

Executive Summary

The Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008 was launched in May 2008 to address the problems and difficulties faced by the farming community in repayment of loans taken by them and in helping them qualify for fresh loans. Under the scheme, complete waiver of 'eligible amount'¹ was to be provided to Marginal² /Small³ farmers while a one-time relief of 25 *per cent* of the 'eligible amount' was to be provided to Other⁴ farmers subject to payment of the balance 75 *per cent* of the 'eligible amount' by the farmer. Agricultural loans meeting the following set of conditions were to be covered under the scheme:

- *Loans disbursed between 1 April 1997 and 31 March 2007 and,*
- *Overdue as on 31 December 2007 and,*
- *Remaining unpaid upto 29 February 2008.*

The scheme was to be implemented by 30 June 2010.

At the Government of India (GoI) level, the Department of Financial Services (DFS), Ministry of Finance, was the apex authority responsible for administration and implementation of the scheme. This included preparation of guidelines, release of funds and overall monitoring. Reserve Bank of India (RBI) was the nodal agency for implementation and monitoring of the scheme for Scheduled Commercial Banks, Urban Cooperative Banks and Local Area Banks. National Bank for Agriculture and Rural Development (NABARD) was similarly responsible for Cooperative Credit Institutions and Regional Rural Banks.

The Government of India estimated in May 2008 that about 3.69 crore Marginal / Small farmers' accounts and about 0.60 crore Other farmers' accounts would be covered under the scheme. Over the last four financial years, the GoI has waived

¹ Refer to para 1.2 of the report – Eligible amounts and cut-off dates under ADWDRS.

² Farmers cultivating agricultural land upto 1 hectare or whose loan amount in respect of allied activities was less than ₹ 50,000.

³ Farmers cultivating agricultural land between 1-2 hectare or whose loan amount in respect of allied activities was less than ₹ 50,000.

⁴ Farmers cultivating agricultural land more than 2 hectare or whose loan amount in respect of allied activities was more than ₹ 50,000.

more than ₹ 52000 crore related to approximately 3.45 crore Small / Marginal and Other farmers.

Since debt relief and waiver mechanisms involved a huge amount, Performance Audit was undertaken to assess whether the management of claims for debt waiver and relief under the scheme was in accordance with relevant guidelines and requirements. The review, carried out from April 2011 to March 2012, covered 25 states involving field audit of a total of 90,576 beneficiaries'/farmers' accounts in 715 branches of lending institutions situated in 92 districts. The sample included 80,299 accounts of such farmers who were extended benefit under the scheme, 9,334 accounts of such farmers who were not selected as beneficiaries even though they had received agricultural loans between 1 April 1997 to 31 March 2007 and 943 cases where complaints were received.

HIGHLIGHTS

Errors of inclusion and exclusion at the beneficiary level were noticed. It was found that :

- i. Out of 9,334 accounts test checked in audit across nine states, 1,257 accounts (13.46 *per cent*) were those which were found in audit to be eligible for benefit under the scheme, but were not considered by the lending institutions while preparing the list of eligible farmers.

(Para 2.3)

- ii. Out of 80,299 accounts granted debt waiver or debt relief, in 8.5 *per cent* of cases, the beneficiaries were not eligible for either the debt waiver or the debt relief. A proportion of such claims, amounting to ₹ 20.50 crore, was on account of claims being admitted for ineligible purposes or claims pertaining to periods not eligible for scheme benefits.

(Para 2.4)

A Private Scheduled Commercial Bank have received reimbursement for loans, amounting to ₹ 164.60 crore extended to Micro Finance Institutions (MFIs) in violation of the guidelines.

(Para 2.5.1)

Maintenance of proper and complete documentation with respect to each claim was critical to efficient management of the scheme. Audit noted that in 2,824 cases, with claims amounting to ₹ 8.64 crore, there was *prima facie* evidence of tampering, over-writing and alteration of records.

(Para 2.5.2)

Audit scrutiny revealed that in 4,826 accounts, i.e. almost six *per cent* of the test checked accounts, farmers were not extended the benefits according to entitlements. In 3,262 cases, undue benefit totaling ₹ 13.35 crore was extended. On the other hand, in the remaining 1,564 cases, farmers were deprived of their rightful benefits of ₹ 1.91 crores.

(Para 2.6)

In violation of guidelines, lending institutions claimed amounts related to interest/charges which was not allowed under the scheme. In 6,392 cases across 22 states, although the lending institutions had not borne interest/charges of ₹ 5.33 crore themselves, they were still reimbursed these amounts by the GoI.

(Para 2.7.1)

DFS accepted the reimbursement claims of RBI in respect of Urban Cooperative Banks amounting to ₹ 335.62 crore despite the fact that even the total number of beneficiaries' accounts was not indicated.

(Para 2.7.5)

Debt waiver / relief certificates were not issued in many cases to eligible beneficiaries. 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 issue of debt waiver or debt relief certificates to the beneficiaries. Such certificates entitle the farmers to fresh loans.

(Para 2.8.1)

The monitoring of the scheme was also found to be deficient. The DFS was completely dependent upon the nodal agencies for monitoring the compliance of its instructions issued from time to time in implementation of the scheme. But, Audit found that the nodal agencies themselves were relying on certificates and data of lending institutions without conducting independent verification of such data and certificates to confirm the veracity of claims.

(Para 2.9)

REMEDIAL ACTION

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 FIRs⁵ 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.

KEY RECOMMENDATIONS

Based on the audit observations, the following recommendations have been made to improve implementation of such schemes.

1. *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.*
2. *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.*
3. *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.*
4. *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.*
5. *Ministry, on its own part, may verify (1) high-value claims of re-imbursment, (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.*
6. *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.*
7. *Nodal agencies ought to be tasked with specific responsibilities for supervision and should be held accountable for lapses.*
8. *Follow-up action in response to complaints or inspections should be properly monitored.*

⁵ First Information Report