

Audit Findings

II Part

The audit findings have been categorised under the following broad areas (i) Scheme design, (ii) Release of funds, (iii) Non-extension of benefits to eligible beneficiaries, (iv) Inclusion of ineligible beneficiaries, (v) Other lapses in implementation of scheme, (vi) Accuracy of claims, (vii) Reimbursement to lending institutions, (viii) Extension of fresh credit, and (ix) Monitoring.

2.1 Scheme design

2.1.1 Time-frame for implementation and capability of lending institutions

The scheme set an ambitious target of achieving debt waiver/debt relief for an estimated 4.29 crore farmer accounts in a very short span of one month. The scheme was circulated to banks on 28 May 2008 with a stringent deadline of 30 June 2008 for drawing up beneficiary lists by lending institutions. An important clarificatory circular¹¹ was issued as late as on 18 June 2008.

Audit found that the design of the scheme did not take into account varying capacity and infrastructure of the lending institutions. Apart from the fact that a huge number of branches of the Scheduled Commercial Banks were directly involved, the scheme was also to be implemented by around one lakh Primary Agricultural Cooperative Societies (PACS), District Central Cooperative Banks (DCCBs) and Regional Rural Banks (RRBs) and other branches situated in remote localities. In light of these issues, the timeline of 30 June 2008 was unrealistic and fraught with risk of errors as eventually seen in audit.

In this regard, DFS stated (April 2012) that:

“The scheme was circulated to banks on 28.05.2008. Thereafter certain queries were received from some banks which were clarified on 18.06.2008. In any scheme the clarifications are issued on an ongoing basis. In the scheme guidelines the criteria of eligibility for relief has been prescribed and the benefits of the scheme extended to the beneficiaries. In view of this, time for making list of beneficiaries as per bank record was not

¹¹ Clarificatory circular provided explanation and clarity on the issues raised by the lending institutions.

short. The scheme was implemented at branch level. There was already a grievance redressal mechanism in the scheme. If there was any discrepancy in short listing the beneficiaries the list could be corrected at the branch level itself by the grievance redressal office. The coverage of beneficiaries as under the scheme shows that the methodology/approach was suitable and there was no time constraint.”

From the number and nature of deficiencies noticed in audit, viz eligible farmers not covered under the scheme, ineligible farmers extended benefit under the scheme, less or excess benefits provided under the scheme etc. as elaborated later in this report, it would be clear that in such cases the lending institutions did not prepare correct list of beneficiaries with due care. In fact, during the state-level exit conferences in Punjab, the banks expressed their opinion that the time allowed by the Government of India for the implementation of the scheme was a major constraint which resulted in some of the irregularities pointed out in the performance audit. ICICI Bank, Canara Bank and Land Development Bank, Uttar Pradesh also held similar views.

2.1.2 Outcome relating to fresh loans not monitored

It was noticed in Audit that even though the scheme wanted to, on one hand de-clog the lines of credit due to debt burden on the farmers and, on the other, enable the farmers to avail themselves of fresh agriculture credit from banks in accordance with the normal rules, the scheme guidelines defined outputs only in terms of likely number of beneficiaries/accounts for debt waiver and relief. This led the lending institutions to be more concerned about achieving targets for waiver and relief. There was little or no monitoring to ensure that the objective of extension of fresh loans was achieved.

2.2 Release of funds

A Farmers’ Debt Relief Fund (FDRF) was created in March 2008 with the approval of the Cabinet. The fund was created with an initial corpus of ₹ 10,000 crore in 2007-08 to be augmented as required, for reimbursing the banks against the amount of debt waiver/relief granted by them. Initially, the money was transferred from the Consolidated Fund of India to FDRF which is a reserve fund under the Public Account of India. Subsequently, the funds were released by the DFS to RBI/NABARD for reimbursement of claims under the ADWDRS. The closing balance in the fund as on February 2012 was ₹ 3,483 crore.

2.2.1 Funds lying idle with lending institutions

While claiming reimbursements, the lending institutions had calculated the amounts inclusive of interest. Audit noted that subsequently, certain amounts were refunded by Urban Cooperative Banks and Scheduled Commercial Banks from time to time. To protect the financial interests of the Government, the amounts ought to have been refunded along-with interest for the period that they continued to lie with the lending institutions. However, DFS could not give the details of refunds (lending institution-wise) received by the nodal agencies and interest on unutilized amount lying with lending institutions. As DFS had not maintained full details, amounts may also be lying with lending institutions which have not been accounted for.

2.3 Non-extension of benefits to eligible beneficiaries

In delivering the benefits of debt waiver and debt relief, the lending institutions were responsible for ensuring that all indebted farmers who met qualifying conditions were extended the benefits of the scheme. As such, all the lending institutions were required to prepare a list of farmers eligible under the scheme. The list was to be signed after careful verification by the Branch Manager and then authenticated by a designated officer from Zonal/Regional Office of the lending institution. Every effort was to be made to eliminate errors of inclusion as well as exclusion by certifying to the correctness and integrity of the list of beneficiaries.

Audit had examined 25 cases of individual loan accounts in each branch visited by Audit where no benefit was given. It was noticed that out of a total of 9,334 accounts¹² test checked in audit across nine states, 1,257 accounts (13.46 per cent) were those which were found to be eligible for benefit of ₹ 3.58 crore under the scheme, but were not considered by the lending institutions while preparing the list of eligible farmers. Details of such accounts are given in Table 4.

¹² Sample - S 2

TABLE 4: STATE-WISE DETAILS OF FARMER ACCOUNTS FOUND ELIGIBLE BUT NOT EXTENDED BENEFIT UNDER THE SCHEME

S. No.	Name of State	Total number of eligible farmer accounts not included in the scheme	Amount (in ₹)
1.	Chhattisgarh	22	493097
2.	Gujarat	1	15220
3.	Kerala	6	183272
4.	Madhya Pradesh	1147	32063994
5.	Maharashtra	1	95086
6.	Odisha	30	334004
7.	Punjab	8	532983
8.	Rajasthan	4	94266
9.	Tripura	38	1975743
Total		1257	35787665

In addition to the above, Audit noticed that another 183 accounts¹³ were denied benefits totaling ₹ 21.30 lakh under the scheme though their names appeared in the list of the beneficiaries. For instance in Punjab, debt relief of ₹ 17.87 lakh was claimed in 176 cases by three branches of Primary Co-operative Agricultural Development Bank Ltd. from Government of India. Audit found that instead of crediting the same into the accounts of the beneficiaries, the amount was irregularly kept in the sundry accounts thereby denying benefit to the concerned beneficiaries.

Further, in Haryana, two¹⁴ lending institutions recovered full amount of loan from 69 farmers after 29 February 2008 even though they were eligible for debt relief of 25 per cent under OTS scheme. Nonetheless, these banks claimed the debt relief, amounting to ₹ 6.38 lakh from NABARD. Audit, however, noted that the same was not paid to the farmers. On this being pointed (June and July 2011), the banks stated that the amounts have since been paid to the farmers through cheques.

Recommendation

- ✓ *As the ADWDRS is a welfare scheme aimed at benefitting poor farmers, DFS may like to take steps to review beneficiary lists in selected banks by focusing on those States where indebtedness was high.*

¹³ In Punjab (176), Manipur (3), and Rajasthan (4)

¹⁴ Primary Co-operative Agriculture Rural Development Bank (PCARDB) Limited Naraingarh and Kaithal.

2.4 Inclusion of ineligible beneficiaries

DFS guidelines issued at the beginning of the scheme were supported by detailed guidelines issued by RBI and NABARD. In addition, clarifications were also issued from time to time regarding eligibility of beneficiaries. Nonetheless, audit scrutiny revealed that in 6,823 accounts amounting to ₹ 20.50 crore out of the total 80,299 accounts¹⁵ test checked, i.e. in 8.5 per cent of the cases, the beneficiaries were not eligible for either the debt waiver or the debt relief. This is a significant percentage, and it is indicative of the fact that total errors in inclusion of ineligible beneficiaries can be large with a correspondingly high monetary value. The details regarding the specific violations follow.

The types of loans to be covered under the scheme were explicitly detailed in the scheme guidelines¹⁶. However, audit scrutiny revealed that in 1,174 loan accounts, benefits of ₹ 4.57 crore were allowed for purposes not allowed under the scheme, i.e. for personal loan, loan for vehicle, loans for business, loan for shop or purchase of land, advances against pledge or hypothecation of agricultural produce other than the standing crop, and agricultural finance to corporate firms, partnership firms, or societies other than cooperative credit institutions etc. State-wise details are given separately in **Annexe 3**.

According to scheme guidelines, all direct agricultural loans extended to Marginal and Small farmers and Other farmers by lending institutions from 31 March 1997 to 31 March 2007, which were overdue as on 31 December 2007 and remained unpaid till 29 February 2008 were covered under the scheme. However, during audit scrutiny it was noticed that in 5,616 loan accounts, benefits of ₹ 15.87 crore were allowed although these loans were neither disbursed between 1 April 1997 and 31 March 2007 nor was any amount overdue on these accounts as on 31 December 2007 which remained unpaid upto 29 February 2008. The state-wise position of such cases is summarized in **Annexe 4**.

As per the guidelines of the scheme, all loans restructured and rescheduled by banks in 2004 and 2006 through the special packages announced by the GoI or restructured and rescheduled in the normal course upto 31 March 2007 as per applicable RBI guidelines on account of natural calamities, whether overdue or not, were eligible under the scheme. Audit scrutiny, however, revealed that in four states¹⁷, 33 loan accounts, which were sanctioned prior to 1 April 1997, were extended benefits of ₹ 6.15 lakh under the scheme though these loans

¹⁵ Sample - S1

¹⁶ See section 1.2.

¹⁷ Chhattisgarh (11), Kerala (17), Tamil Nadu (1), Uttar Pradesh (4)

were neither restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government nor restructured and rescheduled by banks in the normal course up to 31 March 2007 as per applicable RBI guidelines on account of natural calamities.

Recommendation

- ✓ *Bank officials, internal auditors and central statutory auditors, who certified the information for passing the claims, ought to be made accountable for lapses in performing their duties.*

2.5 Other lapses in implementation of scheme

Certain irregularities were noticed as a result of either faulty interpretation of the scheme or inadequate documentation.

2.5.1 Loans disbursed through Micro Finance Institutions and claimed under the scheme

As per scheme guidelines, only agricultural loans disbursed directly to farmers were eligible for reimbursement. In November 2010, DFS also clarified to Audit that agricultural loans extended to Micro Finance Institutions (MFIs) by banks were not eligible under the scheme for reimbursement from GoI. During audit in five states (Andhra Pradesh, Chhattisgarh, Odisha, Tamil Nadu and West Bengal), it was noticed that a Private Scheduled Commercial Bank (Bank) have received reimbursement for loans, extended to MFIs.

In response (November 2011), the Bank stated that:

“The Bank had lodged claim under ADWDRS for certain borrowers sourced through MFIs (acting as service providers) under the partnership model. Under the said model of lending, borrowers, sourced through the service providers were provided loans directly by the Bank. As per the service provider agreement entered into by the Bank with the MFIs, the service provider was responsible for aggregating the proposals for facilities from the borrowers, ensuring that the documentation for the facility is complete, storage/safety of the facility documents on behalf of the Bank, disbursing the facility to the borrowers and ensuring appropriate end-utilization of loan by customers. These loans given for agricultural purposes and allied activities were considered as direct finance to agriculture. In accordance with the

procedure adopted by the Bank, for all customers eligible for waiver, the certificates have been printed centrally and have been mailed by registered AD or have been couriered to the customer.”

In their reply (June 2012), DFS stated that the Bank had made the following submissions in this regard:

“The model of providing these loans was evolved by the Bank for the deepening and widening of financial services in the rural areas and expanding the outreach of the formal financial system to the rural poor. The loans given under the model were direct lending to borrowers and were eligible for benefit under the scheme. The Bank did not claim benefit with regard to loans given to Micro Finance Institutions (MFI) for the purpose of on-lending to farmers / individuals.”

Audit, however, found that disaggregated data of the loan accounts sourced through MFIs was not maintained by the Bank. These loans could not be considered as direct lending to farmers since a lump-sum credit arrangement facility was given to the MFI, against which the MFI actually disbursed the loan to borrowers identified by it. The MFI was also the keeper of all documentation. The procedure for sanctioning of such loans was:

1. First, the MFI would conduct a preliminary survey and submit the quantum of loan required to the bank authorities for sanction.
2. Based on the past credit worthiness of the MFI, the required amount would be sanctioned to the MFI for specific purpose. Subject to an overall credit limit a Credit Arrangement Letter (CAL) would be given to the MFI. As example, an MFI, namely Kotalipara Development Society, was authorized credit arrangement facility of ₹ 15 crore. Similarly, another MFI, namely All Backward Class Relief and Development Mission, was authorized credit arrangement facility of ₹ 5 crore.
3. The MFIs sourced their clients for loans from across the state and identified the purpose of the loan.
4. Loan applications from the farmers were processed by the MFIs, loans were sanctioned and the amounts disbursed by the MFIs. The loan applications were scrutinized, approved and authorized by the MFI officials. There was no involvement of the Bank officials and the signature / stamp / seal of the Bank and its officials was not on the loan applications and related documents. The loan applications were generally on the letter-heads of the MFI. KYC¹⁸ details were also verified by the MFI officials.

¹⁸ Know Your Customer

5. Weekly installments were collected by MFIs from the loanees. Consolidated payments, against the loan given to the MFI, were made to the bank branch on a monthly basis, along with the list of beneficiaries. The MFIs maintained the data and ledgers including weekly repayments received from beneficiaries.
6. Seven percent of the loanee data where repayment was received was to be checked quarterly by bank's auditors and one *per cent* of MFI branches were to be verified by them for correctness.

Thus, there was no evidence to show a direct relationship between the recipient farmer and the bank, i.e. the individual loan accounts were not on the books of the bank. This was also evidenced by the fact that the debt waiver / debt relief was credited, not to individual accounts but to the account of the MFI. For example, amounts in excess of ₹ 3 crore and ₹ 5 crore were given against farm credit waiver to individual MFIs, All Backward Class Relief and Development Mission and Kotalipara Development Society respectively. Further, as per the service provider agreement the MFI was responsible for providing security like an Upfront Fixed Deposit for the repayment of loans.

Audit could also not get any reasonable assurance that benefits of such waiver were extended to the actual beneficiary as copies of the certificates duly acknowledged by the individual beneficiaries, as stipulated in the guidelines, were not available with the Bank.

The total claim reimbursed for this Bank relating to loans given to borrowers and sourced through MFIs under the partnership model, across India, in violation of the guidelines, amounted to ₹ 164.60 crore. It is necessary for DFS to ensure that benefits of such waivers have reached the beneficiaries rather than being restricted to the MFIs only.

2.5.2 Poor and inadequate documentation

Audit came across 2,824 cases amounting to ₹ 8.64 crore where there was *prima facie* evidence of tampering, over-writing and alteration of records and poor/inadequate documentation while extending benefits.

TABLE 5: CASES OF INADEQUATE DOCUMENTATION

S. No.	Name of State	Particulars	Remarks
1.	Karnataka	In four banks ¹⁹ large scale tampering of records, i.e. overwriting, alteration of purpose of loan etc. was noticed in 2,798 test-checked cases.	Benefit of ₹ 8.52 crore was irregularly claimed under the scheme
2.	Andhra Pradesh	In AP Grameena Bank, Ballikurava land holdings of 17 loanees were altered so as to change their category from Other farmer to Small farmer, in order to claim a higher amount.	Excess benefit amounting to ₹10.82 lakh claimed
3.	Jharkhand	In Brambey Branch of Jharkhand Gramin Bank, nine farmers were eligible for debt relief of ₹ 40,718 on the basis of their land holdings, i.e. their land holdings were in excess of five acres of land. The bank claimed both, debt relief of ₹ 40,718 as well as debt waiver of ₹ 1,62,864, against these accounts.	The bank credited the debt waiver amount of ₹ 1,62,864 to these farmers irregularly and kept the debt relief amount of ₹ 40,718 in suspense account.

Incidentally, NABARD in their special note on 16 February 2010 for claims lodged under ADWDRS also pointed out the following irregularities with respect to certain Co-operative Credit Institutions:

- i. *Land holding records of farmers were found tampered*
- ii. *Crop loan policy of lending institutions did not consider the scale of finance and acreage norms.*
- iii. *As per crop loan manual of the RBI the adherence to the scale of finance, seasonality of disbursement were must, but these were found absent in many cases.*
- iv. *Affairs of societies were infested with recurring incidences of frauds and embezzlement.*
- v. *The crop loan/agricultural loan accounts which had already been identified under fraud/benami loaning etc. prior to the introduction of scheme, had been claimed by banks for waiver.*

¹⁹ Mandya City Cooperative Bank Ltd. (Mandya), Lokapavani Mahila Sahakari Bank Niyamitha (Mandya), Simsha Sahakara Bank Ltd. (Maddur), Sri Gurusiddeshwara Cooperative Bank Ltd. (Hubli)

- vi. *Ineligible loans, i.e. loans for non agricultural purposes, had been claimed under the scheme.*
- vii. *There were complaints alleging grave irregularities e.g. tampering with loan records/ledgers, and/or alteration of previous years' statutory reports for showing non agricultural loans limit as agricultural loans with an intention of covering them under the scheme.*

Recommendations

- ✓ *The issue relating to reimbursement of claims of MFIs may be examined to ensure that the benefit of the scheme has actually reached the farmers and was not restricted to MFIs only.*
- ✓ *The specific cases of tampering of records/alteration of loanee details should be reviewed by DFS and stringent action taken against errant officials as also lending institutions.*

2.6 Accuracy of claims

The actual amount by which a farmer would be benefited would depend upon his classification based on landholding, the type and amount of loan taken and finally, the amount outstanding as on the prescribed dates. Audit scrutiny of test checked accounts revealed that the classification of farmers or calculation of the 'eligible amount' was not done properly in terms of the scheme guidelines²⁰. Consequently, 4,826 accounts out of the 80,299²¹ test checked accounts of farmers, i.e. almost six *per cent* of the accounts, were not extended the correct benefits. Details follow.

2.6.1 Less benefits extended to eligible accounts of farmers

Audit found that 1,564 accounts were extended less benefit of ₹ 1.91 crore in 17 states due to the following reasons:

- 98 farmer accounts were deprived of benefit of ₹ 0.61 crore as they were extended debt relief even though they had less than / up to 2 hectares (5 acres) of land holding under cultivation, i.e. they were Small / Marginal farmers and were entitled to debt waiver.

²⁰ Please refer section 1.2.

²¹ Sample – S1

- 23 accounts of farmers, who were sanctioned loans for allied activities for ₹ 50,000 or less, were extended debt relief instead of debt waiver, thereby depriving them benefit of ₹ 0.10 crore.
- 1,443 accounts of farmers were provided benefit of waiver of lesser amount, due to wrong calculation/short estimation of overdue amount, thereby depriving them benefit of ₹ 1.20 crore.

2.6.2 Excess benefits extended to beneficiaries' accounts

Audit scrutiny revealed that in 3,262 accounts, undue benefit totaling ₹ 13.35 crore was extended. In 2,300 accounts, debt waiver was extended instead of debt relief resulting in excess benefit of ₹ 11.05 crore while in 962 accounts, farmers were given excess benefit of ₹ 2.30 crore because the lending institutions claimed the entire amount of the loan despite only a part amount²² of the loan being eligible under the scheme. The state-wise figures are detailed in **Annexe 5A** and **Annexe 5B**.

2.7 Reimbursement to lending institutions

The claims of the lending institutions against the debt waiver and debt relief amounts extended were to be reimbursed by the Central Government. Audit found deficiencies in such reimbursement, which were also in violation of guidelines. Details follow.

2.7.1 Inadmissible charges of ₹ 5.33 crore claimed by the lending institutions from the GoI

As per the clarifications issued with regard to the guidelines of the scheme, the lending institutions, while computing the eligible amount, were not allowed to claim (i) interest in excess of the principal amount, (ii) unapplied interest, (iii) penal interest, (iv) legal charges, (v) inspection charges, and (vi) miscellaneous charges, etc. either from the GoI or from the beneficiaries. All such interest/charges were to be borne by the lending institutions themselves. However, audit scrutiny of test checked beneficiaries' accounts revealed that in 6,392 beneficiaries' accounts out of the 80,299 beneficiaries' accounts test checked (i.e. in 7.96 *per cent* cases), the lending institutions claimed such charges amounting to ₹ 5.33 crore from the GoI. The bank-wise details of such claims (in respect of banks under RBI) and

²² Loan was given for multiple purposes, but only the part given for agricultural purposes can be considered for benefits under ADWDRS 2008

state-wise details (in respect of banks under NABARD) are summarized in **Annexe 6A** and **Annexe 6B** respectively.

High incidence of such cases and the large amount is indicative of the fact that total errors in inclusion of inadmissible charges would be large with a correspondingly higher monetary value.

2.7.2 Reimbursement received in excess of claim

In Chhattisgarh, six²³ lending institutions received reimbursement of ₹ 7.87 lakh from NABARD, in excess of their claims. Instead of refunding this amount, they retained the excess amount with them.

DFS replied (June 2012) that:

“Surguja Kshetriya Gramin Bank, has replied that the institution received reimbursement of ₹ 40,098 in excess of their claim. On the basis of Grievance Redressal Committee, same has been adjusted in the account of eligible beneficiary of Darima branch. In case of Raipur DCCB, NABARD (the nodal agency) while accepting the error attributed the same to typographical error, mis-interpretation of scheme guidelines and non-feasibility of rectification of such errors at this stage. Bilaspur DCCB has accepted the mistake of claiming an ineligible amount of ₹ 2.58 lakh and has agreed to refund the amount.”

However, information regarding refund of the amount was not furnished to audit. Replies in respect of the remaining lending institutions were also not furnished to audit.

2.7.3 Claims made in excess of benefit extended to beneficiaries

In one instance, Audit noticed that ICICI Bank made a claim for reimbursement amounting to ₹ 60.26 lakh, which was in excess by ₹ 16.13 lakh of the benefits extended by them. This amount continued to be retained by them.

Further, in two cases banks retained the entire amount claimed by them from GoI and did not credit the same to beneficiaries' accounts, as shown in Table 6.

²³ DCCB Arang, DCCB Bhatgaon, DCCB Lormi, RRB Darima, State Bank of Indore, Ambikapur and SBI Bhaiyathan.

TABLE 6: EXCESS BENEFITS CLAIMED BY BANKS(**₹ in lakhs**)

S. No.	Name of Bank / Branch	Amount payable to beneficiaries but retained by bank
1.	Central Bank of India, Brahmandiha, Dhanbad	3.57
2.	State Bank of India, Godhra, Panchmahal	4.55

2.7.4 Non-furnishing of details of computation of interest paid on reimbursable claims amounting to ₹ 1,934 crore

DFS released funds amounting to ₹ 1,934 crore to the nodal agencies²⁴ on account of interest on reimbursable claims under the scheme. DFS did not furnish computation sheets for the interest on the reimbursement claims showing the date of claim submitted by the lending institution to nodal agencies, fund released to the lending institutions, period of interest (months/days), rate of interest and eligible amount of interest. As a result, the correctness of the computation of interest on account of reimbursable claims could not be verified in audit.

DFS replied (June 2012) that:

“The computation of interest on account of reimbursable claims has been made by Reserve Bank of India.”

DFS only provided bank-wise interest payments amounting to ₹ 1,612 crore without giving the details of calculations of interest reimbursed to the lending institutions. It was, therefore, apparent that DFS had no mechanism to verify the correctness of the claims reimbursed.

2.7.5 Reimbursement of claims of UCBS

During scrutiny of records of DFS, it was noticed that DFS had accepted the reimbursement claims of RBI in respect of Urban Cooperative Banks amounting to ₹ 335.62 crore and paid ₹ 206.24 crore upto September 2010, despite the fact that even the total number of beneficiaries' accounts was not indicated.

2.7.6 Wrong claims of DCCBs

Five²⁵ lending institutions in Andhra Pradesh claimed ₹ 66.16 lakh as 25 per cent share under OTS, even though the farmers had not paid their share of 75 per cent of eligible amount. Similarly, Audit noticed in Haryana that three banks (Haryana Gramin Bank, Gurgaon

²⁴ ₹ 1,612 crore to RBI and ₹ 322 crore to NABARD

²⁵ DCCB (Atmakur, Warangal), DCCB (Pitchatur, Chittoor), Canara Bank (Kuppam, Chittoor), SBI (Macherla, Guntur) and DCCB (Vinukonda, Guntur)

Gramin Bank and Haryana State Cooperative Apex Bank Limited) under NABARD claimed an amount of ₹ 9.18 crore under debt relief in advance although farmers had not paid 75 per cent of the eligible amount. Initially, this claim was accepted by NABARD and the amount was released to the banks. However, after NABARD sought for information on the number of beneficiaries who had deposited the 75 per cent share, it was found that the banks had in fact claimed excess amount of ₹ 9.18 crore. Subsequent to this being pointed out by audit, the banks refunded (February 2011 and June 2011) the excess amount to NABARD.

DFS added (June 2012) that:

“The entire amount was absorbed in the corpus meant for ADWDRS 2008.”

Recommendation

- ✓ *Ministry, on its own part, may verify (1) high-value claims of reimbursement, (2) high-risk areas like inadmissible charges and (3) atleast a sample of claims of lending institutions to ensure that the financial interests of the government are protected.*

2.8 Extension of fresh credit

2.8.1 Issue of debt waiver and debt relief certificates

As per the ADWDRS guidelines, the lending institutions had to issue debt waiver/ debt relief certificates to the farmers in the format prescribed by RBI/NABARD. In the case of Small and Marginal farmers, upon waiver of the eligible amount, the lending institution was to issue a certificate to the effect that the loan had been waived and specifically mention the eligible amount that had been waived. In the case of Other farmers, upon granting OTS relief, the lending institution was to issue a certificate to the effect that the loan account had been settled to the satisfaction of the lending institution and specifically mention the eligible amount, the amount paid by the farmer as his share and the amount of OTS relief. Upon issuing the certificate, the lending institution had to obtain an acknowledgement from the farmer.

However, during audit scrutiny it was noticed that in 21,182 accounts (out of 61,793 test checked accounts), i.e. 34.28 per cent, there was no acknowledgement from farmers or any other proof of either issue or receipt of debt waiver or debt relief certificates to or by the

beneficiaries. State-wise position of non-issue of debt waiver/relief certificates is given in **Annexe 7**.

The reasons cited by the lending institutions for lack of acknowledgement from farmers were that the farmers were not traceable either due to death or migration to other places and/or that lending institutions were busy in the implementation of the scheme and acknowledgements were received only from those borrowers who visited the lending institutions.

In their reply (June 2012), DFS stated that:

“Banks had reported that they had issued the relevant certificates to the beneficiaries as and when the amount was waived or relief provided.”

Considering that there was no evidence that beneficiaries were issued the required certificates of debt waiver or debt relief in one in every three cases, it would be reasonable to conclude that a large number of beneficiaries might not have been issued such certificates at all.

2.8.2 Maintenance of records relating to request for fresh loan by farmers

The objective of the scheme was to de-clog the lines of credit that were clogged due to debt burden on the farmers and to entitle them for fresh agriculture credit from banks in accordance with the normal rules. Audit made efforts to get information in respect of ADWDRS beneficiaries who were recipients of debt waiver/ debt relief certificates, to ascertain whether they got fresh loan whenever they applied for it. This audit exercise was made for beneficiaries in receipt of debt waiver/relief certificate only as it was felt that beneficiaries in possession of the certificates would be better placed to get the fresh loan, if they applied for it, in comparison to those who did not get the certificate. Audit scrutiny in 12 states revealed that no records relating to request for fresh loans by the beneficiaries were maintained.

Further, in Jammu & Kashmir, Regional Office, NABARD, Jammu claimed that fresh loans amounting to ₹ 8.25 crore had been advanced to 1,001 farmers by the Cooperatives and Regional Rural Banks in the State. However, there was no documentation to show how many ADWDRS beneficiaries who had availed (June 2008) benefits under scheme had received the benefit of fresh loans.

2.8.3 Increase in credit subsequent to implementation of scheme

Audit sought to verify in quantitative terms also whether the scheme was able to achieve its objective of de-clogging credit lines. DFS stated (April 2012) that:

“The scheme had de-clogged the lines of credit of the farmers, particularly the Small and Marginal farmers; and that the percentage of Small and Marginal farmers loan accounts had increased from 54 per cent in 2008-09 to 61 per cent in 2010-11. Like-wise, the agriculture credit had also increased from ₹ 3.02 lakh crore in 2008-09 to ₹ 4.60 lakh crore in 2010-11, due to the implementation of the scheme. The number of farmer accounts in the country had increased substantially from 456.10 lakh in 2008-09 to 634.82 lakh in 2011-12 after implementation of the scheme.”

DFS, however, did not provide any figures on the quantum of fresh loan or number of beneficiaries given fresh loans under the scheme. Audit also did not come across any quantitative data to verify the claim.

Recommendation

- ✓ *Government may like to issue directions to banks to launch a drive of issuing debt waiver/debt relief certificate and keep records of such farmers getting fresh loans.*

2.9 Monitoring

2.9.1 Monitoring by nodal agencies

2.9.1.1. Department of Financial Services - As per guidelines issued by the Government of India, a National Level Monitoring Committee (NLMC) was required to be constituted with Secretary, DFS as its Chairperson, to monitor the implementation of the scheme. In this connection, DFS was requested by Audit to furnish information regarding the agenda and minutes of NLMC meetings. In April 2012, DFS stated that NLMC meetings were held on 17 June 2008 and 13 August 2008 to review the implementation of the scheme. However, DFS did not furnish the agenda or minutes of these meetings.

In addition, DFS had sent (June 2008) its officers to inspect the implementation of the scheme when it was initiated. However, though 30 June 2008 was the last date of preparation of the list of beneficiaries, there was no evidence on record to suggest that such lists were test checked by any agencies to ascertain their correctness after the preparation of these lists.

Monitoring by the nodal agencies, namely NABARD and RBI, was also found to be inadequate. Although the guidelines of the scheme stipulated that RBI and NABARD were to put in place a system for monitoring the implementation of the scheme on daily basis upto 31 July 2008 and on weekly basis thereafter, DFS did not specify any periodical reports and returns in the scheme guidelines to be submitted to it with regard to the implementation of the scheme.

DFS stated (April 2012) that:

“Since the scheme was for a short span of time for a specific purpose, regular reports, returns, etc. were not required.”

The reply of DFS is, however, not in consonance with the huge amount of reimbursement of funds to the tune of around ₹ 52,516 crore and the fact that the claims were still being settled (February 2012). Further, contrary to the claims of DFS that the scheme was for a short span of time, the scheme was officially in operation from 28 May 2008 to 30 June 2010, i.e. for more than two years. Since DFS was responsible for releasing funds on the basis of all claims for debt waiver/relief routed through the nodal agencies, it was, imperative that DFS should have put monitoring mechanisms in place to ensure that it had access to authentic and current data through systematised reports.

2.9.1.2. Reserve Bank of India - RBI had issued guidelines and instructions to the implementing banks for maintenance of data in prescribed formats for borrowers, amounts waived, and rebates at different levels²⁶. RBI had also advised banks to 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 SLBC Convener Banks who would further consolidate and report the position State-wise and Bank-wise to the concerned Regional Office of the Reserve Bank of India.

As regards the submission of claims, the banks were required to prepare the claims duly audited by internal audit at the branch level and forward them to the respective controlling offices which would be further consolidated at the Head-Office level. The consolidated claims were to be checked by the central statutory auditors²⁷, by covering a representative sample of branches and accounts, of at least 20 *per cent*, so as to certify the correctness of the claims. The consolidated claims for the bank as a whole were to be submitted for reimbursement duly certified by the central statutory auditors.

²⁶ Branch office /Regional Office/Zonal Office/Head Office

²⁷ Chartered accountants appointed by the banks

Audit was not able to get assurance that RBI had instituted a specific mechanism for the ADWDRS scheme for inspection of branches' claims to verify that the banks had complied with the GoI guidelines/ clarifications.

In response, RBI stated (April 2012) that:

“The detailed scheme notified by the GoI along with necessary explanation was forwarded to the scheduled commercial banks (including local area banks) for necessary action towards implementation of the scheme. RBI was given the role of ‘Pass through’ agency for receiving the audited consolidated claims from each bank to be sent to the GoI for reimbursement. On receipt of the same from the GoI, the accounts of the banks maintained with RBI were to be credited with appropriate remarks. No further role was envisaged for RBI under the scheme.”

DFS supported RBI's stance (June 2012) by stating that:

“The scheme was implemented through the banking institutions where well laid systems and procedures, accounting system, documentation, verification, scrutiny and audit at different levels are in place. Besides, these banks are audited by Chartered Accountants and they were also required to undertake test check of ADWDRS claims and certify. RBI has reported that its role was limited, i.e. issuing suitable instructions and clarifications to banks on implementation of the Scheme, receiving their ‘audited’ claims and making payments.”

Further, RBI clarified (December 2012) that:

“As there was no “monitoring” role envisaged for RBI, the independent scrutiny of the lists by RBI or institution of specific mechanism for “monitoring” was not entrusted to it under the Scheme.....RBI maintains accounts of both GoI and the banks. The transmission of funds from GoI to the banks and refunds, if any, were done in the books of accounts of concerned entities maintained with RBI. It was in this limited context that the expression ‘Pass through’ agency was used to describe one of the functions which RBI performed under the scheme”.

Audit, however, does not agree with the DFS and RBI response as the guidelines issued by DFS itself required RBI and NABARD to “put in place a system for monitoring the progress in the implementation of the Debt Waiver and Debt Relief Scheme on a **daily** basis upto July 31, 2008 and thereafter on a weekly basis.”

2.9.1.3. NABARD - NABARD, being the nodal agency in respect of cooperative credit institutions and regional rural banks, had issued instructions similar to those issued by RBI to the banks under its control for proper implementation of the scheme. As per these instructions the lists prepared by Primary Agricultural Cooperative Societies (PACS) / Branch officials were to be checked 100 *per cent* by the Supervisor / Branch manager of the Central Cooperative Bank and the Concurrent Auditors / Senior officials from the Head office of the Central Cooperative Bank / Officials from State Cooperative Bank.

The banks were to prefer the claims, duly audited as a part of internal audit exercise of the bank, which would then be forwarded to the Regional Office/Head Office of the bank. The consolidated claims for the banks as a whole were to be checked by Chartered Accountants of the bank by covering a representative sample of branches and accounts so as to certify the correctness of the claim. These consolidated claims were to be submitted to regional office of NABARD, for reimbursement, accompanied by a certificate from the Chartered Accountants certifying the correctness of the claim.

Audit ascertained from NABARD on how it had satisfied itself that the banks had prepared the claims after complying with all the instructions and that necessary checks had been carried out by the officials deputed for the purpose.

NABARD stated (April 2012) that:

“Besides laying down the guidelines in circular dated 2 July 2008 on conduct of verification at different levels and audit by statutory auditors, NABARD had undertaken monitoring visits/tests checks by its officers during statutory inspection besides reviewing the position in various fora. During the course of the statutory inspection of the Cooperative Banks and RRBs, NABARD officials carried out test checks of the claims under ADWDRS 2008 and the inspecting officers were required to submit a special note on the test checks.”

DFS replied (June 2012) that:

“The procedure laid down by NABARD has ensured scrutiny, verification, validation, etc., at different levels so that errors are kept to near zero. NABARD has reported that it would not have been possible to scrutinise the veracity of claims at different stages on account of the magnitude of the exercise for which services of CAs were requisitioned. At the same time, to ensure that the claims preferred are in order, NABARD, on its own, decided to verify it

during the statutory inspection of CCBs/SCBs and RRBs. This exercise did bring out instances of ineligible claims on which action was initiated.”

The assertion by the DFS/RBI/NABARD that banks had well-established mechanisms and that the scheme was of a short duration or the contention that the nodal agency had limited responsibility does not absolve these agencies from their monitoring obligations. Audit did not find that RBI and NABARD had instituted a feasible and practical system of checks to ensure compliance with the guidelines and instructions.

The scheme design was based on extensive delegation of authority to the lending institutions, who were the implementing agencies. The lending institutions prepared the list of beneficiaries. These lists were checked for accuracy by the regional office of the banks themselves. These lists were not scrutinized independently by the nodal agencies for accuracy in a systematic manner. Subsequently, once the debt waiver/relief had been granted, banks made claims for reimbursement. These claims were certified through test-check, either by internal auditors of the bank or by chartered accountants appointed by the banks. The nodal agencies understood their role to be of a minimal nature, restricted to issuing guidelines and instructions and transferring funds. They simply compiled and consolidated data without conducting independent cross checks on such data and certificate to confirm the veracity of claims. Such a mechanism, thus, raises the issue of conflict of interest, since in effect, the lending institutions were responsible for first, implementation and then monitoring their own work.

2.9.2 Absence of timely corrective action

Audit observed that though DFS and nodal agencies were aware of numerous flaws in the implementation of the scheme yet they did not take adequate measures to rectify the same in a timely manner.

Shortly after the scheme was launched, DFS deputed (June 2008) its officers to check the preparedness of the banks for the implementation of the scheme. These officers inspected around 6-8 bank branches of 1-2 districts of various states. The reports submitted by the officers highlighted shortcomings like inclusion of ineligible persons, lack of proper display of the scheme, non-availability of forms of debt waiver certificates, inadequacy of calculation sheets, calculation mistakes in working out eligible amount etc, but there was no documentary evidence to suggest that the required remedial measures and corrective action was communicated to the branches and resultantly adopted by them.

NABARD had intimated (February 2010) DFS about serious irregularities being noticed in audited claims lodged by the banks²⁸. In fact, NABARD had even withheld an amount of ₹ 368.96 crore, pending these investigation reports. There was no evidence of steps being taken to strengthen internal controls of co-operative banks, etc. specific to the ADWDR scheme.

Recommendations

- ✓ *Nodal agencies ought to be tasked with specific responsibilities for supervision and should be held accountable for lapses.*
- ✓ *Follow-up action in response to complaints or inspections should be properly monitored.*

²⁸ Refer section 2.5.2