

Report Summary

CAG Report on the Implementation of the Agricultural Debt Waiver and Debt Relief Scheme, 2008

Background

The CAG undertook a performance audit of the Agricultural Debt Waiver and Debt Relief Scheme, 2008. It submitted its report on March 5, 2013. The scheme was launched in May 2008 to address the issue of financial indebtedness of farmers. It did so by providing debt waiver and relief packages to farmers for their loans and issuing fresh loans. Under the scheme, the central government released Rs 52,000 crore to clear part of the dues of farmers. The farmers that qualified under the scheme were identified according to some of the following parameters: (i) their categorisation as small/marginal/other farmers, (ii) the period of disbursement of loans, and (iii) the unpaid position of loans.

The CAG audit was undertaken to assess whether the implementation of the scheme was in accordance with its guidelines. The audit focused on the role of lending institutions and the efficiency with which they discharged their duties. This is because debt waivers to farmers were administered through lending institutions. The CAG review covered 25 states and the accounts of 90,576 beneficiaries (farmers) in 715 branches of lending institutions.

Implementing authorities

The Department of Financial Services (DFS), Ministry of Finance, was the apex authority responsible for administration and implementation of the scheme. The Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) were the nodal agencies responsible for ensuring compliance by the lending institutions. Lending institutions included Scheduled Commercial Banks, Urban Cooperative Banks and Local Area Banks.

Findings and Recommendations

The audit found the following issues in implementation:

Identification errors

- **Non-extension of benefits to eligible beneficiaries:** The audit revealed that 13.5% of accounts audited though eligible to receive debt waiver benefits under

the scheme, were not considered by the lending institutions while preparing the list of eligible farmers. In addition, farmers were denied benefits even though their names appeared in the list of beneficiaries.

- The CAG recommended that the DFS must review beneficiary lists in selected banks by focusing on those states where indebtedness was high.
- **Inclusion of ineligible beneficiaries:** It was found that 8.5% of the beneficiaries audited were not eligible for debt waiver. A number of these beneficiaries took loans for non-agricultural purposes or their loans did not meet eligibility conditions. About Rs 20.5 crore was spent on debt waivers for these kinds of loans.
- The CAG recommended that 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.

Accuracy of claims

- The audit scrutiny revealed that in almost 6% of the audited accounts, farmers were not extended relief in accordance with their entitlements. In about 67% of the accounts, undue benefits totaling Rs 13.4 crore were extended. On the other hand, in the remaining cases, farmers were deprived of their rightful benefits to the tune of Rs 1.9 crore.

Extension of fresh credit

- **No debt waiver receipts issued to farmers:** After extending benefits under the scheme, the lending institutions were required to issue certificates to farmers and obtain acknowledgment letters. This was to ensure that the farmer was eligible for applying for fresh loans from the institution. However, it was found that in 34.2% of the accounts verified, there was no proof that lending institutions had issued certificates to farmers for receiving debt waivers nor that acknowledgment letters had been obtained from them.
- **Non-delivery of fresh loans:** With respect to refinancing fresh loans to farmers, it could not be vouched that all beneficiaries having certificates for

debt waivers were, in fact, given fresh loans. This occurred because the institutions failed to maintain records of loan application receipts that had been rejected or accepted by them.

- The CAG recommended that the government direct banks to issue debt waiver certificates and keep records of farmers that are issued fresh loans.

Monitoring

- **Outcomes relating to fresh loans not monitored:** The scheme also enabled farmers to avail of fresh agricultural credit from banks. The audit revealed that the scheme guidelines defined outcomes of the scheme in terms of the number of beneficiaries eligible for debt waivers rather than the number of fresh loans extended. There was little monitoring to ensure that targets of fresh loans extended were being achieved.
- **Lack of independent checks by nodal agencies:** The monitoring aspect of the scheme was found to be deficient as the DFS relied completely on the nodal agencies for ensuring compliance of lending institutions with DFS' instructions. On their part, nodal agencies were relying on certificates and data submitted by lending institutions instead of conducting independent cross checks on these institutions to confirm the veracity of their claims.
- The CAG recommended that 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.

Flaws in design of the scheme

- The audit found that the design of the scheme did not take into account the varying capacity and infrastructure of lending institutions. Due to this difference, the timeline suggested was unrealistic and resulted in irregularities in the beneficiary lists created. The scheme aimed to target debt waivers for an estimated 4.3 crore farmers' accounts in a span of one month in 2008. Within that period, lending institutions were required to draw up beneficiary lists. However, some banks were situated in remote localities and did

not have adequate infrastructure. This flaw in the design of the scheme resulted in errors in the beneficiary lists, as discussed below.

Reimbursement to lending institutions

- The audit found that in almost 8% of the cases, lending institutions claimed reimbursements on certain charges (like interest on charges, legal charges etc.) that amounted to Rs 5.3 crore. These charges were reimbursed by the central government. Claims for these charges violated guidelines because these costs were supposed to be borne by the lending institutions themselves.
- The CAG recommended that the Ministry verify: (i) high-value claims of reimbursement, (ii) high-risk areas where charges are incurred, and (iii) a random sample of claims of lending institutions to ensure that the financial interests of the government are protected.

Other lapses in implementation of the scheme

- **Loans disbursed through MFIs and claimed under the scheme:** According to the scheme guidelines, only agricultural loans disbursed directly to farmers by the lending institutions were eligible for reimbursement. Agricultural loans extended by banks to micro finance institutions (MFIs) were not eligible for reimbursement. The audit found that a Private Scheduled Commercial Bank had violated guidelines by claiming reimbursement for loans extended to MFIs. This reimbursement amounted to Rs 164.6 crore.
- The CAG recommended ensuring that benefits of the scheme have actually reached the farmers and have not been given to MFIs.
- **Poor and inadequate documentation:** The audit found prima facie evidence of tampering, over-writing and alteration of records in 2,824 cases with claims amounting to Rs 8.6 crore.
- The CAG recommended that DFS review these cases and take action against errant officials and lending institutions.

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