, and it was time consuming and cost incurring also. To make the scheme attractive, these constraints should be taken care of. Major policy issues suggested were; expanding the reach of scheme to include more farmers, increasing subsidies on farm machinery and facilitating the farmers to rear good breed livestock.

Key words: Impact, Farm Debt Waiver, Indebtedness, Livelihood

JEL Classification: Q12, Q14, H81.

Introduction

Various loan waiver schemes have been announced by the Union as well as State Governments for farmers during the last four decades. The first loan waiver was announced during the year 1987 by the then Chief Minister of Haryana, Chaudhary Devi Lal. Since these early announcements, there have been 16 waivers. The situation worsened from 2005 to 2010 as this period witnessed four waivers: Two in the southern states of Kerala and Tamil Nadu, one in Maharashtra and the one large central waiver in 2008. Since 2016, there have been seven loan waiver announcements from the state governments of Tamil Nadu, Uttar Pradesh, Punjab, Maharashtra, Rajasthan and two waivers in Karnataka alone. Sixteen of the 18 waivers listed above came from State Governments while only two came from the Union Government. In fact post 2008, all the waivers announced

were by different State Governments and none came from the centre. This suggests that waivers are largely a matter of state policy. The empirical evidence demonstrates that loan waivers primarily benefit the better-off households and waivers adversely impact the repayment behaviour of borrowers. Kanz (2016) demonstrates empirical evidence that is inconsistent with the debt overhang theory. The study of the 2008 loan waiver granted by the central government of India shows that loan waiver beneficiaries tend to make lower investments and have less productive farms than similar non-beneficiaries.

Considering the gravity of situation/distress among the farming community in Punjab, the state Government announced 'Farm Debt Waiver Scheme' for marginal and small farmers in 2017 covering their crop loans. In case of marginal farmers, the entire eligible amount of those farmers

Note: The present paper is the part of report submitted by Kumar *et al* (2020)

Corresponding author email: sanjaykw@pau.edu

who have total outstanding crop loan liability up to Rs two lakh was to be provided as debt relief and in case of eligible amount of more than Rs two lakh, only Rs two lakh was to be provided as debt relief. In case of small farmers, the entire eligible amount of those farmers who have total outstanding crop loan liability up to Rs two lakh, was to be provided as debt relief by the lending institutions namely; Co-operative Credit Institutions, Commercial Banks and Regional Rural Banks. To start with, the scheme was implemented for loans availed only from Co-operative Credit Institutions and then covering the loans forwarded by the commercial banks. The amount eligible for debt relief under the scheme comprised of outstanding liability under crop loan (principal and interest) as on March 31, 2017. Later on, the benefits of debt waiver scheme were also provided to the landless laborers. The scheme envisaged providing debt waiver to the tune of Rs. 51 crores for 6.6 lakh farmers and 2.85 lakh landless laborers be given a relief of Rs. 520 crores. It may be stated that farm debt of Rs 4610 crore of 5.63 lakh farmers have been waived off under this scheme.

Therefore, the present study was undertaken to evaluate the impact of 'Farm Debt Waiver Scheme' on the livelihood of beneficiary households.

Data Sources and Methodology

The present paper is the part of report submitted by Kumar *et al* (2020). The study is based on primary data collected from the beneficiary farmers of the 'Farm Debt Waiver Scheme, 2017' in Punjab. In order to analyse the impact of debt waiver on the livelihood of beneficiary farmers, 'Before' and 'After' approach was employed. The data were collected from the scheme beneficiaries for the pre-debt waiver year period (before redemption) and post-debt waiver period i.e. (after redemption) in which year the debt waiver scheme was implemented. In order to select the sample in Punjab, three districts representing different agro-climatic zones of the state viz. Jalandhar from Central Plain Zone, Hoshiarpur from Sub-mountainous Zone and Bathinda from South-Western Zone were randomly chosen. Two blocks from each selected district were taken. Further, two clusters from each selected block were chosen for the field survey and the list of beneficiary farmers was collected from co-operative societies located in the respective areas. Thus, 15 beneficiaries of the scheme were selected randomly from each cluster. Hence, the total sample comprised of 180 beneficiary farmers. Paired t-test was applied to compare the extent of indebtedness and level of loan outstanding among sample beneficiaries before and after redemption of debt waiver scheme.

Results and Discussion

The results and discussion is categorized into two section: Section I includes impact of farm debt waiver scheme on beneficiary farmers and section II encompasses perception

of beneficiary households regarding the scheme.

I. Impact of farm debt waiver scheme on beneficiary farmers

This section includes occupational structure of the beneficiary households, operational holding, livestock inventory, cropping pattern and operational cost of cultivation of crops grown. Besides this, production and disposal/ utilization pattern of produce, annual household expenditure, credit structure and saving pattern of the beneficiary farmers, before and after redemption of the debts under farm debt waiver scheme.

Occupational Structure

Agriculture and allied (except dairy) was the primary occupation of most of the beneficiary farmers i.e. about 92 per cent and which did not change even after the redemption of debt (Table 1). The next major primary occupation was non-agricultural labour and about five per cent marginal farmers had opted it as primary occupation before and after redemption of debt. Besides this, some of the farmers were also having salaried work, pension, small shopkeeper and mechanics whose number remained same after redemption of debt. The highest change in secondary occupation of beneficiaries was observed in case of dairy, which changed in relative terms from about 44 per cent to 50 per cent after redemption of debt. All other occupations viz. agricultural labour, non-agricultural labour, salaried work and household work showed relative decline after the redemption of debt, except in case of self employed in services which showed no change. Thus, no change in the primary occupation of the beneficiary farmers was observed. However, in case of dairy as secondary occupation, change in the number of farmers adopting dairy as enterprise was reported. It shows that debt waiver scheme had somehow helped some of the beneficiary farmers to invest in dairy enterprise.

Annual Household Income

Table 2 shows the distribution of beneficiary farmer's annual household income before and after redemption of debt. The farmer's income was Rs.3.40 lakh before redemption of debt and increased to Rs.3.95 lakh after redemption showing about 16 per cent increase. About 35 per cent beneficiaries were in the income group of up-to Rs. one lakh before redemption of debt while their percentage decreased to about 31 per cent after redemption. While in the income group of Rs. 1-2 lakh, the percentage of households decreased from about 21 per cent before redemption to about 18 per cent after redemption. Like-wise in the income group of Rs. 2-4 lakh also, slight decline in the percentage of beneficiaries was observed after debt redemption. On the other hand, in the income group of more than Rs. four lakh, there was increase in the percentage of beneficiaries from about 23 per cent to 30 per cent after redemption of debt. Thus, it was observed that beneficiary farmer's income increased after redemption

Table 1. Change of occupational status of beneficiary households after loan redemption, Punjab

(%households)

Type	Before redemption	After redemption	Change
Primary			
Agriculture and allied (except dairy)	91.67	91.67	0.00
Dairy farming	0.56	0.56	0.00
Non-agricultural labour	3.33	3.33	0.00
Salaried work	1.11	1.11	0.00
Other (small shopkeeper, mechanics)	3.33	3.33	0.00
Total	100.00	100.00	0.00
Secondary			
Agriculture and allied (except dairy)	5.56	5.56	0.00
Dairy farming	43.89	50.00	6.11
Agricultural labour	9.44	8.89	-0.56
Self employment in household industry	1.11	0.00	-1.11
Self employed in services	1.67	1.67	0.00
Non-agricultural labour	7.78	5.56	-2.22
Salaried work	3.33	2.78	-0.55
Other	5.55	5.01	-0.54
No secondary occupation	21.67	20.53	-1.14
Total	100.00	100.00	0.00

Table 2. Change in the distribution of beneficiary annual household income after loan redemption, Punjab

(%households)

Income category (Rs in lakh)	Before redemption	After redemption	Change
Up to 1	34.44	31.11	-3.33
1 – 2	21.11	17.78	-3.33
2-4	21.67	21.11	-0.56
More than 4	22.78	30.00	7.22
Average annual income/household (Rs. lakh)	3.40	3.95	16.40

of debt. However, it can't be solely attributed to debt waiver and may be due to some other related factors also.

Operational Holding

The change in operational holdings after the redemption of debt has been depicted in Table 3. Before the redemption of debt the operational holding size was 6.1 acres per farm which increased to 6.24 acres per farm after the redemption of debt. Thus, there was only 2.3 per cent increase in the operational holding after the redemption of debt on an average. It may be stated that farm debt waiver scheme was for marginal and small farmers of the state only. In revenue record only land ownership of the farmer is recorded. The leased-in land is just verbal agreement between the owner of land and the

farmers leasing-in land. Hence, the total area operated per farmer was more than five acres.

Livestock Inventory

The change in livestock inventory after the redemption of debt has been depicted in Tables 4. The livestock population was reported as 2.41 per farm household before redemption which increased to 3.07 per farm household after redemption of debt showing an increase of about 27 per cent. The present value of livestock increased by about 32 per cent after redemption which mainly increased due to higher investment on adult female buffaloes and to some extent on crossbred adult female cattle.

Table 3. Change in operational holding of beneficiary households after loan redemption, Punjab

(Acres/household)

Sr. No.	Particulars	Before redemption	After redemption	Percent Change
I	Total owned land	2.28	2.25	-1.32
II	Leased-in	3.83	4.00	4.44
III	Leased -out	0.01	0.01	0.00
IV	Total operational land (I+II-III)	6.10	6.24	2.30

Table 4. Change in livestock inventory of beneficiary households after loan redemption, Punjab

Livestock	Before redemption		After redemption		Percent change	
	N	PV	N	PV	N	PV
I Indigenous Cattle						
Adult female	0.29	4806	0.28	4644	-3.45	-3.37
Adult male	0.03	561	0.03	394	0.00	-29.77
Young stock	0.05	103	0.03	28	-40.00	-72.82
II Crossbred Cattle						
Adult female	0.48	11767	0.53	14344	10.42	21.90
Adult male	0.02	53	0.03	92	50.00	73.58
Young stock	0.14	375	0.22	470	57.14	25.33
III Buffalo						
Adult female	1.05	40333	1.37	55872	30.48	38.53
Adult male	0.03	244	0.04	694	33.33	184.43
Young stock	0.32	1206	0.54	1891	68.75	56.80
Total	2.41	59448	3.07	78429	27.39	31.93

N-Number/household, PV-Present Value in Rs./household

Household Expenditure Pattern

The changes in household expenditure pattern after the redemption of debt has been depicted in Table 5. The household expenditure pattern shows that on an average the total domestic expenditure per household per annum was Rs. 101188 before redemption of debt which increased to Rs. 107426 per household per annum after the redemption of debt, increasing by about six per cent. Grocery was the major item of domestic expenditure on which Rs. 41720 per household per annum was spent before the redemption of debt which increased to Rs. 46333 per household per annum, an increase of about 11 per cent after the redemption of debt. The other major items of domestic expenditure were; health care, electricity bill, conveyance fuel, education and the expenses on these changed by about (-) 20 per cent, four per cent, six per cent and seven per cent after the redemption of debt.

Impact of Farm Debt Waiver Scheme on Credit Structure of Beneficiary Households

The nature and extent of indebtedness has been shown in Table 6. The amount of loan borrowed declined from

Rs. 2.59 lakh per farm to 2.15 lakh with relative decline of about 17 per cent. The quantum of institutional loan decline was about 15 per cent while non-institutional loan decline was nearly 25 per cent and both were significant. Thus, loan waiver scheme has resulted in decline of indebtedness on farms. After loan redemption, about 41 per cent significant decline in quantum of crop loan was observed which was taken by farmers from co-operative societies. On the other hand, decrease in crop loan was only 2.42 per cent in case of commercial banks. In aggregate, a significant decline in loan liability of marginal and small holders was about 15 per cent of the amount borrowed and nearly 14 per cent of outstanding loan amount from both co-operative societies and commercial banks. The loan liability from commission agents/ arhtias significantly declined by about 24 per cent after institutional loan redemption while from relatives and friends decline was by 75 per cent. Thus, institutional loan waive off resulted in significant decline in dependence of farmers on non-institutional sources viz. commission agents/ arhtias, relatives and friends.

Table 5. Change in household expenditure pattern of beneficiary farmers after loan redemption, Punjab
(Rs/farm household/annum)

Particular	Before redemption	After redemption	Per cent change
Grocery items	41720	46333	11.06
Durable items	1257	1603	27.53
Health care	11848	9427	-20.43
Education (<i>fees/books/uniform, IELTS coaching others</i>)	9607	10300	7.21
Entertainment (<i>cable/Dish/internet charges etc.</i>)	2657	2900	9.15
Electricity bill	11530	11957	3.70
Phone bill	3280	3347	2.04
Conveyance fuel	10013	10613	5.99
Social ceremonies	1587	1837	15.75
Any insurance payment (life/car/home etc)	107	0	-100.00
House construction/Maintenance	1676	2533	51.13
Legal issues	33	73	121.21
Others	5873	6503	10.73
Total Domestic Expenditure	101188	107426	6.16

Table 6. Change in nature and extent of Indebtedness among beneficiary households after loan redemption, Punjab
(Rs/farm households)

Name of the agency	Outstanding loan amount	
	Before redemption	After redemption
Institutional	204817 (79.36)	175732 (81.55)
Co-op. Society	63917 (31.21)	38238 (21.76)
Commercial bank	140900 (68.79)	137494 (78.24)
Non- Institutional	53278 (20.64)	39750 (18.45)
Commission agent	51722 (97.08)	39361 (99.02)
Relatives and friends	1556 (2.92)	389 (0.98)
Total	258095 (100.00)	215482 (100.00)
Percent change		
Institutional	-14.20**	
Non- Institutional	-25.39**	
Total	-16.51**	

** Significant at one per cent level of significance

Note: Figures in parentheses are percentages to total

Table 7. Change in annual saving pattern of beneficiary households after loan redemption, Punjab
(% age farm households)

Means of saving	Before redemption	After redemption	Change
Insurance policy	3.33	4.44	1.11
Recurring deposit	0.00	2.22	2.22
Purchased agricultural implements, irrigation structure etc.	0.00	5.00	5.00
Purchased land	0.00	0.56	0.56
Repaid commercial banks loan	2.78	17.78	15.00
Repaid debt of commission agent	4.44	16.67	12.22
Purchased durable items	0.00	2.22	2.22
Purchased milch animals	0.00	2.22	2.22

Impact of Farm Debt Waiver Scheme on Saving Pattern of Beneficiary Households

The annual changes in the saving pattern of farmers have been shown in Table 7. After crop loan being waived off, selected respondents also started spending towards other day-to-day activities and asset formation. Before redemption of loan, most of the savings were utilized towards meeting household expenditure but after loan waiver, higher number of respondents repaid their commercial bank loan, debt of commission agent, purchased agricultural implements and invested in any insurance policy. Also, starting of recurring deposit, durable items and milch animals purchase were some of the additional expenses incurred by the respondents after redemption of loan. Thus, loan waiver scheme helped the farmers to diversify their pattern of savings in more rational manner.

To conclude, debt waive off scheme had resulted in lowering the dependence of farmers on non-institutional sources of finance. It has been observed as positive impact of the debt waiver scheme in the sense that interest liability of farmers to non-institutional sources declined and they took more loan from institutional sources with lower interest rate. After loan waiver some of the farmers reported investing in dairy enterprise by purchasing buffaloes and adult female crossbred cattle.

II. Perception of Beneficiary Households Regarding the Scheme

This section includes information on amount of loan waived off and difficulties in getting benefits of loan waiver scheme.

Amount of Loan Waived off under Debt Waiver Scheme

The economic impact of debt waiver scheme has been given in Table 8. A perusal of the table reveals that under debt waiver scheme, marginal and small farmers were entitled for waiving off crop loan up to Rs.2.00 lakh. The amount of loan waived off was Rs. 69656 per farm which was about 35 per cent of the entitled amount under the debt waiver scheme. As

far as institution-wise debt waive off is concerned, the relative share of co-operative society's loan waiver was 31.83 per cent while, in case of commercial banks, the loan waiver of the entitled amount was just three per cent. Thus, the quantum of loan waiver was nearly one third of the entitled amount with major constituent of the crop loan being advanced by the co-operative societies followed by commercial banks.

Table 8. Amount of loan waived off under debt waiver scheme on beneficiary households, Punjab
(Rs/farm household)

Particulars	Amount (Rs/farm)	Percent share
Entitlement	200000	100.00
Amount waived off		
Cooperatives	63667	31.83
Commercial banks	5989	3.00
Total	69656	34.83

Difficulties/ Constraints in Getting Benefit of Loan Waiver Scheme:

The farmers were also asked about the difficulties/ constraints faced in availing the benefits of loan waiver scheme. A perusal of the Table 9 reveals that about 92 per cent farmers lost man days to fulfil the requirements for availing the benefits under loan waiver scheme. Also, 25 per cent respondents reported the scheme to be very time consuming. The respondent farmers also reported that they have to incur different type of costs in terms of delayed dairy/ farm related activities while availing benefits of the scheme and it was reported by about 5.43 per cent farmers. So, the farmers lost man days to fulfil the requirements for availing scheme benefits, found it to be time consuming/ cumbersome and cost incurring also.

Perceptions and Suggestions

The selected respondents were also asked about the perceptions/ suggestions about the debt waiver scheme.

Table 9. Difficulties confronted in getting the benefits of debt waiver scheme**(multiple response)**

Particular	Percent farm household
Time consuming/ cumbersome	25.00
Cost incurring	5.00
Man days lost	92.22

Table 10. Suggestions/ perceptions of beneficiary farmers regarding the farm debt waiver scheme, Punjab**(Percent)**

Particular	Extreme (5)	High (4)	Moderate (3)	Low (2)	Not at all (1)
Reduction in agrarian distress	30.00	3.33	36.67	13.89	16.11
Increased farm profitability	0.00	2.22	2.22	11.11	84.45
Loans taken from money lenders should also be waived off	15.00	3.33	22.22	17.78	41.67
Decreased Indebtedness	23.33	2.22	33.89	22.78	17.78

About 30 per cent farmers reported as ‘extreme’, reduction in agrarian distress due to implementation of debt waiver scheme while 23.33 per cent reported it resulting in decreased indebtedness (Table 10). Similarly, 84.45 per cent farmers expressed their opinion that there is ‘not at all’ increase in farm profitability with the implementation of debt waiver scheme and 15 per cent farmers expressed their perception as ‘extreme’ about the waiving off loans taken from commission agents/ arhtias.

Conclusion and Policy Implications

The results of the study suggested that debt waive off had resulted in lowering the dependence of farmers on non-institutional sources of finance, interest liability of farmers to non-institutional sources declined and they took more loan from institutional sources with lower interest rate. Thus, there is a need to further strengthen the debt waiver scheme for farmer’s benefit through enhancing the quantum of loan waiver to give higher benefit to agrarian distressed marginal and small holder’s category. The beneficiaries invested in dairy enterprise by purchasing buffaloes and adult female crossbred cattle thus along with debt waiver, there is a need to provide subsidy to the farmers to invest in good quality breed livestock to increase their income. The farmers opined that they lost man days to fulfil the requirements for availing scheme benefits, found the schemes as time consuming/ cumbersome and cost incurring also. These constraints should be taken care of to make the scheme more attractive for the farming community. In case, the Punjab government will formulate any policy of farm debt waiver, the budgetary support must be provided instead of taking

loans from other schemes like Rural Development Fund (RDF) for this purpose. Such practices may be stopped in the overall interest of the state economy in general and farm sector in particular.

References

- Kanz M 2016. What Does Debt Relief Do for Development? Evidence from India’s Bailout for Rural Households. *American Economic Journal: Applied Economics*. **8**: 66–99. DOI: 10.1257/app.20130399
- Kumar S, Singh J M, Grover D K and Kaur T 2020. Impact evaluation of debt waiver scheme on farmer’s livelihood in Punjab, Report submitted to the Directorate of Economics & Statistics, Ministry of Agriculture and Farmers’ Welfare, GOI, New Delhi pp: 1-67. <http://eands.dacnet.nic.in/aerc/AERCLudhiana/201920%20Impact%20Evaluation%20of%20Farm%20Debt%20Waiver%20Scheme%20on%20Farmers%27%20Livelihood%20in%20Punjab.pdf>
- Rath N 2008. Implications of the Loan Waiver for Rural Credit Institutions. *Economic & Political Weekly*. **43** 13–16. DOI:10.2307/40277557
- Shylendra H S 1995. Farm Loan Waivers: A Distributional and Impact Analysis of the Agricultural and Rural Debt Relief Scheme, 1990. *Artha Vijnana*. **37** 261–75. DOI:10.21648/ARTHAVIJ/1995/V37/I3/115977
- Vaidyanathan A 2008. Farm Loan Waiver: A Closer Look and Critique. *The Hindu*: 11. <http://www.indiaenvironmentportal.org.in/content/47394/farm-loan-waiver-a-closer-look-and-critique-editorial/>

Received: October 20, 2023 Accepted: February 07, 2024