

Introduction

I Part

1.1 Background

As part of its budget proposals for the financial year (2008-09), the Government of India (GoI), in February 2008, announced a debt waiver and relief package for farmers. The cost of the scheme was estimated at ₹ 71,680 crore. Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008 was approved by the Cabinet on 23 May 2008. The scheme in respect of debt waiver was to be completed by 30 June 2008 while the date for debt relief was extended up to 30 June 2010. The scheme sought to lighten the debt burden of the farming community to enable such farmers to qualify for fresh loans. The wide-ranging package targeted waiver of loans to over 3.69 crore Small and Marginal farmers and a One-Time Settlement (OTS) of loans for another 0.6 crore 'Other farmers', i.e. other than Small and Marginal Farmers.

1.2 Salient features of the scheme

Guidelines of the scheme were circulated by the Department of Financial Services, (DFS) Ministry of Finance in May 2008. These guidelines specified the condition of eligibility, type of loans covered under the scheme etc. Subsequently, clarifications were issued on 18 June 2008 regarding implementation of the scheme.

Types of loans covered under the scheme

The scheme covered 'Direct Agricultural Loans' comprising Short Term Production Loans for agricultural purposes and Investment Loans availed by farmers for agricultural and allied activities.

Short Term Production Loans - These loans were given in connection with the raising of crops and were to be repaid within 18 months. They included working capital loans not exceeding ₹ 1 lakh for traditional and non-traditional plantations and horticulture.

Investment Loans - These loans comprised investment credit for both direct agricultural activities and allied activities. The former included credit extended for meeting outlays relating to the replacement and maintenance of wasting assets and for capital investment designed to increase the output from the land, e.g. deepening of wells, sinking of new wells, installation of pump sets, purchase of tractor / pair of bullocks, land development and term loan for traditional and non-traditional plantations and horticulture. The latter included credit extended for acquiring assets in respect of activities allied to agriculture like dairy, poultry farming, goatery, sheep rearing, piggery, fisheries, bee-keeping, green houses and biogas.

These loans were disbursed to farmers through Scheduled Commercial Banks and Cooperative Credit Institutions. Loans provided directly to groups of individual farmers (e.g. Self Help Groups and Joint Liability Groups) were also included in the scheme, provided that the lending institutions maintained disaggregated data of the loan extended to each farmer belonging to that group. Direct agricultural loans disbursed under Kisan Credit Cards were also eligible for debt waiver / debt relief.

Categorisation of beneficiaries

Farmers who had taken Short Term Production Loans or Investment Loans for agricultural activities - Such farmers qualified for the scheme and were categorised according to the following parameters:

- a) Marginal farmer: A farmer cultivating (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres).
- b) Small farmer: A farmer cultivating (as owner or tenant or share cropper) agricultural land more than 1 hectare and up to 2 hectares (5 acres).
- c) Other farmer: A farmer cultivating (as owner or tenant or share cropper) agricultural land more than 2 hectares (more than 5 acres).

Farmers who had taken Investment Loan for allied activities - Land holding was not the criteria for categorisation of farmers for investment loan for allied activities. The categorisation of farmers under this category was based on the amount of loan obtained for allied activities.

- a) Marginal farmer: Farmer obtaining loan up to ₹ 50,000.
- b) Small farmer: Farmer obtaining loan up to ₹ 50,000.
- c) Other farmer: Farmer obtaining loan above ₹ 50,000.

Eligible amounts and cut-off dates

The amount eligible for debt waiver or debt relief, as the case may be, would qualify only subject to certain conditions. These conditions were:

In the case of a short-term production loan, the amount of such loan (together with applicable interest):

- a) disbursed up to 31 March 2007 and overdue as on 31 December 2007 and remaining unpaid until 29 February 2008; or
- b) restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government, whether overdue or not; or
- c) restructured and rescheduled in the normal course up to 31 March 2007 as per applicable RBI guidelines on account of natural calamities, whether overdue or not.

In the case of an investment loan, the installments of such loan that were overdue (together with applicable interest on such installments) if the loan was:

- a) disbursed up to 31 March 2007 and overdue as on 31 December 2007 and remaining unpaid until 29 February 2008;
- b) restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government; and
- c) restructured and rescheduled in the normal course up to 31 March 2007 as per applicable RBI guidelines on account of natural calamities.
- d) In the case of an investment loan disbursed up to March 31, 2007 and classified as non-performing asset or suit filed account, only the installments that were overdue as on December 31, 2007 shall be the eligible amount.

Benefits under debt waiver and debt relief

Debt waiver essentially signified 100 *per cent* waiver of the 'eligible amount' while debt relief signified waiver of 25 *per cent* of the 'eligible amount' under a One-Time Settlement (OTS) scheme. Debt waiver or debt relief were to be applicable as follows:

- ✓ **Marginal and Small farmer:** The entire 'eligible amount' was to be waived.
- ✓ **Other farmer:** The farmer would be given a rebate of 25 *per cent* of the 'eligible amount' subject to the condition that the farmer paid the remaining 75 *per cent* of the 'eligible amount'. In the case of 237 revenue districts falling under Drought Prone Areas Programme or Desert Development Programme

or Prime Minister's Special Relief Package mentioned in the scheme, Other farmer would be given rebate of ₹ 20,000 or 25 per cent of the 'eligible amount', whichever was higher, provided the farmer paid the balance of the 'eligible amount'. The rebate, in both cases, would be indicated as debt relief under ADWDRS and would be claimed by the lending institution from the GoI after receipt of balance of 75 per cent of the 'eligible amount' from the farmer willing to avail the benefit under the scheme.

As per the guidelines of the scheme, the payment of the balance of 75 per cent of the 'eligible amount' was to be made by the beneficiary in three installments falling on 30 September 2008, 31 March 2009 and 30 June 2009, with the condition that at least *one-third* amount be paid in each of the first and second installments. The due dates for payment of installments were extended successively during the course of implementation of scheme as mentioned below:

- Date of payment of 1st installment was extended to 31 March 2009 (vide DFS circular dated 14 January 2009).
- Date of payment of lump sum 1st and 2nd installment extended to 30 June 2009 (vide DFS circular dated 12 June 2009).
- Date of payment of full share of 75 per cent (all the three installments) was extended to 31 December 2009 (vide DFS circular dated 8 July 2009.)
- Date of payment of full share of 75 per cent (all the three installments) was finally extended to 30 June 2010 (vide DFS circular dated 26 March 2010).

1.3 Implementation structure

Department of Financial Services - DFS was the apex authority responsible for the overall implementation of the scheme. DFS prepared the guidelines for the implementation of the scheme and issued clarifications, when required. It released funds to the nodal agencies after receiving claims from them. It was also required to monitor the progress of the scheme and supervise the nodal agencies, i.e. RBI and NABARD, to ensure that they were effectively monitoring the implementation of the scheme through the lending institutions.

Nodal agencies - The RBI and NABARD were the nodal agencies for the implementation of the scheme. While RBI was responsible for Scheduled Commercial Banks (SCBs)⁶, Urban

⁶ Both Public Sector Banks and Private Sector Banks

Cooperative Banks (UCBs) and Local Area Banks (LABs), NABARD performed a similar role in respect of Cooperative Credit Institutions and Regional Rural Banks (RRBs). They were to receive claims from the lending institutions and forward the same to DFS for reimbursement. RBI and NABARD were also required to put in place a system for monitoring the progress in the implementation of the scheme.

Both RBI and NABARD in their regulatory roles were required to exercise checks on the lending institutions. In addition, specific to the scheme, these nodal agencies issued circulars to the lending institutions and directed them to do the following:

- Maintain state-wise and bank-wise data relating to the amounts waived and rebates given under OTS as part of data maintenance, and forward the same to nodal agencies;
- Form dedicated cells in each state for the purpose of monitoring the progress in implementation of the scheme and disseminating the progress report to the convenor banks of State Level Bankers' Committee (SLBC) through their controlling offices; and
- Audit the claims through internal auditors as well as central statutory auditors.

State Level Bankers' Committees - The State Level Bankers' Committee⁷ (SLBC) was responsible for consolidating and sending district-wise and state-wise data, of each bank in the state relating to amount waived and rebate given under OTS, received from the controlling offices of the banks to the regional office of the RBI. The SLBC was also required to constitute dedicated cells for consolidation and dissemination of state-wise and bank-wise data. A special steering committee was also to be formed to oversee the consolidation and dissemination of state-wise and bank-wise data, besides monitoring the implementation of the scheme.

⁷ The State Level Bankers' Committee (SLBC) was envisaged as a consultative and co-ordination body of all financial institutions operating in each state.

Lending institutions - The lending institutions were the primary agencies for implementation of the scheme. Every lending institution implementing the scheme was assigned the responsibilities to:

- ✓ *Display a copy of the scheme in English and in the official language or languages of the State/Union Territory in its branch;*
- ✓ *Prepare two lists, one of Small and Marginal farmers who were eligible for debt waiver and the second of Other farmers who were eligible for debt relief under the scheme. The lists were to include particulars of the landholding, the 'eligible amount' and the amount of debt waiver or debt relief proposed to be granted in each case. The lists were to be displayed on the notice board of the branch of the bank/society on or before 30 June 2008;*
- ✓ *Ensure the correctness and integrity of the lists of farmers eligible under the scheme and the particulars of the debt waiver or debt relief in respect of each farmer. Every document maintained, every list prepared and every certificate issued by the lending institution for the purposes of this scheme was to bear the signature and designation of an authorised officer of the lending institution;*
- ✓ *Appoint one or more Grievance Redressal Officer (GRO) for each state (having regard to the number of branches in that state). The name and address of the GRO concerned was to be displayed in each branch of the lending institution;*
- ✓ *Credit the amount of OTS relief (GoI's share, i.e. 25 per cent) in the account of the Other farmer upon the farmer paying his share (75 per cent);*
- ✓ *Issue a certificate to the effect that the loan had been waived, mentioning the 'eligible amount' that had been waived in the case of Small/Marginal farmers, upon waiver of the 'eligible amount'; and in the case of Other farmers, upon granting OTS relief, a certificate to the effect that the loan account had been settled to the satisfaction of the lending institution and mentioning the 'eligible amount', the amount paid by the farmer as his share and the amount of OTS relief; and*
- ✓ *Extend the benefit of fresh loan, upon the eligible amount being waived, to the farmers;*
- ✓ *Introduce Grievance Redressal Mechanism (GRM) for attending to the grievances of farmers. The last date for receipt of grievances by lending institutions for the debt relief portion of the scheme was 31 July 2010.*

The actual point of interaction with the beneficiaries for the purpose of implementation of the scheme was the lending institution. Thus, quality of implementation and the ultimate effectiveness of the scheme were greatly dependent upon the capacity of the banks and the efficiency with which they discharged their responsibilities.

1.4 Financial and physical coverage

In their note to the Cabinet in May 2008, Department of Financial Services had estimated that about 3.69 crore Small/Marginal farmers' accounts and about 0.60 crore Other farmers' accounts would be covered under the scheme. In the same note, the cash outgo from GoI towards reimbursement of the amount of waiver/relief to the lending institutions was estimated at around ₹ 60,416 crore for Small/Marginal farmers and ₹ 7,960 crore for Other farmers. As per the information provided (March 2010) by DFS to Parliament, according to provisional estimates, the scheme was likely to cost the Government approximately ₹ 65,318 crore and benefit 3.69 crore farmers, details of which are given in Table 1.

TABLE 1: COVERAGE UNDER THE SCHEME

S. No.	Name of State/ UT	Number of farmers covered under			Total eligible amount of Waiver / Relief (₹ in crore)
		Debt Waiver (Small/Medium farmers)	Debt Relief (Other farmers)	Total	
1.	Andhra Pradesh	6646198	1109029	7755227	11353.71
2.	Assam	319546	18146	337692	405.51
3.	Arunachal Pradesh	10775	1241	12016	20.47
4.	Bihar	1662971	94548	1757519	3158.90
5.	Chhattisgarh	493828	201119	694947	701.28
6.	Delhi	1324	388	1712	7.36
7.	Gujarat	576137	410605	986742	2395.32
8.	Goa	1592	768	2360	5.58
9.	Haryana	527490	357612	885102	2648.73
10.	Himachal Pradesh	114997	4794	119791	273.82
11.	Jammu & Kashmir	47449	3081	50530	97.06
12.	Jharkhand	639187	27239	666426	789.60
13.	Karnataka	1171983	555360	1727343	4020.29
14.	Kerala	1390546	40192	1430738	2962.97
15.	Madhya Pradesh	1715624	659202	2374826	4203.25
16.	Maharashtra	3023000	1225000	4248000	8951.33

17.	Meghalaya	40885	2129	43014	77.94
18.	Mizoram	18699	1641	20340	34.22
19.	Manipur	56670	1393	58063	57.49
20.	Nagaland	12623	2290	14913	22.39
21.	Odisha	2377022	135935	2512957	3277.75
22.	Punjab	227416	193862	421278	1222.91
23.	Rajasthan	1111821	732765	1844586	3795.78
24.	Sikkim	7140	651	7791	13.309
25.	Tamil Nadu	1427280	328206	1755486	3365.39
26.	Tripura	60502	1101	61603	97.09
27.	Uttar Pradesh	4794348	621693	5416041	9095.11
28.	Uttarakhand	154962	18733	173695	317.65
29.	West Bengal	1445743	16590	1462333	1882.27
30.	Andaman and Nicobar Islands	1537	958	2495	1.96
31.	Chandigarh	148	79	227	1.35
32.	Dadar and Nagar Haveli	351	137	488	0.69
33.	Daman and Diu	65	38	103	0.15
34.	Lakshadweep	130	2	132	0.25
35.	Puducherry	26247	5055	31302	59.37
Total		30106236	6771582	36877818	65318.33

Source: Department of Financial Services' letter no. 3/6/2010-AC dated 16 June 2010.

DFS informed Audit (February 2012) that, up to 31 January 2012, ₹ 52,153 crore (provisional figures) was extended as debt waiver/relief by lending institutions to 3.45 crore⁸ farmers' accounts under the scheme. Further, as of 31 March 2012, DFS had released ₹ 52,516 crore to RBI/NABARD between 2008-09 and 2011-12.

Release of funds

To ensure that banks had ample liquidity for disbursing credit to farmers who became eligible for fresh credit after benefitting under the scheme, the GoI created a Farmers Debt Relief Fund (FDRF) with an initial corpus of ₹ 10,000 crore in March 2008. The claims of all lending institutions including SCBs, RRBs and Cooperative Banks were to be reimbursed from the fund. The FDRF was replenished from time to time depending on the requirement.

⁸ In respect of Urban Cooperative Banks (UCBs), though the amount of fund released was given, the corresponding numbers of farmers' accounts was not provided. Hence, the total number of farmers' accounts provided by DFS does not include the farmers covered under the scheme by the UCBs.

The details of releases, amounting to ₹ 52,516 crore, to RBI/NABARD between 2008-09 and 2011-12 are given in Table 2.

TABLE 2: DETAILS OF FUNDS TRANSFERRED TO FDRF AND RELEASES MADE THERE AGAINST

S. No.	Date of transfer of funds to FDRF	Amount of funds transferred to FDRF (₹ in crore)	Date of release to nodal agencies	Amount of release to nodal agencies (₹ in crore)	Closing balance of the FDRF after releases (₹ in crore)
1.	31.03.2008	10000.00	-	-	10000.00
2.	05.12.2008	15000.00	05.12.2008	15000.00	10000.00
3.	-	-	10.12.2008	10000.00	Nil
4.	10.06.2009	5000.00	17.06.2009	5000.00	Nil
5.	03.09.2009	10000.00	03.09.2009	10000.00	Nil
6.	-	-	06.12.2010	11340.47	(-) 11340.47
7.	29.03.2011	16000.00	-	-	4659.53
8.	-	-	01.11.2011	1079.41	3580.12
9.	-	-	21.02.2012	96.98	3483.14
Total		56000.00		52516.86	

1.5 Audit Approach

Audit Objectives

The main objectives of the performance audit were to ascertain whether:

- *The scheme achieved its objectives of extending benefits to all the eligible beneficiaries;*
- *Ineligible persons/loans were not included under the scheme;*
- *Correct amount was claimed by the banks for reimbursement;*
- *Fresh loan was extended to all the farmers covered under the scheme, if they requested for it;*
- *The grievance redressal mechanism was efficient, effective and based on clear understanding of schemes guidelines; and*
- *The internal control and monitoring was effective.*

Sources of Audit Criteria

Audit criteria for the performance audit were drawn from the following:

- ADWDRS guidelines;
- Implementation circulars and subsequent clarifications issued by DFS;
- Non Performing Asset (NPA)/Write off guidelines of RBI and NABARD for commercial banks and cooperative banks respectively from 1997-2008;
- Circulars issued by RBI and NABARD for monitoring and implementation of scheme;
- Circulars issued by lending institutions;
- Provisions on rate of interest to be charged for different types of loans for each bank from 1997-2008;
- Provisions on penal interest, inspection charges, processing fees, etc. normally charged by banks from 1997-2008;
- Definition of overdue date considered by each bank from 1997-2008;
- Repayment schedule of each type of loan considered by each bank from 1997-2008; and
- Recovery register, inspection register or any other loans' controlling documents including circulars/instructions for each bank from 1997-2008.

Audit scope and methodology

The Performance Audit of the scheme covered 25 states. Field audit of a total of 90,576 beneficiaries'/farmers' accounts in 715 branches of lending institutions of 92 districts was carried out from April 2011 to March 2012. The total sample of 90,576 consists of three parts (S1, S2 and S3) which were the basis of selection of sample in each bank's branch:

- S 1 100 farmers, who had been extended benefit under the scheme as per list prepared by branch and claims approved
- S 2 25 farmers, which were not selected as beneficiaries, even though they had received agriculture loan between 1 April 1997 to 31 March 2007
- S 3 Cases of complaints/representations received either through GRM or otherwise.

State-wise details of these samples are given in **Annexe 1A, 1B and 1C**.

An 'Entry Conference' was held with DFS on 27 September 2011, wherein the audit methodology, scope, objectives and criteria were explained. DFS also made a presentation on the salient features of the scheme to Audit. Field work was based on test check conducted between April 2011 and March 2012. Subsequent audit scrutiny consisted of examination of documents and records at DFS/concerned lending institutions, collection of information through issue of audit memos and questionnaires and interaction with key personnel. An Exit Conference was held on 7 December 2012 wherein the main findings of audit were discussed with the Ministry.

Audit constraints

Audit had called for (June-July 2010) basic records, i.e. state-wise, district-wise and bank-wise beneficiaries' data before the start of field audit from DFS as well as from the two nodal agencies, RBI and NABARD, for the purpose of planning the performance audit. RBI issued (July 2010) directions to State Level Bankers' Committees (SLBCs), who started sending this data in piecemeal basis to Audit till February 2011. However, the completeness and correctness of this data was not confirmed by the RBI who stated (December 2010) that they did not maintain data in such format.

During the course of audit, updated state-wise data was again sought (October 2011) from DFS to know the final figures of state-wise and bank-wise beneficiaries and amount of claims made as well as accepted by GoI. In response, DFS stated (February 2012) that it would not be possible to have an audited data for the states in respect of scheduled commercial banks as the claims of such banks were only verified at the branch level and not at the central level.

Audit simultaneously made efforts to collect the data from SLBCs in 25 states (those selected for performance audit) during 2011-12 but the data could be provided only in respect of 20 states by the respective SLBCs. In respect of five⁹ states data was not furnished to the Audit. The data in respect of 20 states was sent (January 2012) to DFS for confirmation. DFS did not confirm the data and instead stated (February 2012) that they had asked the SLBCs to give data as on 31 January 2012 to audit.

⁹ Andhra Pradesh, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand

As regards the information available with the RBI and NABARD, it was found that these agencies were maintaining data related to the implementation of the scheme, on two different parameters, i.e. RBI was maintaining the data 'bank-wise' while the NABARD was maintaining it 'state-wise'. Owing to the different parameters being applied by RBI and NABARD for data, the information available with these nodal agencies was not uniform and could not, therefore, be used for analysis and comparative evaluation with respect to implementation of the scheme by lending institutions.

1.6 Re-verification of audit observations

During this Performance Audit exercise, Audit test-checked 90,576 accounts for evaluating the implementation of the ADWDR scheme, against which there were audit observations relating to 20,756 accounts. Based on these audit findings, a draft audit report was issued to the Department of Financial Services, Ministry of Finance on 8 May 2012. In their reply (29 June 2012), DFS stated that 7,242 observations were verified by them and the banks had contested the audit observations in 2,515 cases. However, as no details were provided, Audit requested (6 July 2012) DFS to intimate the specific cases where banks had not agreed to audit observations. Therefore, DFS directed all the banks to reconcile their differences with Audit by providing relevant details and supporting documentation of the cases.

Subsequently, Audit took up a re-verification exercise during which initial records and documents submitted by banks relating to 6,371 cases (including the 2,515 cases contested in the DFS reply) were examined and discussed in detail with the representatives of the banks. The findings included in this report relate to those cases where the supporting documentation showed that benefits had been extended in violation of guidelines. These findings, thus, represent the final view of audit after thorough evaluation of evidence produced by the banks in selected cases, during the process of reconciliation.

A summary of this effort, which spanned over 3 months, is given in Table 3 while details are in Annexe 2A and Annexe 2B.

TABLE 3: RESULTS OF RE-VERIFICATION

Bank	Number of Cases seen	Number of cases objected by audit	No. of cases disagreed by banks and re-verification done	Results of re-verification		Final number of audit objections sustained	Percentage where audit objections sustained $\{(7) \div (3)\} \times 100$
				Audit objections sustained out of (4)	Audit objections dropped out of (4)		
-(1)-	-(2)-	-(3)-	-(4)-	-(5)-	-(6)-	-(7)-	-(8)-
Banks under RBI	44285	9703	2643	2447	196	9507	97.98
Banks under NABARD	46291	11053	3728	3410	318	10735	97.12
Total	90576	20756	6371	5857	514	20242	97.52

In addition, 26 audit objections (J&K Bank) pertaining to financing of mules, were also dropped in view of the discussion held during the Exit Conference and clarification issued by DFS on 11 December 2012 regarding admissibility of financing of mules under the scheme.

1.7 Acknowledgement

Audit wishes to acknowledge the co-operation received from the Department of Financial Services, Ministry of Finance, Reserve Bank of India (RBI) and National Bank for Agricultural and Rural Development (NABARD) and lending institutions during the audit process.

Audit would also like to place on record its appreciation for the efforts made by DFS, NABARD and various lending institutions in deputing officials to discuss the audit observations during re-verification.

Subsequent to the issue of draft audit report to the Ministry and Exit Conference held at the level of Secretary, DFS, the DFS advised RBI and NABARD in January 2013 requesting them to issue instructions to Scheduled Commercial Banks/Cooperative Banks/RRBs/LABs for taking immediate corrective measures in respect of major audit observations. DFS instructed that institutions need to take action like recovery of money paid to ineligible beneficiaries and loans extended to MFIs, action under Banking Regulations against erring

banks, fixing of responsibility of bank officials as well as bank auditors, filing of FIRs¹⁰ in cases of tampering of records, issue of debt waiver and debt relief certificates to beneficiaries and monitoring the outcome relating to fresh loans. RBI and NABARD accordingly issued instructions to the implementing institutions on 14 and 11 January 2013.

Audit appreciates the prompt remedial action taken by the DFS, RBI and NABARD.

¹⁰ First Information Report