



Agricultural Debt Waiver and Debt Relief Scheme, 2008 (ADWRDS) and the Tribulations Meted out by the Bankers While Implementation in Sivagangai District

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ABSTRACT

India is an Agricultural nation. It is the duty of the Govt. to support Agriculture and to safeguard agriculturists in all respects. It is not uncommon to witness poor agriculturists commit suicide every now and then. The Central Govt. came for their rescue by announcing Agricultural Debt Waiver and Debt Relief Scheme, 2008 which gave lot of expectations from all quarters. However, the way by which it was implemented especially the rush and the speed with which it was carried out and the terms and conditions posed in the scheme, faced insinuation. In this paper the problems faced by the bankers in Sivagangai District, Tamil Nadu while implementing ADWRDS are discussed

KEYWORDS

ADWRDS, agriculture, bankers

Introduction:

With a view to provide relief to the farmers by de-clogging the line of credit and thereby catalyzing flow of credit to agriculture, and enhance the agricultural production and productivity, the Government of India, made an important policy intervention in February 2008 and announced a debt waiver and relief package for farmers by the name, 'Agricultural Debt Waiver and Debt Relief Scheme (ADWRDS), 2008'. It is the first large-scale debt relief programme implemented by the government after 1990,

Review of Literature:

Mudita Tiwari (2008)¹ in the report "What was the Agricultural Debt waiver and Debt relief Scheme about?", opined that nearly 40 per cent of the loan amount is used on non-agricultural purposes such as marriage, education, health etc. There was misclassification of credit need and there was insufficient monitoring and evaluation to determine whether the scheme worked or not. The scheme was expensive and it was burden not only to banks but also to the Government because both had to write off bad loans.

The scheme does not help the banks either, because they forced to lend to both viable and unviable clients using the same lending parameters. In addition, banks have to write off bad loans, which are expensive not only for the banks, but also the government. It is estimated that in 2010-2011, nearly 73% of Priority Sector Lending resulted in bad loans, and nearly 44% of these loans were in the agricultural sector.

When Finance Minister P Chidambaram announced the farm loan waiver in the budget this year, critics perceived it as a populist move in an election year. At the Mint bankers' conference in Bangalore on Friday, private banks were clear that the move has set a wrong precedent. Says P.T. Kuppaswamy, the chairman and CEO of Karur Vysya Bank, "Many of the rural branches were reporting to us one phenomenon — farmers were shifting accounts from our banks to nationalized banks. We were wondering why they are shifting the accounts and then farmers came and told it's an election year. Definitely there will be a write off. If it's a private sector bank then you might not get a waiver."

Public sector banks feel the waiver will help clean up the bank's balance sheets as these loans would've anyway be-

come NPAs. But many are not sure if farmers will benefit from this as the neediest in rural India borrow from moneylenders and not banks.

An Outline of Agricultural Debt Waiver and Debt Relief Scheme, 2008 (ADWRDS):

Under the Scheme complete waiver of 'eligible amount' was to be provided to 'Marginal/Small farmers' and a one-time relief of 25 per cent of the 'eligible amount' was to be

provided to 'Other 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 April 1, 1997 and March 31, 2007
- Loans overdue as on December 31, 2007 and
- Loans remaining unpaid upto February 29, 2008.

The Scheme in respect of debt waiver was completed by June 30, 2008 while the date for debt relief was completed by June 30, 2010. 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.

Scope of the Scheme:

The scheme covers direct agricultural loans extended to 'marginal and small farmers' and 'other farmers' by Scheduled Commercial Banks, Regional Rural Banks, Cooperative Credit Institutions (including Urban Cooperative Banks) and Local Area Banks during the above period and other restructured and rescheduled loans (Replacement of any loan or limit due to non repayment for reasons like adverse effect of natural calamities aroused out of drought, flood, etc. or non-repayment due to genuine difficulties faced by the borrowers) by banks in 2004 and in 2006 through the special package of doubling of credit announced by the Central Government. In their note to the Cabinet in May 2008, DFS has 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 Gol towards reimbursement of the amount of waiver/relief to the lending in-

stitutions was estimated at around Rs.60,416 crore for Small/Marginal farmers and Rs.7,960 crore for other farmers.

Coverage of the Scheme:

The State-wise details of the number of debt waiver and relief, the quantum of such waiver and relief is presented in Table 1.

TABLE 1: Coverage of ADWDRS

S.No	Name of the State / UT	No of Farmers covered under			Total amount of waiver/relief (Rs. in crore)
		Debt Waiver (Small/Marginal 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	1201617	20.47
4.	Bihar	1662971	94548	175719	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	4020.00
14.	Kerala	1390546	40192	1430738	2962.67
15.	Madhya Pradesh	1715624	659202	2374826	4203.25
16.	Maharashtra	3023000	1225000*	4248000	8951.33
17.	Meghalaya	40885	2129	43014	77.94
18.	Mizoram	18669	1641	20340	34.22
19.	Manipur	56670	1393	58063	57.49
20.	Nagaland	12623	2290	14913	22.39
21.	Odessa	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.	Uttarkhand	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

It is evident from Table 1, Andhra Pradesh tops the list of beneficiaries in the number of persons who got waiver (6646198), total number of beneficiaries (7755227) and in the quantum of waiver and relief with Rs.11353.71 crore. In Maharashtra, a maximum of 1225000 beneficiaries got loan relief. In Daman and Diu, a minimum number of waiver (65), minimum in the total number of beneficiaries (103) and minimum amount of waiver and relief (0.15 crore). In Lakshadweep a minimum of 2 persons got loan relief.

Important Concepts:

Direct Agricultural Loans:

Direct Agricultural loan means short term production loans

and investment loans provided directly to farmers for agricultural purposes. This would also include such loans provided directly to groups of individual farmers like Self Help Groups and Joint Liability Groups, which maintain disaggregated data of the loan extended to each farmer belonging to that group.

Short Term Production Loan:

Short term production loan means a loan given in connection with the raising of crops which is to be repaid within 18 months. It will include working capital loan, not exceeding Rs.1 lakh, for traditional and non-traditional plantations and horticulture.

Investment Loan:

Investment loan means investment credit for direct agricultural activities 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, like 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.

Investment credit for allied activities 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.

Marginal Farmer:

Marginal farmer means a farmer cultivating (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres).

Small Farmer:

Small farmer means a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 1 hectare and up to 2 hectare (5 acres).

Other Farmer:

Other farmer means a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 2 hectare (more than 5 acres).

Debt waived borrowers:

The small or marginal farmers whose entire eligible amount that was waived.

Debt relieved borrowers:

In the case of other farmers, there was a onetime settlement (OTS) scheme under which the farmer was given a rebate of 25 per cent of the eligible amount subject to the condition that the farmer pays the balance of 75 per cent of the eligible amount.

Interest rate subvention:

Reimbursement of interest amount by Government for the prompt borrowers accounts (loans which are not overdue).

Overdue:

The amount which was due to be paid on a particular date but was not been repaid by the borrower.

Basis of classification of farmers and loans:

The classification of eligible farmers as per the above landholding criteria under the scheme would be based on the total extent of land owned by the farmer either singly or as joint holder (in the case of an owner-farmer) or the total extent of land cultivated by the farmer (as tenant or share cropper), at the time of sanction of the loan, irrespective of any subsequent changes in ownership or possession.

In the case of borrowing by more than one farmer by pooling their landholdings, the size of the largest landholding in the pool shall be the basis for the purpose of classification of all farmers in that pool as 'marginal farmer' or 'small farmer' or 'other farmer'.

In the case of a farmer who has obtained investment credit for allied activities where the principal loan amount does not exceed Rs.50000, he would be classified as "small and marginal farmer" and, where the principal amount exceeds Rs.50000, he would be classified as 'other farmer', irrespective in both cases of the size of the land holding, if any.

Direct agricultural loan taken under a Kisan Credit Card would also be covered under this scheme subject to the guidelines.

A short-term production loan and an investment loan taken by a farmer shall be counted as two distinct loans and the Scheme will apply to the two loans separately.

In the case of a farmer who has taken two investment loans for two separate purposes, the two loans shall be counted as two distinct loans and the scheme will apply to the two loans separately.

Eligible amount:

The amount eligible for debt waiver or debt relief, as the case may be, shall comprise of:

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

disbursed upto March 31, 2007 and overdue as on December 31, 2007 and remaining unpaid until February 29, 2008

restructured and rescheduled by banks in 2004 and in 2006 through the special packages for doubling of credit announced by the Central Government, whether overdue or not

restructured and rescheduled in the normal course up to March 31, 2007 as per applicable RBI guidelines on account of natural calamities, whether overdue or not.

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

Disbursed upto March 31, 2007 and overdue as on December 31, 2007 and remaining unpaid until February 29, 2008;

Restructured and rescheduled by banks in 2004 and in 2006 through the special package of doubling of credit announced by the Central Government

Restructured and rescheduled in the normal course upto March 31, 2007 as per applicable RBI guidelines on account of natural calamities.

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.

The following loans shall not be included in the eligible amount:

Advances against pledge or hypothecation of agricultural produce other than standing crop.

Agricultural finance to corporate, partnership firms, societies other than cooperative credit institutions and any similar institution.

Nothing contained in this Scheme shall apply to any loan disbursed by a lending institution prior to March 31, 1997.

In the case of a small or marginal farmer, the entire 'eligible amount' shall be waived. In the case of 'other farmers', there will be a onetime settlement Scheme (OTS) under which the farmer will be given a rebate of 25 per cent of the 'eligible amount' subject to the condition that the farmer pays the balance of 75 per cent of the 'eligible amount'. The lending insti-

tutions shall not charge any interest on the 'eligible amount' for any period after February 29, 2008. However, in the case of an 'other farmer' who defaults in paying his shares of the eligible amount on or before June 30, 2009 and becomes ineligible for OTS relief, the bank may charge interest for the period after June 30, 2009.

Directions given for Implementation of the Scheme:

Every branch of a scheduled commercial bank, regional rural bank, cooperative credit institution, urban cooperative bank and local area bank covered under this scheme was asked to prepare two lists, one consisting of 'small and marginal farmers' who are eligible for debt waiver and the second consisting of 'other farmers' who are eligible for debt relief under this Scheme.

The lists included particulars of the landholding, the eligible amount and the amount of debt waiver or debt relief proposed to be granted in each case. The banks were asked to display the lists on the notice board of the branch of the bank/society on or before June 30, 2008.

A farmer classified as 'small farmer' or 'marginal farmer' will be eligible for fresh agricultural loans upon the eligible amount being waived.

A farmer classified as 'other farmer' eligible for OTS relief shall give an undertaking, in such form as may be prescribed by RBI/NABARD, agreeing to pay his share (eligible amount minus the amount of OTS relief) in not more than three installments and the first two installments shall be for an amount not less than one-third of his share. The last dates of payment in the case of three installments were September 30, 2008; March 31, 2009 and June 30, 2009.

The amount of OTS relief will be credited to the account of the 'other farmer' upon the farmer paying his share in full.

In the case of a short-term production loan, the 'other farmer' will be eligible for fresh short-term production loan upon paying one-third of his share.

In the case of an investment loan (for direct agricultural activities or allied activities), the 'other farmer' will be eligible for fresh investment loan upon paying his share in full.

Interest and other charges:

The lending institutions shall not charge any interest on the 'eligible amount' for any period after February 29, 2008. However, in the case of an 'other farmer' who defaults in paying his share of the eligible amount on or before June 30, 2009 and becomes ineligible for OTS relief, the bank may charge interest for the period after June 30, 2009.

Installments of investment credit which fall overdue after December 31, 2007 shall be recovered by the lending institutions along with the applicable interest. Lending institutions may, however, in appropriate cases, reschedule these installments in accordance with the normal policy of the lending institution concerned.

Notwithstanding anything contained in this scheme, the amount of interest that a lending institution may claim as reimbursement from the Central Government under this scheme shall not, in any case, exceed the principal amount of the loan.

Inadmissible charges while claiming reimbursement by the banks 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:

interest in excess of the principal amount

unapplied interest

penal interest

legal charges

inspection charges, and

miscellaneous charges, etc. either from the Gol or from the beneficiaries.

Problems faced by the bankers while implementation of the scheme:

The bankers were asked to submit the list of eligible farmers in no time when the Scheme was announced.

At a time when banks were suffered from insufficient staff in the branches, this urgent list preparation went haywire.

Based on the details available in the application form, the list was prepared.

In fact the list preparation has gone through five stages. The list prepared by the branch officials from the application forms of borrowers was verified by the branch managers which was later checked by the Circle level officers which was again checked by the inspection team followed by super checking by the executives at the regional level.

In spite of it, confusions prevailed and the CAG criticized the inclusion of ineligible farmers in the list where eligible farmers were left out.

The bankers were at the doldrums when they met with numerous problems while implementing the scheme. The borrowers felt that loan waiver and relief are for all borrowers whether they repaid the loan or otherwise. The problems faced by them were mainly on this line. Some of them are:

The borrowers who repaid the loans claimed waiver

The borrowers who (in fact are not real farmers) pledged jewels and got Agricultural Jewel Loans claimed waiver.

The borrowers (OF) who were eligible for loan relief fail to remit the amount payable by them to get relief. This will result in delay in getting back the relief from the Govt. It may become NPA too.

The OF (who are eligible for relief only) claim waiver.

The OF who were ineligible to get OTS Relief fought for the interest charged by the bank. The OF, to get relief under OTS, should have to pay their share of the loan outstanding on or before June 30, 2009. Up to this period no interest would be charged. If he failed to remit his share to get relief before this date, interest would be charged. However, the borrowers demanded that no interest should be charged.

Repayment on other loans too are on a declining trend

Frustration to employees due to voluminous work.

Govt. did not reimburse the amount waived amount in time.

The reluctance on the part of the bankers to lend further to farmers.

Conclusion:

At a time when bankers were overburdened with a host of activities, preparing an urgent list containing the details of beneficiaries on a sensitive issue is tedious. Instead of furnishing the correct details, the honchos are particular about sending statements to their superiors in time, without ensuring the correctness in it. Such thing has happened while implementing the scheme which invited wrath from the CAG of India. The beneficiaries too were skeptical about the selection of beneficiaries by the bankers thinking that the bankers were partial in selection based on their whims and

fancies.

Suggestions:

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. Instead of giving such ADWDR farmers were also being given crop insurance and quality seeds and fertilizers to the poor farmers. The waiver schemes benefit repeat defaulters. PSM Rao, an agriculture policy analyst, believes that there may be other ways of tackling the debt burden. Instead we have look into the root cause of the problem. Farm loans can be designed in a way that the farmer repays the loan only when the market prices are optimal and when there are no production losses. Otherwise what is produced can be procured by the government and the loan can be treated as fully repaid.

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