FARM LOAN WAIVER SCHEMES IN INDIA: A DECADAL REVIEW (2016-2025) WITH REFERENCE TO KARNATAKA

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ABSTRACT

Farm loan waiver schemes have emerged as a significant policy response to agrarian distress in India. Over the past decade (2016-2025), several empirical and policy-oriented studies have examined their impact on farmer welfare, agricultural credit systems, and fiscal sustainability. This review paper synthesizes existing literature to evaluate the effectiveness of loan waiver schemes, with particular reference to Karnataka. The findings indicate that while loan waivers provide short-term financial relief to farmers, they fail to address structural issues such as low productivity, price instability, and dependence on informal credit. The review also highlights concerns regarding moral hazard, fiscal burden, and exclusion of vulnerable farmers. The paper concludes that sustainable agricultural development requires integrated policy measures beyond loan waivers.

KEYWORDS: *Loan Waiver, Agrarian Distress, Agricultural Credit, Karnataka, Rural Economy, Policy Analysis.*

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1. Introduction

Agriculture remains a cornerstone of the Indian economy, yet it continues to face persistent challenges such as low productivity, climate variability, and market fluctuations. These challenges often result in farmer indebtedness and agrarian distress. In response, governments have frequently resorted to farm loan waiver schemes as a means of providing relief to farmers.

Loan waivers aim to reduce outstanding institutional debt and improve farmers' financial conditions. However, their long-term effectiveness has been widely debated in academic and policy circles. This review paper examines the body of literature published between 2016 and 2025 to assess the impact of loan waiver schemes in India, with particular relevance to Karnataka.

2. Objectives of the Study

- To review literature on farm loan waiver schemes in India (2016-2025)
- To assess their impact on farmer welfare and indebtedness
- To examine their implications for agricultural credit systems
- To identify research gaps and policy implications

3. Methodology

This study is based on secondary data, including peer-reviewed journal articles, government reports, and institutional publications. Key sources include reports from Reserve Bank of India and National Bank for Agriculture and Rural Development, along with recent academic studies. The review focuses on literature published during the period 2016-2025.

4. Thematic Review of Literature

4.1 Impact on Farmers' Welfare

A significant body of literature suggests that loan waivers provide immediate financial relief to farmers by reducing their outstanding debt burden. For instance, Narayanan and Mehrotra (2019) found that loan waivers helped stabilize consumption and allowed farmers to continue agricultural activities in the short run.

However, long-term impacts appear limited. Sharma (2025) observes that loan waivers do not significantly improve farm income or productivity over time. Similarly, Swaminathan (2016) argues that waivers fail to address the root causes of agrarian distress, such as low profitability and vulnerability to climate risks.

4.2 Agricultural Credit and Financial Discipline

The literature highlights significant concerns regarding the impact of loan waivers on the rural credit system. The Reserve Bank of India (2017) notes that repeated waivers may weaken repayment discipline among borrowers.

Chakrabarti and Roy (2023) provide empirical evidence of moral hazard, showing that borrowers may delay repayments in anticipation of future waivers. Kanz (2016) also found that debt relief programs can reduce future loan repayment incentives, thereby affecting credit culture.

4.3 Political Economy of Loan Waivers

Loan waivers are often influenced by political considerations. Bhattacharya and Dev (2021) highlight that agricultural credit policies in India are shaped by both economic and political factors.

Jha, Mohapatra, and Lodha (2019) argue that loan waivers are frequently used as electoral tools rather than long-term policy solutions. This political dimension raises questions about the sustainability and effectiveness of such schemes.

4.4 Fiscal Implications

Loan waiver schemes impose a substantial fiscal burden on state governments. According to the Reserve Bank of India (2023), large-scale waivers can strain state finances and reduce the availability of funds for developmental expenditure.

Gulati and Saini (2018) emphasize that such fiscal pressures may lead to reduced investment in agricultural infrastructure, irrigation, and rural development, thereby affecting long-term growth.

4.5 Inclusion and Exclusion Issues

Several studies point out that loan waivers often exclude the most vulnerable farmers. Ramakumar (2017) notes that only farmers with access to institutional credit benefit from such schemes, while those dependent on informal sources remain excluded.

Raj and Singh (2022) highlight regional disparities in access to agricultural credit, particularly in areas like North Karnataka. This suggests that the benefits of loan waivers are unevenly distributed.

4.6 Evidence from Policy Reports

Institutional studies also provide valuable insights. National Bank for Agriculture and Rural Development (2020) found that loan waivers improved short-term liquidity but had limited impact on long-term credit access.

Government of Karnataka (2019) reported implementation challenges in the Crop Loan Waiver Scheme, including delays and issues related to beneficiary identification.

The Ministry of Agriculture & Farmers Welfare (2024) emphasizes the need for structural reforms in agriculture rather than reliance on temporary relief measures.

4.7 Structural Limitations of Loan Waivers

The literature consistently indicates that loan waivers do not address underlying structural problems such as:

- Price volatility
- Rising input costs
- Inadequate irrigation
- Climate risks

Gulati and Saini (2018) and Sharma (2025) both stress that sustainable solutions require comprehensive policy interventions, including crop insurance, market reforms, and improved credit systems.

5. Research Gap

The review reveals several gaps in existing literature:

- Limited district-level studies, particularly in North Karnataka
- Lack of primary data-based research

- Insufficient focus on implementation challenges at the grassroots level

These gaps highlight the need for localized studies, such as those focusing on districts like Vijayapur.

6. Conclusion

The literature from the past decade demonstrates that farm loan waiver schemes provide short-term financial relief but are not a sustainable solution to agrarian distress. Issues such as moral hazard, fiscal burden, and exclusion of vulnerable farmers limit their effectiveness. Therefore, policymakers must focus on long-term structural reforms, including improving agricultural productivity, expanding institutional credit, and strengthening rural infrastructure.

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