

## **Farm Loan Waivers : A Distributional and Impact Analysis of the Agricultural and Rural Debt Relief Scheme, 1990**

**H.S. Shylendra**

The frequently announced farm loan waivers with the ostensible reason of reducing the farm debt burden have drawn criticisms both on grounds of equity as well as their likely harmful effects on the functioning of the rural credit system. The present paper is an attempt to evaluate the biggest ever loan waiver scheme so far implemented in the country, namely, the Agricultural and Rural Debt Relief Scheme, 1990. The household level distributional and impact analysis carried out in the Dharwad district of Karnataka reveals that the scheme besides benefiting mainly the relatively better-off households, also had a negative impact on the repayment behaviour of the borrowers.

### **I Introduction**

Promising or announcing outright waiver of farm loans with the ostensible reason of reducing the farm debt burden has been in the recent past a popular programme with the governments as well as many political parties<sup>1/</sup>. Even the farmers' agitations that took place during 1980s in different parts of the country also had debt forgiveness as one of their major demands. There are two major criticisms that have been levelled against farm loan waivers. One is that the outright waiver of institutional loans would have a severe debilitating effect on the health and vitality of the rural credit system. By vitiating the loan recovery atmosphere such schemes would lead to increased wilful default resulting in the impairment of the credit flow cycle<sup>2/</sup>. Two, such schemes would benefit mainly the rich and the intentional defaulters. The rich being the major recipients of institutional credit invariably are going to be the major beneficiaries whenever there is a waiver of institutional loans<sup>3/</sup>. Such an inequitable distribution of the debt relief benefits, according to the critics, may aggravate further the problem of rural income inequality as the beneficiaries would experience a direct income transfer when compared to either the prompt repayers or even those who have not received any institutional loan<sup>4/</sup>. The present paper is an attempt to examine empirically some of the above issues with regard to the biggest loan waiver scheme implemented so far in the country, namely, the Agricultural and Rural