Loan waivers derail Fasal Bima Yojana

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Expectation of loan waiver causes farmers to stop payment against existing loans. They don't buy insurance for the next season

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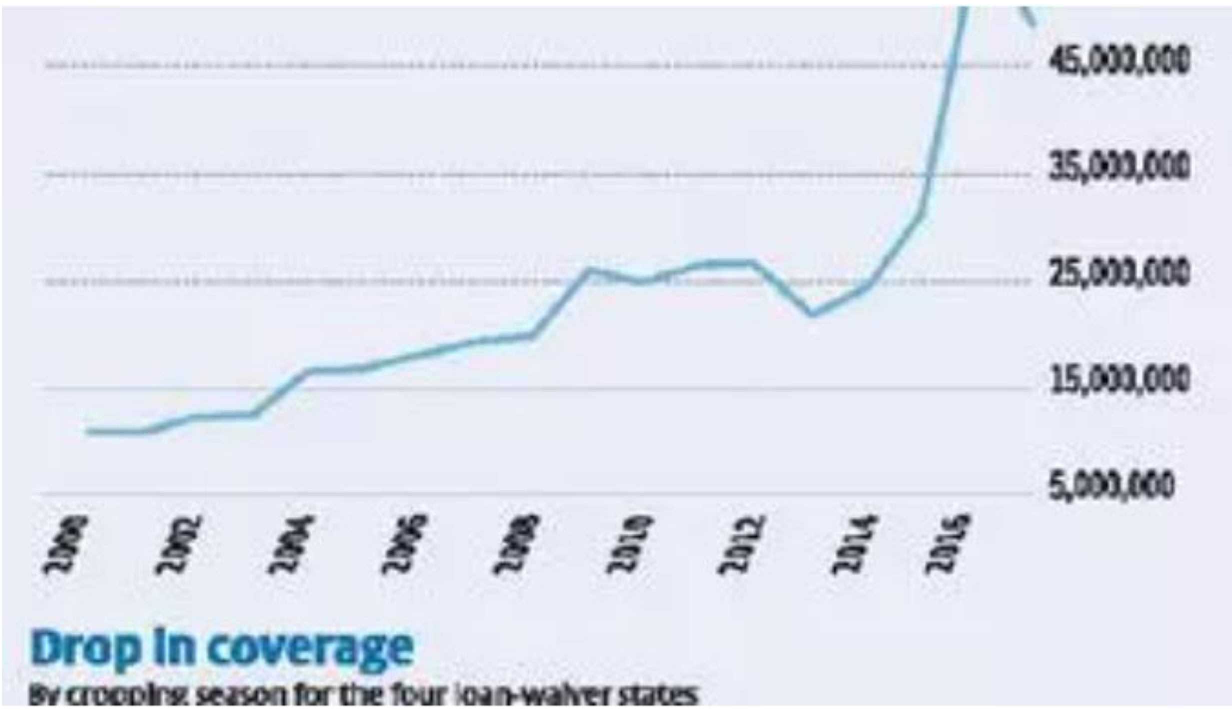
The Centre launched the Pradhan Mantri Fasal Bima Yojana (PMFBY) in January 2016. While crop insurance programmes in Indiahave been in place for more than four decades, interest among farmers about insuring their crops has been low, which is reflected in the modest coverage level.

According to latest data from NSSO, less than 10 per cent farmers insured their crops in the 2012-13 cropping year. With the launch of PMFBY, the government has bringing in

50 per cent of the cropping area under crop insurance. Budget allocation towards this scheme has increased substantially, and now covers as much as a third of the total budget of the department of agriculture.

There was a noticeably sharp increase in crop insurance penetration immediately after the introduction of PMBY. The Chart shows coverage of crop insurance by percentage of farmers insured over the years, from 2000-01 to 2017-18. While around 30 million farmers in the country insured their crops in 2015-16, this number jumped to around 57 million in 2015-16, a 90 per cent increase in coverage. This is the highest year-to-year increase in the history of the crop insurance schemes in India.



However, there was a sharp decline in take-up in the very next year, 2017-18. Coverage came down to 49 million farmers, a 14 per cent drop from the previous year. Favourable weather could be one reason for this drop. Crop production in India is still dependent upon rainfall. While 2014-15 and 2015-16 saw widespread drought, for 2016-17 and 2017-18, the rainfall was within the normal range. But farm loan waivers by large States in the last year may have played a more important role in this decline.

In the last monsoon session of Lok Sabha, the Ministry of Agriculture and Farmer Welfare provided State level coverage data for 2016-17 and 2017-18 cropping years. The data show that while there was a decline in take-up among 16 of the 28 States and Union

Territories (for which data are available), four major States — Karnataka, Rajasthan, Maharashtra and Uttar Pradesh — were responsible for almost all of the drop. While these four States contributed to 61 per cent of the increase in coverage in the first year after initiation of PMFBY, they contributed to over 91 per cent of the fall in coverage in the next year. Notably, just before the commencement of the kharif season in 2017, three among these four States — Karnataka, Maharashtra and Uttar Pradesh — announced/approved farm loan waiver schemes.

Before the start of the rabi season for 2017-18, another State, Rajasthan, also announced relief for farm loans. Data reveal that the magnitude of drop for Rajasthan was the largest in the rabi season. The Table shows a comparison of the increase/drop in coverage for these four States in last two years.

The link

In India, a high proportion of crop insurance is tied with short term/working capital crop loan. This is because an insurance component is mandatory for all farmers taking such loans. Standalone crop insurance is also available for farmers not taking crop loan, but its incidence is low.

There are a few reasons why this policy of tying crop loan and insurance is deemed useful. As more farmers access farm loans than insurance, tying insurance with loans can improve its offtake. This process may also generate interest among farmers about insurance once they get acquainted with the schemes.

Moreover, since crop insurance sold along with crop loan is provided by the bank branches, the insurance agencies do not need to set up additional channels for selling crop insurance, helping them reduce administrative costs. The most important reason, possibly, is that it may help reduce default of institutional credit. In the case of a crop loss for farmers who took loans from banks, the indemnity amount may be adjusted against the outstanding loan.

It is argued that this arrangement would, on one hand, help maintain creditworthiness of farmers and, on the other, may work as an incentive for banks to provide advances to the farmers in the next cropping cycle.

The present instance of drop in insurance coverage may be largely attributed to this policy. Farmers perceive crop insurance in its present form as an insurance against their loans, rather than as protection against their crop loss. Therefore, an expectation of loan waiver works as a substitute to insurance, causing farmers to stop payment against the existing loans, and not buying insurance for the impending cropping season.

Non-payment of loans

Further, due to non-payment of existing loans, banks also become reluctant to provide advance for the next cropping cycle. Subscription to crop insurance decreases as a sum of both these effects.

There is no denying that India is facing a large scale farm crisis. Agricultural insurance programme has the potential to mitigate this crisis, at least partially, by reducing income volatility arising due to crop damages. But policies such as farm loan waiver schemes, in its present form, can dampen the beneficial effect of such programmes.

Such myopic schemes create expectation of loan waiver in the future, thereby impacting credit discipline of agricultural loans. These also lead to perception problems about crop insurance schemes. The loan waiver schemes, thus, may yield immediate electoral dividend, but they are likely to cause longer term structural damage to the agrarian economy.

Source: https://www.thehindubusinessline.com/opinion/loan-waivers-derail-fasal-bima-yojana/article25313176.ece