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Farm Loan Waivers in India: History, Fiscal Cost, and the Case for Structural Alternatives

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SUBJECTS COVERED**ECONOMY****SOCIAL ISSUES****CURATED & WRITTEN BY****Bharat Choudhary**

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✎ WHY IN NEWS

Maharashtra’s announcement of the **Punyashlok Ahilyadevi Holkar Farmers Loan Waiver Scheme** worth **₹35,000 crore** — the state’s third loan waiver in a decade — has reignited the national debate on the economic and political logic of farm debt relief, prompting a comprehensive review of India’s three-decade history with agricultural loan waivers.

THE HISTORY OF FARM LOAN WAIVERS IN INDIA

India’s engagement with farm loan waivers as a policy instrument dates to 1990. Over 35 years, the central and state governments have cumulatively spent approximately **₹3 lakh crore** on agricultural debt relief — an expenditure that has yet to resolve the structural crisis of Indian farm distress.

The 1990 and 2008 Central Schemes

The **Agriculture and Rural Debt Relief Scheme (ARDRS), 1990** was India’s first nationwide waiver, providing relief of up to **₹10,000 per farmer** at a total cost of approximately ₹10,000 crore. It was announced in the run-up to the 1991 general elections.

The **Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008** was the most significant central intervention — announced in the Union Budget 2008-09 by Finance Minister P. Chidambaram. It provided complete waiver for small and marginal farmers (those with up to 2 hectares / ~5 acres of landholding) and 25% one-time settlement (OTS) relief for larger farmers with the remaining 75% repayable in instalments. The initial budgeted cost was **₹52,500 crore**, but actual disbursement reached approximately **₹52,260 crore** benefiting **3.73 crore farmers**. The overall benefit including the OTS component expanded the fiscal impact to approximately **₹71,680 crore**.

The State-Led Surge: 2014–Present

From 2014-15 onwards, loan waivers shifted from a central prerogative to a competitive state-level political instrument. States including **Andhra Pradesh, Telangana, Uttar Pradesh, Maharashtra, Karnataka, Punjab, Madhya Pradesh, Chhattisgarh, Jharkhand, and Tamil Nadu** announced waivers cumulatively totalling approximately **₹2.5 lakh crore** — equivalent to about 1.4% of India's 2016-17 GDP.

A striking political pattern has emerged: **8 of 10 state waivers announced since 2014 were declared within 90 days of election results** — making farm loan waivers one of the most explicit forms of electoral fiscal populism in India.

Maharashtra's Latest Waiver (2026)

The **Punyashlok Ahilyadevi Holkar Farmers Loan Waiver Scheme** (announced by CM **Devendra Fadnavis** in the Maharashtra Budget 2026-27) covers **overdue crop loans up to ₹2 lakh** as of September 30, 2025. Approximately **28–30 lakh defaulting farmers** are expected to benefit directly from the waiver (cost: ~₹20,000 crore), while an additional **~20 lakh regular repayers** will receive a **₹50,000 incentive** (cost: ~₹15,000 crore) — an attempt to address the moral hazard problem that blanket waivers create. This is Maharashtra's third such waiver within a decade, following earlier schemes in 2017 and 2020.

TYPES OF FARM LOAN WAIVERS

India has seen four broad categories of waiver design:

Complete (Blanket) Waiver: The entire outstanding loan is written off regardless of loan amount or landholding size. Politically popular but fiscally most expensive and most prone to moral hazard.

Partial Waiver: Relief is capped at a fixed amount (typically ₹1–2 lakh per farmer); amounts exceeding the cap require farmer repayment. The 2008 ADWDRS used this structure for larger farmers.

Targeted Waiver: Relief is restricted to specific categories — small and marginal farmers (below 5 acres), disaster-affected districts, or particular loan types (crop loans vs. term loans). More efficient but harder to administer.

Interest Waiver: Only accumulated interest or penal interest is written off; principal repayment is still required. Less fiscally burdensome but provides limited relief to heavily indebted farmers.

THE CASE FOR: WHY WAIVERS HAVE POLITICAL TRACTION

Farm loan waivers are not purely cynical electoral instruments — they address real distress. India recorded **10,786 suicides in the farming sector in 2023** (NCRB data) — comprising 4,690 farmers and 6,096 agricultural labourers, approximately 30 deaths per day. Maharashtra alone accounted for 2,518 farmer suicides (highest among states). A significant portion is linked to debt burden. When crop failures, droughts, or commodity price crashes erode income over consecutive seasons, the accumulated debt burden becomes mathematically impossible to repay without external intervention.

The specific benefits include: **immediate liquidity restoration** allowing fresh credit eligibility for the next sowing season; **breaking debt traps** where compounding interest makes principal repayment increasingly impossible; **rural consumption stimulus** as waived debt frees household income; and **psychological relief** from the constant threat of asset seizure by moneylenders or banks.

THE CASE AGAINST: STRUCTURAL DAMAGE

The economic evidence against farm loan waivers as a policy instrument is substantial.

Credit culture erosion is the most documented harm. When waivers are repeatedly announced, rational farmers who can repay choose not to — anticipating the next waiver. Agricultural gross NPAs (non-performing assets) reached **8.44% by March 2019**, with NPAs surging in almost all states that announced waivers in 2017-18 and 2018-19.

Bank risk aversion follows — lenders respond to rising NPAs by reducing agricultural credit exposure, increasing collateral requirements, and raising effective interest rates, worsening the access problem for the next generation of farmers.

Fiscal displacement is severe. State waivers consume between **0.1% and 1.8% of state GSDP**, crowding out productive capital expenditure on irrigation, rural roads, cold chains, and market infrastructure — the investments that would actually address the structural causes of farm distress.

Poor targeting undermines the welfare argument. Studies found that only approximately **50% of eligible farmers received promised waiver amounts** between 2014 and 2022. Waivers primarily benefit farmers with formal bank loans — excluding the large population that borrows from informal moneylenders at far higher interest rates.

Regressive distribution: The poorest agricultural workers — landless labourers and subsistence cultivators with no formal credit access — receive nothing from loan waivers, while relatively better-off farmers with formal loan accounts benefit most.

STRUCTURAL ALTERNATIVES

The economic consensus favours replacing the waiver instrument with investments that address root causes:

Direct income support through schemes like **Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)** — ₹6,000/year to all landholding farmers — provides predictable, non-distortionary income supplementation without affecting credit discipline.

Crop insurance reform: The **Pradhan Mantri Fasal Bima Yojana (PMFBY)** covers crop loss risk, but claim settlement delays and inadequate coverage have limited its effectiveness. A well-functioning crop insurance system is the structurally correct response to weather-driven distress.

Agricultural infrastructure investment: Cold storage, warehousing, and rural logistics reduce the post-harvest losses (estimated at 15–25% of output) that erode effective farm income.

Market reform: The **e-National Agriculture Market (e-NAM)** platform and expanded **Farmer Producer Organisations (FPOs)** can improve price realisation by reducing intermediary margins.

Affordable credit access: Expansion of the **Kisan Credit Card (KCC)** scheme reduces dependence on informal moneylenders, whose interest rates (24–36% per annum) are a primary driver of debt traps.

UPSC RELEVANCE

ARDRS 1990, ADWDRS 2008, PM-KISAN, PMFBY, e-NAM, KCC (Kisan Credit Card), agricultural NPAs, Punyashlok Ahilyadevi Holkar Farmers Loan Waiver Scheme.

MAINS GS-3:

Agricultural distress and indebtedness; farm loan waiver policy — analysis; alternatives to waivers; fiscal federalism and state finances; agricultural credit in India.

MAINS GS-1:

Farmer suicides — causes, distribution, government response.

★ FACTS CORNER — KNOWLEDGE PEDIA

FARM LOAN WAIVERS — TIMELINE & COST:

1990 — ARDRS: First central waiver; relief up to ₹10,000/farmer; cost ~₹10,000 crore

2008 — ADWDRS: Budgeted ₹52,500 crore (actual ~₹71,680 crore incl. OTS); complete waiver for small/marginal farmers (≤ 2 hectares); 3.73 crore farmers

2014–present: State waivers totalling ~₹2.5 lakh crore (~1.4% of 2016-17 GDP)

Cumulative (35 years): ~₹3 lakh crore (central + state combined)

Maharashtra 2026: Punyashlok Ahilyadevi Holkar Scheme — ₹35,000 crore (₹20,000 cr waiver + ₹15,000 cr incentive); crop loans \leq ₹2 lakh as of 30 Sep 2025; ~28–30 lakh defaulting farmers + ~20 lakh regular repayers

TYPES OF WAIVERS:

Complete (Blanket) → entire loan written off

Partial → capped at ₹1–2 lakh; balance repayable

Targeted → specific group (small/marginal farmers, disaster-hit)

Interest → only interest/penal interest waived; principal remains

EVIDENCE OF HARM:

Agricultural Gross NPAs → 8.44% by March 2019 (post-waiver spike)

8 of 10 state waivers since 2014 announced within 90 days of elections

Only ~50% of eligible farmers received waiver amounts (2014–2022)

State fiscal cost: 0.1%–1.8% of GSDP per waiver

KEY ALTERNATIVES:

PM-KISAN — ₹6,000/year direct income transfer to all landholding farmers

PMFBY — Pradhan Mantri Fasal Bima Yojana (crop insurance)

e-NAM — electronic National Agriculture Market (price transparency)

KCC — Kisan Credit Card (affordable institutional credit)

FPOs — Farmer Producer Organisations (collective bargaining)

OTHER RELEVANT FACTS:

Farmer suicides in India (2023): 10,786 (4,690 farmers + 6,096 agricultural labourers); ~30/day; NCRB data

Maharashtra: highest state — 2,518 farmer suicides (2023); followed by Karnataka (1,425)

Landless agricultural labourers (primary victims of distress) receive NO benefit from loan waivers — they have no formal loans

Agricultural workforce: ~42–46% of India's total workforce; contributes ~17-18% of GDP (structural mismatch)

Informal credit rates for farmers: 24–36% per annum vs. KCC rate of ~7%

Sources: [Drishti IAS](#), [PIB](#), [RBI Annual Report](#), [NCRB](#)

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