PRIORITY SECTOR LENDING: THE INDIAN CHAPTER

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INTRODUCTION

In the present day scenario the banks play a very important role in the modern day economy by providing necessary credit for the different sectors of the economy. Lately and more specifically after the credit policy of RBI 1967-68[1], the banks have been assigned the responsibility of financing what today is called the priority sectors. The word priority sector as has been mentioned above refers to those segments of the Indian Economy, the development of whose is necessary for attainment of 'social justice' and inclusive growth as proposed by the Directive Principles of State Policy[2], in the Constitution of India. Since its incubation, this sector has undergone several changes and many areas have been brought with the shelter of this umbrella. The question that the authors seek to answer in this paper is that, while there have been continuous demand to include new areas such as infrastructure within the ambit of priority sector, there have also been suggestions that the focus on the needy sectors of economy and weaker sections of the society is getting lost because of such inclusions[3]. The focus of such policies is now being shifted from the needs of the poor to maintenance and revival of financial crippled economic institutions. The second question that needs to be answered is that although there have been different regulations, circulars which is regulating this area, and even after half a century of the working, has the concept of Priority Sector Lending achieved its desired objectives or has become an instrumentality for pushing political propaganda?

This is precisely what the authors of this article wish to explore, which brings us toour research question. The abundance of the laws which seek to regulate the process pertaining to priority sector lending is clearly reflected in their numbers in the form of RBI guidelines, notices, prevalent banking laws etc. What remains to be seen is whether the same is true for its solidarity. Although the foundation of the institute of priority sector lending was clearly based upon the principles of diversification of risks and providing those classified under the priority sector with more economic freedom, with its numerous facets such as more cash-in-

[1]RBI DRAFT TECHNICAL PAPER ON REVIEW OF THE PRIORITY SECTOR LENDING, RBI/2o11-12/1o7, (July 1, 2o11).
[2]INDIAN CONST., Art. 38 & Art. 39.
[3]*Supra* note 2.

hand and the freedom to dictate their individual economic terms, in order to alleviate them from their state of economic vulnerability, the present scenario has grown far more complex. In a nutshell, this paper seeks to conduct an unprejudiced investigation into whether the 'priority sector' is truly benefitted by the prevalent legal system. As with the recent CAG report it is evident that many farmers were issued credit and the pre-text of priority sector lending and then those were claimed in order to repay their old loans. Therefore the benefit extended to them exists only on paper and statistical data. Hence we wish to explore this fraudulent scenario from a socio-economic, legal and epistemological perspective.

Chapter 1: Priority Sector Lending: Need and Development & the Present Law Need and Development

The origin of the Priority Sector prescription of India can be traced back to the Credit policy for the year 1967-68.[4] "*With two wars, a series of poor harvests including two droughts, and an unstable external environment, the 1960s were years of severe strain for the Indian economy."*[5]The demands on the exchequer rose as the needs of defence had to be met alongside those of development and the increased public expenditure financed against a background of stagnating agricultural production, unimpressive industrial growth, and a largely stagnant savings rate. Agricultural production barely rose above the 1960-61 level until 1964- 65, dropping nearly 10 per cent in 1965-66, which was the first of two successive drought years. Food production too followed the same trend, stagnating until 1964-65 around or below the 72 million tonnes per year mark reached in 196o-61.[6]output rose to 78 million tonnes in 1964-65, but dropped nearly a fifth to a mere 63 million tonnes in 1965-66.[7] It rose slightly to 65 million tonnes the following year before recovering to 8o million tonnes in 1967-68.[8] Not only these but inflation rose steeply and by the year of 1966-67 it was 13% from just about 3 % in the year of 1964-65.[9] Not surprisingly therefore the overall growth of the economy was lacklustre for this period. Higher rate of inflations and the build-up of the inflationary expectations in the weather of food shortage and other agricultural necessities rendered the situation more complex.[10] Finally, by the middle of the decade, the balance of payments position took a turn for the worse and the Bank had to contend not only with the need to stabilize the external sector but also to minimize the domestic inflationary fallout of the rupee's devaluation in June 1966[11]; and for much of the closing years of the 196os, monetary policy, while keeping inflation at bay, had also to attempt to mitigate the impact of the severe industrial recession brought on by import compression, the decline in public investment since 1965-66, and the food grains bottleneck.[12] It was during this period the concept of 'preferred' or priority sector credit was making its appearance in this intricate vista. During the early part of the year (1967) there was no change in the earlier credit

[4]*Supra* note 2.
[5] 2 THE RESERVE BANK OF INDIA, CHAPTER 4 (Eastern Book Corporation 2oo6)
[6]*Id.*
[7]*Id.*
[8]*Id.*
[9]*Id.*
[10]*Id.*
[11]*Id.*
[12]*Id.*

policywhich was in those days' circumstances a complete failure, however in August 1967 The RBI announced measures for credit liberalisation for agriculture, small scale industries, engineering goods industry etc.[13] Selective credit controls were also made operative in a flexible manner. There was a National Council set up for the purpose of credit planning and economic planning to ensure the proper allocation of bank credit to the priority sectors. At the second meeting of the National Credit Council held in July 24, 1968[14], it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries[15]. The description of the priority sectors was later formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971.[16] Gradually on 1972, February, a list of items to be included under various categories was issued for the first time and the same was prepared and forwarded to banks in March 1969.[17]on the basis of the report of the said meeting, RBI prescribed modified return for reporting the priority sector advances.[18]

1.1 THE PRESENT LAW

Although at the outset there was no specific target set for priority sector lending, in November 1974, the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.[19] In 1980, Reserve Bank set up a Working Group on Priority Sector Lending and 20-Point Economic Programme (under the Chairmanship of Dr. K. S. Krishnaswamy, the then DG, RBI) to work on the implementation of certain decisions which led to the following.[20]By the year of 1985 the advances to Priority Sector was increased to 40 % of aggregate bank advances.[21] Banks were asked to make sure that direct finance reached the agricultural sector (including allied activities) and touched the mark of at least 15% of total bank credit by March 1985 and at least 16% by March 1987 and 17% of their total credit by March 1989 and further rose to 18% by March 1990.[22] Today the overall lending target is set at 40 % of the overall main lending, with a rider that 18% of the

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[13]*Id.*
[14]*supra note* 2 *at* 15
[15]*Id.*
[16]MASTER CIRCULAR - LENDING TO PRIORITY SECTOR, RBI/2o11-12/1o7, Dated : July 1, 2o11
[17]*supra note* 2 *at* 15
[18]*Id.*
[19] www.rbidocs.rbi.org.in/rdocs/Publications/PDFs/789o3.pdf
[20]*supra note* 2 at 17
[21]*Id.*
[22]*Id.*

same must reach the agricultural sector and 10& to the ‘weaker sections’.[23]This can be further exemplified through the following table[24]:

	DOMESTIC COMMERCIAL BANKS	FOREIGN BANKS
TOTAL PRIORITY SECTOR ADVANCES	40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.
TOTAL AGRICULTURAL ADVANCES	18 per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.	No target.
	of this, indirect lending in excess of 4.5% of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing performance under 18 per cent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.	
MICRO& SMALL ENTERPRISE ADVANCES (MSE)	Advances to micro and small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.	10 per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.
MICROENTERP	(i) 40 per cent of total advances to	Same as for domestic banks.

[23]MASTER CIRCULAR - LENDING TO SMALL SCALE INDUSTRIES SECTOR;RBI/2004-05/380; Dated: March 1, 2005.
[24]*supra note* 17.

RISES WITHIN MICRO AND SMALL ENTERPRISES SECTOR	microand small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh; (ii) 20 per cent of total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakhs. (Thus, 60 per cent of micro and small enterprises advances should go to the micro enterprises). (iii) The increase in share of micro enterprises in MSE lending to 60 per cent should be achieved in stages, viz. 50 per cent in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13	
EXPORT CREDIT	No target	12 per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.
ADVANCES TO WEAKER SECTIONS	1o per cent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher.	No target.
DIFFERENTIAL RATE OF INTEREST	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of	No target.

SCHEME	the total advances granted under DRI scheme go to scheduled caste/scheduled tribes. At least two third of DRI advances should be granted through rural and semi-urban branches.

1.2 PRIORITY SECTORS FOR LENDING

on the basis of the recommendations of the Internal Working Group set up by the RBI to examine and review any necessary changes, in the policy on the subject of priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. and the comments/suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA)[25] the Priority Sectors can be broadly classified as follows:

[25] Lending To Priority Sector, RBI, www.rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/73748.pdf

PRIORITY SECTORS

AGRICULTURE: *Direct Finance*- Short, medium & long term loanfor agricultre etc., to individuals, Self-Help Groups etc., of Individual Farmers without limit and to others [Corporates, firms, etc] upto 20 lakhs. *Indirect Finance*- Various categories as mentioned in the Master Circular including hire-purchase of machinery orfor setting up Agri-clinics etc.	**SMALL SCALE INDUSTRIES**: *Direct Finance*- Units engaged in manufacture, processing or preservation of goods, & investment cost [excluding land and bulding] does not exceed as per the circular. *Indirect Finance*- Financing for providing inputs to or marketing the output of artisans, cottage industries etc.	**SMALL BUSINESS/ SERVICE ENTERPRISE:** include small business, retail trade, professional & self employed persons, small road & water transport operators etc., as mentioned in the circular; Maximum Cap: As per Enterprise	**MICRO CREDIT**: Rs 50,000 per borrower in rural, semi-urban & urban areas; Direclty or through group mechanism; To improve the life standards.	**EDUCATIONAL LOANS:** Upto 10 lakh for studies in India, & 20 lakhs for studies abroad	**HOUSING LOANS:** Upto 15 lakhs for construction purposes and upto 2 lakhs for repairing purposes

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[26]LENDING TO PRIORITY SECTOR, CATEGORIES OF PRIORITY SECTOR, RBI available at: www.rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/73748.pdf

1.3. THE LEGAL SANCTION FOR THE PRIORITY SECTOR

The institution of priority sector lending primarily draws its legal sanction from two sources, namely, Banking Regulation Act, 1949[27] and the Constitution of India. The Constitution deals broadly with the primary prerogatives that the States, within the meaning of Article 12 of the Constitution[28], should embrace with open arms in order to ensure smooth functioning and civil stability of the day to day affairs of the state and forms the 'conscience of the constitution'.[29] As stated by the present Chief Justice P. Sathasivam, The Directive Principles[30] and the Fundamental Rights[31] are two wheels of the same chariot.[32] The Directive policies clearly enumerate that citizens of India are to be provided with basic support in terms of humane conditions of work[33], right to work[34], public assistance in cases of undeserved want and unemployment[35]. In a country like India it is the need of the hour to come up with policies in order to curb the vehement growth of unemployment and economic dissatisfaction of the people. No doubt that such policies need to be inclusive of banking sectors. The Banking Regulation Act, 1949, defines the term banking as "accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise"[36]. The essence of lending or investment vested within the Act read along with Right to Life[37] which encompasses right to life with human dignity[38]does convey the idea that socio-economic growth of the country is one of the main responsibility[39] that the State must carry out. It would not be hard to say that priority sector lending[40] is nothing but the fruit of such a thought process that the founding fathers of this constitution harboured. Section 22 of the said Act[41] iterates broadly that the Reserve Bank may license an institution to engage in banking activities. Now in the event of receiving affiliation from the RBI, the institutions are bound to carry out financial transactions in accordance to its guidelines. Therefore, essentially the undercurrent of

[27] The Banking Regulation Act, No. 1oof 1949, India Code (1993), Vol. 15
[28] *supra note* 3 atart. 12
[29] PRAVEEN PRAKASH AMBASHTHA, ASSISTANT DIRECTOR, ISTM, STUDY MATERIAL ON CONSTITUTION OF INDIA, p. 16
[30] *supra note* 3 at Part IV
[31] *supra note* 3 at Part III
[32] http://www.thestatesman.net/news/17418-Directive-Principles-fundamental-to-governance--CJI.html
[33] *supra note* 3 at art. 42
[34] http://lawmin.nic.in/ncrwc/finalreport/v1ch3.htm
[35] K.G.BALAKRISHNAN, JUDICIAL ACTIVISM UNDER THE INDIAN CONSTITUTION, p. 12 (Trinity College)
[36] *supra note* 28 at§. 5(b)
[37] *supra note* 3 at art. 21
[38] Francis Coralie Mullin v. The Administrator, Union Territory of Delhi &ors., 1981 AIR 746
[39] 1 BASU, DURGA DAS, SHORTER CONSTITUTION OF INDIA, p. 1972, (13th ed. Nagpur: Wadhwa & Co. 2oo3)
[40] RBI/2O12-13/138,RPCD.CO.PLAN.BC 13/O4.O9.O1/2O12-13
[41] *supra note* 28 at §. 22

principles which govern the RBI are somewhat channelized to these institutions as well. Though not established as a Rule of law, if viewed from the perspective of social transformation it is essentially a responsibility of financial institutions to invest in the process of socio-economic alleviation through lending to sectors that need it. However, to what extent and whether at all, needs to be examined critically. The elaborate process is once again codified under the Schedule 3 of the Banking Act.[42] It is not to forgotten that the Directive Principles thought not enforceable in courts of Law[43] are aimed at securing certain values or enforcing certain attitudes in law making and administration of law.[44] Therefore when an act such as the Banking Regulation Act, 1949 is implemented, its provisions are necessarily obliged to uphold the essence and conscience of the constitution as mentioned before. Therefore, economic upliftment of the priority sectors should ideally be prioritized before amassing of wealth as under an ideal capitalist structure. Whether this model is indeed in practice or not remains to be assessed in socio-economic balance.

CHAPTER 2: CASE STUDY: RURAL CO-OPERATIVE BANKS

2.1. CONTEMPORARY SCENARIO

The Budget-speech for the fiscal year 2008-2009 by the hon'ble finance minister included an *'Agricultural debt waiver and Debt relief scheme'*[45] (Herein after mentioned as ADWDRS) for the farmers. This included waiving of short term production loans[46] and Investment loans[47] provided to marginal farmers.[48] If in case farmers not falling under the category of 'marginal farmers' as per the definition provided under the aforementioned scheme, a separate category was made altogether called *'other farmers'*.[49] This class was eligible for something called a *one-time Settlement (OTS)*[50] under which they were made eligible for 25 % rebate of the 'eligible amount'[51] unlike the small or 'marginal farmers' who were eligible for 100 % rebate. The total intended waiver amount by the government went up to Rs. 68,376 crores[52] (Rs. 60,416 for marginal farmers and Rs. 7960 for other farmers). By March 31,

[42] *supra note* 28 at Sch. III
[43] Minerva Mills Ltd. &ors v. Union of India &ors, 198o AIR 1789
[44] B. Krishna Bhat v. Union of India Andors, 199o SCR (2) 1
[45] RBI / 2oo7-2oo8/ 33oRPCD.No.PLFS.BC.72 /o5.o4.o2/2oo7-o8
[46] *supra note* 46 at § 3.1
[47] *Id.*
[48] *supra note* 46 at § 5
[49] *supra note* 46 at § 3.7
[50] *supra note* 46 at § 6.1
[51] *supra note* 46 at § 4
[52] IMPLEMENTATION OF AGRICULTURAL DEBT WAIVER AND DEBT RELIEF SCHEME, 2OO8, CHAPTER 1, P. 7, CAG REPORT 3 OF 2O13

2012, the Department of Financial Services had released Rs. 52,516 crores to RBI/NABARD[53] as the total figure of requisite amount stood Rs. 52,153[54] crores by various co-operative credit institutions.[55]

2.2. IMPLEMENTATION: DISPARITY BETWEEN THE IDEAL AND THE REAL

2.2.1. IMPLEMENTATION METHODOLOGY: THE IDEAL

The implementation structure was methodically formulated by the Department of Financial Services. It served as the apex body at the central level. However, it didn't function autonomously. on the contrary it functioned through the nodal agencies, i.e. RBI (Reserve Bank of India) and NABARD (National Agricultural and Rural Development Bank) by monitoring their progress in implementation of the scheme through the nodal agencies.[56] The RBI was put in charge of the Scheduled Commercial Banks (SCB)[57], Urban Co-operative Banks (UCB)[58] and Local Area Banks.[59] The NABARD, on the other hand was made responsible for cooperative credit institutions[60] and Regional Rural Banks (RRB)[61]. The role of both these nodal agencies was restricted to that of a *middle man*. They didn't release any funds of their own, nor did they entertain any claim on their autonomous capacity. What they did, was merely receiving and forwarding of claims and delivering funds for the same to and from the Department of Financial Services.

They were merely institutions appointed to act as checks on lending institutions from engaging into gross lending malpractices. For this purpose the nodal agencies formulated the following policies.

- *compulsory filing of state wise and bank wise data of rebate and claim records with the nodal agencies;*
- *establishment of dedicated cells to monitor the progress of implementation of the scheme and;*
- *entertainment of all claims through internal as well as central statutory auditors.*

[53]*supra note* 53 at p. 8
[54]*Id.*
[55]*supra note* 46 at § 3.4
[56]*supra note* 53 at p. 4
[57]*supra note* 53 at pp. 4-5
[58]*supra note* 53 at p. 5
[59]*Id.*
[60]*supra note* 56
[61]*supra note* 59

The responsibility for monitoring district and ward level preparation of lists of eligible beneficiaries was entrusted upon something called the State-level banker's Committee.[62]

The reason behind the ADWDRS is open to interpretation. on the face of it, the finance minister in his budget speech stated that the purpose behind the implementation of this scheme was *to ensure proper economic flow within the section of farmers categorised as 'small' and 'marginal' farmers and mitigating their economic burden.* However, the authors find that this is not the case as it would seem from the following tables:

Recovery %	**SCBs**	**DCCBs**
<40	Jammu & Kashmir, Arunachal Pradesh, Manipur, Tripura, Bihar	Bihar (5), Jammu & Kashmir (1), Jharkhand (8), Madhya Pradesh (1), Chhattisgarh (2), Uttar Pradesh (21), Uttarakhand (1), Gujarat (1), Maharashtra (8), Karnataka (3)
>40 and <60	Assam, Meghalaya	Bihar (10), Jammu & Kashmir (1), West Bengal (3), Madhya Pradesh (9), Chhattisgarh (2), Uttar Pradesh (16), Uttarakhand (2), Gujarat (4), Maharashtra (12), Andhra Pradesh (1o), Karnataka (3), Tamil Nadu (2), orissa (7)
>60 and <80	Chandigarh, Himachal Pradesh, Mizoram, Nagaland, Orissa, Sikkim, Uttar Pradesh, Goa, Maharashtra, Pondicherry, Andhra Pradesh	Haryana (15), Himachal Pradesh (1), Jammu & Kashmir (1), Punjab (2), Bihar (6), orissa (8), West Bengal (7), Madhya Pradesh (19), Chhattisgarh (2), Uttar Pradesh (7), Uttarakhand (1), Gujarat (7), Maharashtra (1o), Andhra Pradesh (9), Karnataka (6), Kerala (3), Tamil Nadu (6)
<80	Delhi, Haryana, Punjab, Rajasthan, Andaman & Nicobar, West Bengal, Chhattisgarh, Madhya Pradesh, Uttarakhand, Gujarat, Karnataka,	Haryana (4), Himachal Pradesh (1), Punjab (16), Bihar (1), Orissa (2), West Bengal (7), Madhya Pradesh (9), Uttar Pradesh (6), Uttarakhand (6), Gujarat (6), Maharashtra (1), Andhra Pradesh (3), Karnataka (9), Kerala (11), Tamil Nadu (15)

62 *Id.*

	Kerala, Tamil Nadu	
Frequency Distribution of States/ UTs according to Level of Loan Recovery of SCBs and DCCBs (As on 30 June 2007)[63]		

[63] ANNUAL REPORT OF NATIONAL BANK FOR AGRICULTURAL AND RURAL DEVELOPMENT, 2OO7-O8, Table 4.13.

Recovery %	**SCARDBs**	**PCARDBs**
<40	Assam, Bihar, Orissa, Uttar Pradesh, Maharashtra, Karnataka, Tamil Nadu, Jammu & Kashmir	Chhattisgarh (2), West Bengal (7), Madhya Pradesh (4), Maharashtra (24), Karnataka (44), Punjab (20), Rajasthan (13), Orissa (28), Tamil Nadu (153)
>40 and <60	Chhattisgarh, Himachal Pradesh, Rajasthan, Madhya Pradesh, Gujarat	Haryana (4), West Bengal (9), Chhattisgarh (6), Madhya Pradesh (15), Karnataka (57), Kerala (18), Punjab (16), Rajasthan (17), Orissa (18), Tamil Nadu (23)
>60 and <80	West Bengal, Pondicherry, Tripura	Haryana (10), Himachal Pradesh (1), West Bengal (7), Chhattisgarh (4), Madhya Pradesh (19), Karnataka (59), Kerala (22), Punjab (16), Rajasthan (6), Tamil Nadu (2)
<80	Haryana, Punjab, Kerala	Haryana (5), West Bengal (1), Karnataka (17), Kerala (6), Punjab (36), Maharashtra (5), Tamil Nadu (2)
Frequency Distribution of States/UTs according to levels of Loan Recovery of SCARDBs and PCARDBs (As on 30 June 2007)[64]		

From the above tables, it can be inferred that the co-operative credit institutions which are targeted towards catering to the agricultural and rural development are the ones which are hit the most due to non-payment of loans. The SCCBs which fall under the purview of RBI regulation are not suffering as much as the *CARD (Co-operative Agricultural and Rural Development)* banks in terms of non-recovery of loans. This is probably due to the factor that the former are governed by the *Recovery of Debt due to Financial Institutions (RDDB) Act, 1993* while the latter is not.[65] Further, in a recent judgement by Gujarat High Court[66] the Chief Justice stated that CARD banks cannot even use *Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2oo2* in order

[64]*supra note* 64 at Table 4.14.
[65]Greater Bombay Co-op. Bank Ltd v. M/S United Yarn Tex. Pvt. Ltd. &ors, AIR 2007 SC 1584
[66] Administrator, Shri Dhakdi Group Cooperative Cotton Seeds &ors. v. Union of India &ors., Guj. HC, Special Civil Application No. 930of 2011 and Spl. C.A. Nos. 622, 1730, 3046, 8082, 11424, 13999, 15253 and 15269 of 2012

toinitiate debt recovery proceedings. Therefore, the only way to ensure that these so called sick banks do not wither out due to lack of recovery mechanism is to attract customers through fresh waiver schemes. The small and marginal farmers' upper limit for the loan was Rs. 50,000 most of which was partially paid.

The problem laid with the farmers whose loan amounts went up to Rs. 2o-25 lakhs. Majority of them had stopped paying the instalments after paying 30-40 % of their loan amount. Therefore, asking them to pay only 75 % of the loan amount reduces the amount that they are left to pay with and simultaneously easing the government exchequer by lifting the burden of defaulters. The rest of the 25 % rebate offered by the government can be viewed as a long-term investment to convert them into recurring customers.

Therefore, it can be deductively established that the ADWDRS was to some extent a government mechanism to revive these sick cooperative credit institutions engaged in lending activities in the agricultural sector.

2.2.2. PRACTICAL ABUSE OF THE SCHEME: THE REALITY

The CAG report on the said subject, tabled in the parliament on March 5, 2013[67] brought to light gross anomalies in the proposed schemes and the practice adopted by various institutions. The most common malpractice that was staring blatantly at our faces in the aforementioned CAG report was that of non-inclusion of eligible farmers in the list forwarded to nodal agencies. The following table illustrates that better:

State-wise details of Farmer accounts found eligible but not extended benefits under the scheme[68]		
Name of the State	Total Number of eligible farmer accounts not included in the scheme	Amount in Rs.
Chhattisgarh	22	493097
Gujarat	1	15220
Kerala	6	183272
Madhya Pradesh	1147	32063994
Maharashtra	1	95086
odisha	30	334004

[67]http://www.thehindu.com/news/national/sloppy-loan-waiver-edges-out-deserving-farmers-cag/article4478433.ece
[68]*supra note* 53 at Chapter 2, Table 4.

Punjab	8	532983
Rajasthan	4	94266
Tripura	38	1975743
Total	**1257**	**35787665**

Now the question that arises is who all were included inside the lists prepared and forwarded to the nodal agencies? The answer to it is really simple. The farmers categorised as 'other farmers' inside the scheme whose loan amounts went above Rs. 50,000 and not restricted to the purposes of agriculture only. In fact most of the beneficiaries whose names were included had taken loans for housing, vehicle etc.[69] Further, the ineligible beneficiaries who had taken loans through micro-finance institutions were also reimbursed under the scheme which defeated the purpose of the scheme to mitigate the circumstances of farmers with agricultural loans.[70] Therefore the people whose loan amounts actually lay outside the purview of the scheme were included so as to shoot up the recovery percentage of the 'sick' institutions. There is a disparity of Rs. 10,000 crores (approximately) in the funds released by the Department of Financial Services for the implementation of the scheme.[71]

CONCLUSION

The real question that perturbs us is that even with the above malpractice going on, are the so-called sick institutions being actually revived? our endeavour to come up with a conclusive answer to the above question is significantly thwarted by the absence of any credible document in the public domain. However, the authors have attempted to grasp at it by observing certain anomalies that featured time and again. It is a common practice is the rural area to extend fresh credit to farmers who have not paid their loan back on time[72] so that their loan remains intact while they are awarded some indirect relaxation in terms of the period of repayment (which gets extended) and the interest to be paid. Therefore, no actual money is transferred to the hands of the beneficiary but the transaction is recorded on paper. Such 'paper transaction' raises the recovery percentage of financial institutions but in reality is not an accurate reflection of the financial health of the same. Although evidence of such

[69] *supra note* 53 at Chapter 2, p. 19
[70] *supra note* 53 at Chapter 2, p. 2o
[71] http://articles.economictimes.indiatimes.com/2o13-o3-o6/news/3747o814_1_debt-waiver-waiver-scheme-debt-relief-scheme
[72] http://www.livemint.com/Industry/ph3oHumD1FPAGaBjoXCoyH/Kisan-Credit-Cards-Bad-loan-bubble-waiting-to-burst.html

'paper transactions' are not readily available in cases of CARD banks, however indication of the bad loan practice can be inferred from the aforementioned CAG report.[73] Since no debt-waiver certificates were issued to farmers and yet they were extended fresh credit, one of the possibilities remain that this was just a front for such paper-transactions. However, since the entire implementation procedure of the scheme is under auditory scrutiny the authors are unable to comment further on the matter. However, from the perspective of the research objectives as iterated in this paper, the authors are of the opinion that the policies of priority sector lending which were initiated with the intention to foster economic upliftment of the farmers, though somewhat pure in its intention has failed in absolute practicality. The root cause of this can be traced back to inefficient administration of the concerned institutions and lack of transparent interaction between the farmers and government officials.

With regard to the aforementioned problems the Researchers have come up with a few pointers which may be treated as probable solutions to the same:

- Provide Risk Cover to Agriculture and;
- Use Innovative Market Driven Instruments for availability for Credit to Priority Sectors, Ensuring Viability of Commercial Banks.
- Strengthen Cooperative Banks, Regional Rural Banks, and Microfinance Institutions and Encourage opening of "Small" Finance Banks.
- Promote enablers like an extensive credit information system to create a robust credit infrastructure and a healthy credit culture.

Therefore, fresh revision of prevalent policies is the dire need of the hour so as to ensure that the agrarian economy doesn't crumble due to the abundant malpractices and abuse of policies faced by this sector.

[73]*supra note* 53 at Annex 7