

The Debt Relief Board Bill, 2022 (Bill No. 145 of 2022)

Executive Summary

The Debt Relief Board Bill, 2022 proposes the establishment of a statutory body—the Debt Relief Board—to identify and recommend loans for waiver as a one-time national interest measure. The bill seeks to address the persistent debt burden on vulnerable groups and enhance formal financial inclusion. Large segments of the population remain trapped in debt cycles, especially in agriculture, MSMEs, and education sectors, with a significant reliance on non-institutional lenders.

Key Provisions

- ❖ Constitution of a multi-member Debt Relief Board.
- ❖ Identification and recommendation of loans with “merit” for waiver.
- ❖ Creation of a Debt Relief Fund.
- ❖ Initiation of financial literacy and research programs.

Background and Context

Current Situation:

- 52% of agricultural households are indebted.
- Over 40% of loans are from non-institutional sources despite widespread banking outreach (NABARD).
- Rising default rates and exclusion from formal credit systems necessitate a systemic and data-driven approach to debt relief.

History:

- Past loan waivers have been ad hoc, politically motivated, and fiscally burdensome without structural reform.

Stakeholders

- ✚ Beneficiaries: Farmers, MSMEs, students, rural households.
- ✚ Financial Institutions: Banks, NBFCs, co-operative societies.
- ✚ Governments: Central and State, especially in fund allocation.

Key Components

- ❖ Constitution of the Debt Relief Board with up to 17 members, including MPs and ministry representatives.

- ❖ Empowered to recommend loans for waiver and to undertake data collection, research, and training.
- ❖ Definition of “Loans with Merit”:
 - Includes agricultural, MSME, education, medical treatment, and cooperative sector loans.
- ❖ Debt Relief Fund:
 - Funded by government grants, fees, and other sources.
- ❖ Functions:
 - Identification and benchmarking of loans.
 - Promotion of financial literacy.
 - Coordination with local self-governments and financial institutions.

Impact Analysis

- Economic: Estimated cost: ₹25,000 crore (non-recurring) + ₹100 crore/year (recurring). May boost credit flow and repayment culture in long run by eliminating chronic NPAs from small borrowers.
- Social: Targets underserved rural and lower-income groups. Can reduce suicides and financial stress in vulnerable sectors.
- Operational: Requires robust data collection, inter-agency cooperation, and regulatory oversight. Risk of politicization and moral hazard if safeguards aren't built in.

Arguments For and Against

For:

- ✓ Socio-economic Relief: Targets those most affected by systemic debt, especially in rural areas.
- ✓ Restoration of Financial Inclusion: Brings defaulters back into the formal banking net.
- ✓ Systemic Reform: Replaces arbitrary waivers with data-driven, one-time relief.

Against:

- ✗ Fiscal Burden: High non-recurring cost may impact government budgets.
- ✗ Moral Hazard: May disincentivize loan repayment if repeated.
- ✗ Implementation Challenges: Identifying and verifying eligible loans uniformly across India may be complex.

Fiscal Implications

- 1) Estimated costs of implementation and enforcement: Recurring Expenditure: ₹100 crore annually for operations and staffing. Non-Recurring Expenditure: ₹25,000 crore for initial loan waivers.
- 2) Budgetary impacts on government agencies or other entities: Will draw from the Consolidated Fund of India. Short-term reduction in recoverable assets; potential long-term gain via revived borrower activity.

Recommendation:

- 1) Ensure scientific basis and transparency in identification of eligible loans and debtors.
- 2) Set clear criteria and limits for waivers.
- 3) Include oversight mechanisms to prevent abuse.
- 4) Review and strengthen rules regarding loan identification and evaluation.
- 5) Include provisions for periodic impact evaluation.
- 6) Ensure accountability via parliamentary reporting and independent audit.

VIII. Appendices

Kuriakose, D. (2022, July 4). *The Debt Relief Board Bill, 2022*. Lok Sabha Bill No. 145 of 2022. Lok Sabha Secretariat <https://loksabha.nic.in>

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