

The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers

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Abstract:

Despite being one of the most fertile regions in the world, South Asia's farmers bear the brunt of loan inequalities, even though they are the backbone of the economy in many of these nations. Countries like Bangladesh, Sri Lanka, India, and Pakistan are major agricultural producers, yet their farmers struggle to access formal credit and are forced to rely on lenders who charge exorbitant interest rates. This paper investigates the reasons for the systemic failure of loan inequality in the agricultural sector of South Asia, such as the issue of financial literacy, the fear of banks of default by the borrowers, and the monopolistic positions of large corporations. Moreover, it provides the various critical socio-economic impacts of inequality in the region, for example, the escalating suicide rates of farmers from financial stress. The paper urges policy makers to address these issues through the reformation of the financial system, more equity to credit, and that measures be put in place to shield the powerless farmers from such exploitation.

Keywords: South Asia, Loan Inequality, Agriculture, Microfinance, Informal Lending. The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers

1. Introduction

While farmers toil under the pressure of repaying their loans on time, “not repaying loans has become a new business model” (Prothom Alo) among the top companies in South Asia. We may have heard about wealth or economic inequalities at some point in our lives, and while these issues are ubiquitous, there is an aspect to this issue that is often overlooked, which is loan inequality.

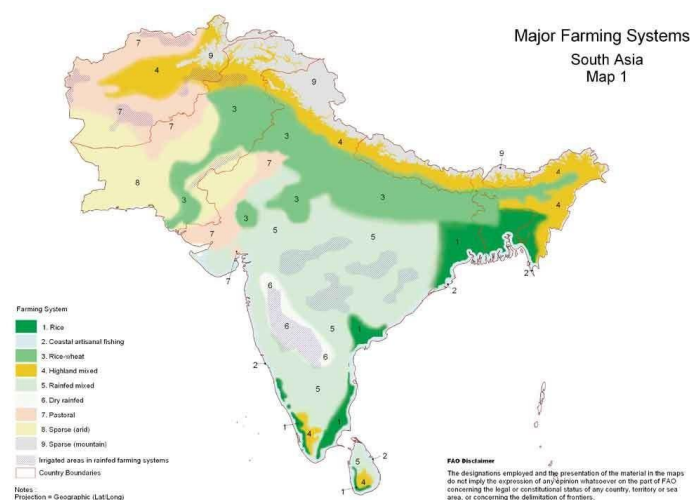


Figure. 1. Food and Agriculture Organization (FAO) Corporate Document Repository (2001). Farming systems and poverty: improving farmer livelihood in a changing world. [Online image]. FAO, Viale delle Terme di Caracalla 00153 Rome, Italy.

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Lying on the Indo-Gangetic plate, South Asia is home to one of the most fertile farming regions in the world, and exports a wide range of The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers

agricultural products, with India accounting for 40% (ORF) of global rice exports to Bangladesh accounting (Testbook) for 70% of global jute exports. These remarkable achievements could not be accomplished without the unequivocal contribution of this region's farmers and those involved in the agricultural sector, 1.8 billion to be precise (Alliance for Science). However, these very farmers in South Asia are facing (World Bank) one of the worst cases of loan inequalities at the moment, which requires urgent global attention.

In Sri Lanka, for example, most farmers do not have a credit history, making it extremely difficult for the financial institutions to trust them with lending money (Asian Development Bank). According to a report by the Central Bank of Sri Lanka, only about 10% of farmers have access to formal credit from banks (Central Bank of Sri Lanka). On top of that, many of these farmers don't have proper documentation of their land, which makes it very difficult for them to show their land as collateral (Shenali Waduge). The reluctance of financial institutions to lend money (Reuters) has led to 60% of farmers (AFI Global) relying on informal sources of borrowing (The Financial Express), a trend seen throughout South Asia (Heliyon). These are perilous waters that cannot be traded lightly, as these farmers lack financial literacy and even basic primary school education (Emerald Insight). Loan sharks often take advantage of

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illiterate farmers (The Diplomat); for instance, in Bangladesh, under the "haatra system," where if a farmer were to borrow 1,000 taka (US\$8.50) from an informal lender, he would have to pay 160 taka (US\$1.36) every week, resulting in an annual interest rate of 832% (The Financial Express).

The story does not end here. On one hand farmers struggle to borrow and repay loans (The Diplomat), while large corporations use it to capitalize even more (Spglobal) without even repaying it (IMF). Former governor of Bangladesh Bank eloquently expressed this issue: "You will take a loan from the bank and not repay it (Prothom Alo). This model of defaulted loans is now the business model of the country."

In Bangladesh, the top 20 loan defaulters, most of which are large corporations, owe approximately 165.9 billion taka (US\$1,404,429,768.00) (BD News 24).

In Pakistan, the situation is equally dire, with non-performing loans (NPLs) for large corporations reaching a staggering 717 billion Pakistani Rupees (US\$2,558,932,131.00) by the end of 2022, marking the

country's highest (Pakistan Tribune). India faces an even graver scenario, where over 2000 large corporate loan defaulters, which the government has labeled as "willful defaulters" accounted for an The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers exorbitant 1.96 trillion Indian Rupees (US\$23,456,221,600.00) in loans as of 2023 (Business Standard).

Large corporations, with their political and business connections, can easily borrow loans by inflating their collaterals, and then choose not to repay them by leveraging their influence and exploiting loopholes in the financial system. One common loophole that South Asian companies use to not repay loans is by transferring these loans to shell companies under the guise of legitimate business transactions such as consulting fees (Tookitaki). Then, the money is moved through a series of transactions among these shell companies to create layers, making it difficult for regulatory authorities to trace the original source of the loan.

This practice is highly problematic for a multitude of reasons.

Firstly, it puts small farmers who need loans for harvesting and buying supplies, as well as honest businesses, at a significant disadvantage. Secondly, these large corporations can go bankrupt due to excessive borrowing, as seen in high-profile cases like India's Vijay Mallya's Kingfisher Airlines and (Business Today) Nepal's Karayan Pun's Necon Air (Himalayan Times), which can cause severe repercussions for the financial institutions involved. This was seen in Afghanistan, where nearly US\$1 billion was embezzled from Kabul Bank in 2010 through *The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers* fraudulent loans to companies, leading to one of the largest banking collapses in South Asian history (AML).

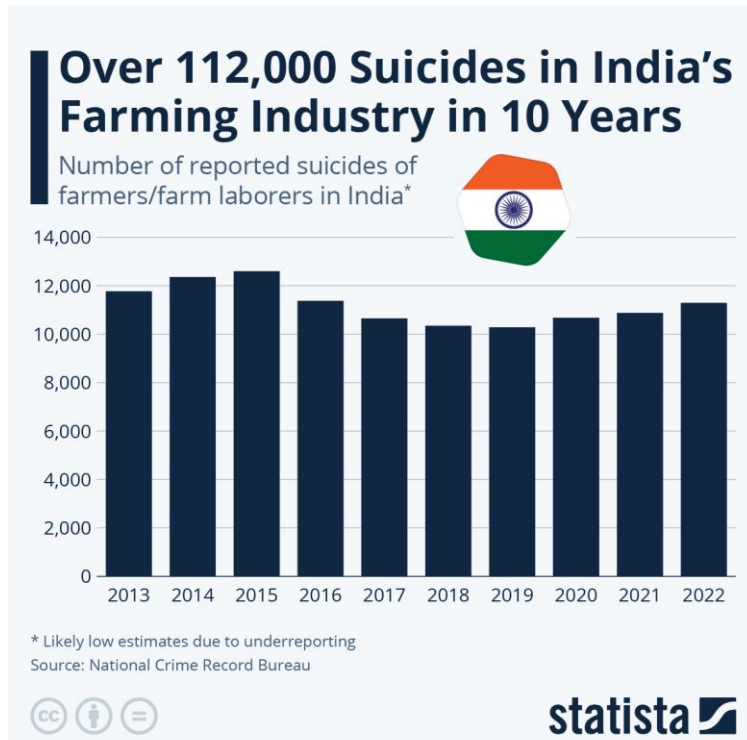


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In the chessboard of life, the farmers are seen as pawns while Banks continuously perceive the large corporations as Queens, Bishops and Rooks. Banks are reluctant to lend money to farmers because most of them lack proper documentation. Yet, they readily trust large corporations, granting them loans far greater than any farmer would ever request, despite the significant risk that these companies might never repay the loans. This practice is not just unfair; it's a glaring example of the systematic loan inequities that is prevalent in South Asia. These loan inequalities go beyond financial disparities; they lead to broader

The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers socio-economic impacts that many people, especially in conservative cultures like those in South Asia, are hesitant to discuss (BBC).

Figure. 2. National Crime Record Bureau. (2022). Over 112,000 Suicides in India's



Industry in 10 Years. [Bar Graph]. Statista, Johannes-Brahms-Platz 1, 20355 Hamburg, Germany. <https://www.statista.com/chart/32258/reported-suicides-of-farmers-farm-laborers-in-india/>

The suicide rate has exponentially gone up among farmers in this region, yet nobody talks about it due to the stigma surrounding suicide and mental health. South Asia, home to over 25% of global suicides (Arafat), is disproportionately affected, particularly in rural regions. In India alone, at least 112,000 people in the agricultural sector have committed suicide in the last decade (Statistica). Farmers can't rely on institutions for borrowing money and often fall into loan traps

The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers (Mongabay). They also bear the additional burden of not being able to discuss their struggles, as quite literally mental health is seen "as a weakness," leading many farmers to end their lives (Karasz).

While there have been micro financing initiatives from NGOs, such as in Bangladesh where Dr. Yunus's Grameen Bank has helped nearly 45 million people (Grameenbank), or in Bhutan where the Bhutan Development Bank Limited (BDBL) has provided microloans to around 54,000 farmers, one thing remains clear — microfinancing is not enough (Bhutan Development Bank). While these efforts are applaudable, they cannot help all the farmers because the scale of the problem is too vast.

Many farmers who live in remote and rural areas still lack access to microfinance services, and microloans often come with high-interest rates, making them difficult to repay. In Pakistan, for example, the annual interest rate on microfinance loans can reach up to 38%, placing a heavy burden on borrowers, the majority of whom are farmers.

All things considered, when we zoom out and look at the bigger picture, it becomes evident that in this volatile, uncertain, complex, and ambiguous (VUCA) world, inequalities manifest beyond just gender, race, or wealth (Harvard Business Review). Loan inequalities, particularly in the agricultural sector in South Asia, are seldom

The Untalked Debt Trap: Exploring Loan Inequality Among South Asian Farmers highlighted in mainstream media. It is time for this story to be heard. By bringing attention to this inequality, only then can these farmers—who are often seen as mere pawns—promote themselves to the status of queens, bishops, and rooks, ultimately bridging the loan inequality gap that has plagued the world, and particularly farmers in South Asia, for decades.

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