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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	FACTORS INFLUENCING INVESTMENT DECISIONS AND GENDER DIFFERENCE: A DISCRIMINANT ANALYSIS <i>DR. MALABIKA DEO & VIJAYALAKSHMI SUNDAR</i>	1
2.	CORPORATE SOCIAL RESPONSIBILITY PRACTICES OF NEW PRIVATE COMMERCIAL BANKS IN KERALA <i>JOMON JOSE M & DR. B. JOHNSON</i>	7
3.	SUCCESS STORIES OF WOMEN SHG PROMOTED BY SKDRDP AND THEIR INCOME GENERATING ACTIVITIES <i>K POORNIMA & DR. RAMANAIAH G</i>	11
4.	20 YEARS AFTER WTO: ANALYSIS OF INDIA'S FOREIGN TRADE DURING TRANSITORY-TRIPS AND POST-TRIPS PERIODS <i>DR. SARADA CHENGALVALA</i>	14
5.	ROLE OF POLITICAL INITIATIVES CONCERNING INFRASTRUCTURE IN THE ADVENT OF ACT EAST POLICY <i>P. CHINGLEN SINGH & DR. N. TEJMANI SINGH</i>	17
6.	IMPACT OF EXCHANGE RATE VOLATILITY OF TOP TRADABLE CURRENCIES ON THE PERFORMANCE OF EXPORT ORIENTED UNITS, SEZs AND TOTAL EXPORT OF INDIA <i>PRASHANTHA K.J & DR. MANJUNATH S.J.</i>	23
7.	TRENDS OF DEBT WAIVER & DEBT RELIEF UNDER "THE AGRICULTURE DEBT WAIVER AND DEBT RELIEF SCHEME (ADWDRS), 2008" AMONG THE COMMERCIAL BANKS IN INDIA <i>DR. Y.NAGARAJU & RAVISHANKAR L</i>	29
8.	EFFECTS OF DEMONETIZATION IN INDIAN BISCUIT COMPANIES <i>DR. P. B. BANUDEVI & BAVITHRA.P</i>	35
9.	INTERNATIONAL WATER CLASHES AND INDIA (A STUDY OF INDIAN RIVER-WATER TREATIES WITH BANGLADESH AND PAKISTAN) <i>HIMANSHU GUPTA & DR. KRISHNA KISHOR TRIVEDI</i>	38
10.	A REVIEW ON INDIAN TAX STRUCTURE WITH SPECIAL FOCUS ON BENEFITS AND CHALLENGES OF GOODS AND SERVICES TAX IN INDIA <i>DR. JIMMY CORTON GADDAM & NAGASUDHA K</i>	42
11.	DEMAND FOR ORGANIC PRODUCTS IN THE MARKET <i>S. BABY & DR. N. RAJA</i>	46
12.	ECONOMIC REFORM POST 1991 - AGRICULTURE <i>DR. GURAVIAH PELLURU</i>	52
13.	DATA ANALYSIS OF HEALTH CONDITIONS OF LOWER STRATA OF DELHI'S POPULATION <i>POOJA SINGH, DR. SEEMA SHOKEEN & MEGHA PANJWANI</i>	55
14.	IMPACT OF JOB SATISFACTION AND WORK ENGAGEMENT ON ORGANISATIONAL COMMITMENT <i>TEJASWINI PATIL, SAHANA MELBUDDI & DR. RAMANJENEYALU</i>	64
15.	CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND CORPORATE FINANCIAL PERFORMANCE: A META-ANALYSIS <i>HERU DWI PRASETYA, ERWIN SARASWATI & ABDUL GHOFAR</i>	68
16.	HISTORY OF HANDLOOM INDUSTRY IN INDIA <i>VINAY KUMAR BOLLOJU & A. SREENIVAS</i>	73
17.	HUMAN RESOURCE DEVELOPMENT CLIMATE: A NEW ANTECEDENT OF OCB <i>DR. SAIMA MANZOOR</i>	75
18.	VALUES, ADJUSTMENT AND FAMILY RELATIONSHIPS OF XI GRADERS AT DIFFERENT INTELLIGENCE LEVELS <i>SONIA</i>	80
19.	BRIEF STUDY TO TREND ANALYSIS OF FDI INFLOWS INTO THE ISRAEL DURING 1971-2015 <i>V.LEKHA</i>	83
20.	CITIZENSHIP AND GLOBALIZATION IN CONTEXT OF NEW DIMENSIONS <i>KANWAL MARWAHA</i>	94
	REQUEST FOR FEEDBACK & DISCLAIMER	98

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TRENDS OF DEBT WAIVER & DEBT RELIEF UNDER “THE AGRICULTURE DEBT WAIVER AND DEBT RELIEF SCHEME (ADWDRS), 2008” AMONG THE COMMERCIAL BANKS IN INDIA

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ABSTRACT

Agriculture is the backbone of the country; despite the contribution of agriculture is declining since past few decades in terms of GDP of the country. It is still the major employer for majority of the population. One of the major reasons for decline in growth of agriculture is lack of credit towards agriculture sector and despite making mandatory for lending to agriculture. The growth is still very less compared to other sectors. To address the problem and difficulties faced by the farming community in repayment of loans. Government of India under ADWDRS, 2008 provided complete waiver to small and marginal farmers and relief to other farmers. This is an attempt to study the trends of debt waiver and debt relief under ADWDRS, 2008 and the economic impact pre and post launch of scheme in terms of agriculture lending and to study the further lending provided by the banks to the beneficiaries of the scheme.

KEYWORDS

ADWDRS, debt waiver, debt relief.

INTRODUCTION

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' was to be provided to Marginal /Small farmers while 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 1 April 1997 and 31 March 2007 and,
- > Overdue as on 31 December 2007 and,
- > Remaining unpaid up to 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.

TYPES OF AGRICULTURE LOANS COVERED UNDER THE SCHEME

Agriculture loans are bifurcated into Direct Agriculture loans and Indirect Agriculture loans. Direct agriculture loans include mainly short term crop loans for agriculture purpose. Indirect Agriculture also known as Investment credit for agriculture covers loans availed by farmers for agriculture and allied activities.

Short Term Crop Loans: The loans are given with a sole intention for rising of crops and to fulfill working capital requirements (Kisan Credit Card); loans have to be repaid within 12 months. These loans are renewed once the harvest proceeds are received by the farmers and the loan has been repaid. Credit to farmers to meet their production credit needs (cultivation expenses) besides meeting contingency expenses, and expenses related to ancillary activities through simplified procedure facilitating sanctioning of the loans as and when needed.

Investment Credit for agriculture: These loans comprise investment credit for both direct agriculture activities and allied activities. The loans which are given for a period of more than 12 months fall under this category. The credit extended for capital investment designed to increase the output from the land, e.g. 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. The latter included credit 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.

CATEGORISATION OF BENEFICIARIES

Farmers who had taken Short Term Production Loans or Investment Loans for agricultural activities - Such farmers qualified for the scheme and were categorised according to the following parameters:

- a) Marginal farmer: A farmer cultivating (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres).
- b) Small farmer: A farmer cultivating (as owner or tenant or share cropper) agricultural land more than 1 hectare and up to 2 hectares (5 acres).
- c) Other farmer: A farmer cultivating (as owner or tenant or share cropper) agricultural land more than 2 hectares (more than 5 acres).

Farmers who had taken Investment Loan for allied activities - Land holding was not the criteria for categorisation of farmers for investment loan for allied activities. The categorisation of farmers under this category was based on the amount of loan obtained for allied activities.

- a) Marginal farmer: Farmer obtaining loan up to Rs. 50,000.
- b) Small farmer: Farmer obtaining loan up to Rs. 50,000.
- c) Other farmer: Farmer obtaining loan above Rs. 50,000.

ELIGIBLE AMOUNTS AND CUT-OFF DATES

The amount eligible for debt waiver or debt relief, as the case may be, would qualify only subject to certain conditions. These conditions were:

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

- Disbursed up to 31 March 2007 and overdue as on 31 December 2007 and remaining unpaid until 29 February 2008; or
- Restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government, whether overdue or not; or
- Restructured and rescheduled in the normal course up to 31 March 2007 as per applicable RBI guidelines on account of natural calamities, whether overdue or not.

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

- Disbursed up to 31 March 2007 and overdue as on 31 December 2007 and remaining unpaid until 29 February 2008;
 - Restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government; and
 - Restructured and rescheduled in the normal course up to 31 March, 2007 as per applicable RBI guidelines on account of natural calamities.
- d) 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.

BENEFITS UNDER DEBT WAIVER AND DEBT RELIEF

Debt waiver essentially signified 100 per cent waiver of the 'eligible amount' while debt relief signified waiver of 25 per cent of the 'eligible amount' under a One-Time Settlement (OTS) scheme. Debt waiver or debt relief was to be applicable as follows:

Marginal and Small farmer: The entire 'eligible amount' was to be waived.

Other farmer: The farmer would be given a rebate of 25 per cent of the 'eligible amount' subject to the condition that the farmer paid the remaining 75 per cent of the 'eligible amount'.

LITERATURE REVIEW

Martin Kanz (2011) examined the efficiency effects of debt relief how they outweighed the moral hazard problems and behavioral responses arising from the prospect of future bailouts. Opponents of debt relief warned that unconditional bailouts may do lasting damage to the culture of prudent borrowing, in fact making banks more reluctant to lend to marginal borrowers.

Dr. Narendra Jadhav (2008) examined the fundamental malady behind the farmers' indebtedness and distress is the uneconomical state of farming. As long as capacity and willing ness towards repayment is not created among the farmers through medium and long term measures, the possibility of farmers receiving Debt Waiver again getting back into the debt trap certainly remains.

Anjani Kumara*, K. M. Singhb and Shradhajali Sinha (2010) examined the "Institutional Credit to Agriculture Sector in India: Status, Performance and Determinants". The structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit in recent years. But, the declining share of investment credit in the total credit may constrain the sustainable agricultural growth. The quantum of institutional credit availed by the farming households is affected by a number of socio-demographic factors.

Dr. Duvvuri Subbarao (2012) in his lecture pointed out that Development experience shows that credit is an important determinant of value added in agriculture. A quick assessment by the Reserve Bank of the relationship between institutional credit to agriculture (from commercial banks, cooperatives and RRBs) evidences positive and statistically significant elasticity - every 1 per cent increase in real agricultural credit results in an increase in real agricultural GDP by 0.22 per cent with a one-year lag. Further, the Granger causality test (based on lag length of 1) also indicates that the causality was unidirectional from agricultural credit to agricultural GDP.

STATEMENT OF THE PROBLEM

It is stated that under the ADWDR scheme, 2008, 3.73 crore farmers were benefitted and Rs. 52259.86 crore were waived / relief. Debt waiver was for small and marginal farmers and Debt relief for other farmers.

Hence the present study is an attempt to study the trends of debt waiver and debt relief under ADWDRS, 2008 and the economic impact pre and post launch of scheme in terms of agriculture lending and to study the further lending provided by the banks to the beneficiaries of the scheme.

OBJECTIVES OF THE STUDY

- To study the trends of debt waiver and debt relief under ADWDRS 2008.
- To study the economic impact of ADWDRS 2008.
- To study the performance of Debt waiver and debt relief under ADWDRS 2008.

RESEARCH METHODOLOGY

The study mainly depends on secondary data collected through Right to Information (RTI) Act from Reserve Bank of India (RBI) and Department of Financial Services (DFS).

To analyze the data and to interpret the data analysis simple percentage is used. The study period span ranges from 2005 till 2015.

DATA ANALYSIS AND INTERPRETATION

There are 27 Public sector banks (PSBs), 18 Private sector banks and 4 local area banks which were benefitted under the 'Agriculture debt waiver and debt relief scheme, 2008'.

The data shows the total accounts and amounts eligible for debt waiver under Public sector banks (PSBs), Private sector banks and local area banks.

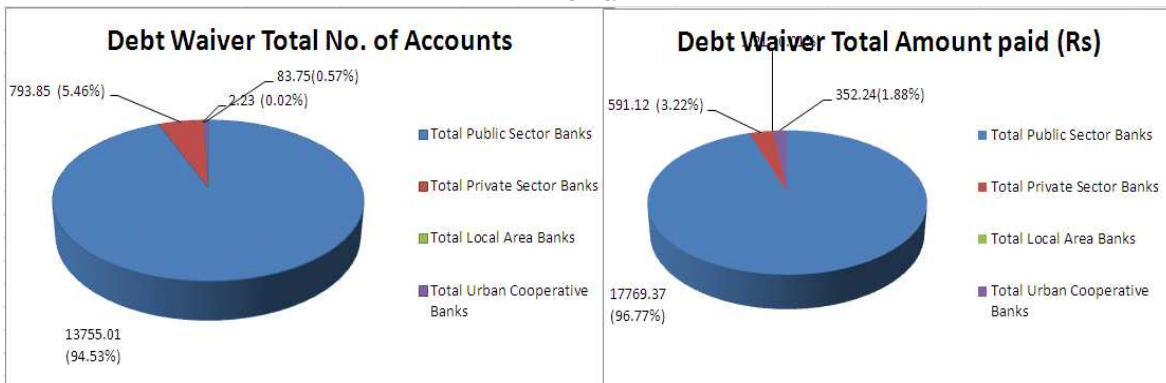
In terms of no. of account wise, under debt waiver in PSBs 1.37 crore accounts constituting 94.53 % of total debt waiver accounts were benefitted. In private banks 0.0079 crore accounts constituting 5.46 % total debt waiver accounts were benefitted. In Local area banks 2,230 accounts and in Urban Cooperative Banks 83,750 accounts were benefitted.

In terms of amount wise, under debt waiver in PSBs 17,769.37 crore was received constituting 96.77 % of the total amount received by all the banks. In private banks 591.12 crore was received constituting 3.22 % of the total amount received by all the banks. The local area banks received 1.214 crore and Urban Cooperative Banks received 352.24 crore.

TABLE 1 (No. of accounts in thousands and amount in crore Rs.)

	DEBT WAIVER		% of Total	
	Total Accs	Amt paid (Rs)	Accts	Amt paid
Total Public Sector Banks	13755.01	17769.37	93.99	94.95
Total Private Sector Banks	793.85	591.12	5.42	3.16
Total Local Area Banks	2.23	1.21	0.02	0.01
Total Urban Cooperative Banks	83.75	352.24	0.57	1.88
Total of All Banks	14634.84	18713.94		

FIG. 1 & 2

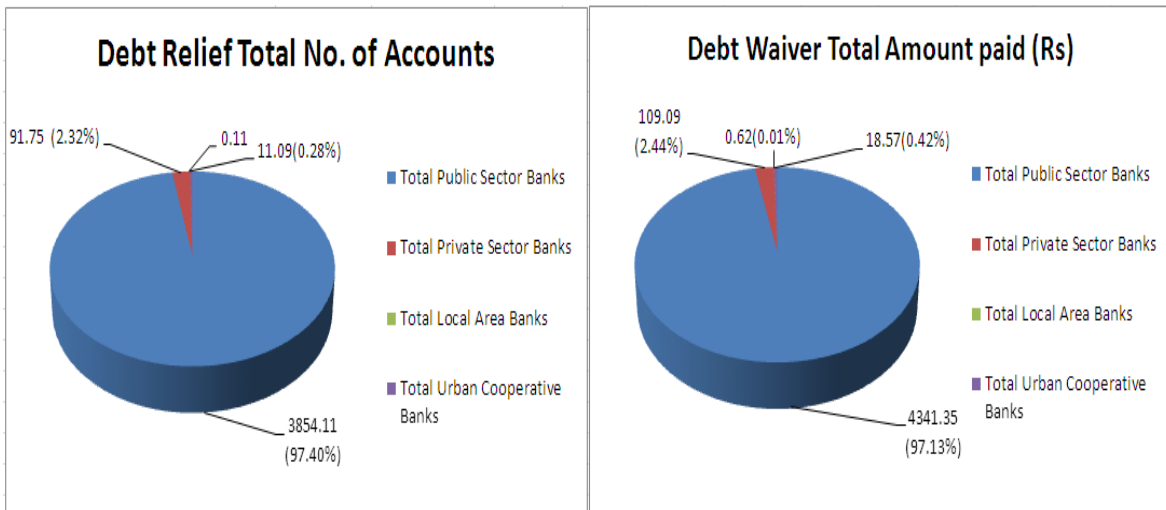


The data shows the total accounts and amounts eligible for debt relief under Public sector banks (PSBs), Private sector banks and local area banks. In terms of no. of account wise, under debt relief in PSBs is 0.38 crore accounts constituting 97.40 % of total debt relief accounts were benefitted. In private banks 91,750 accounts constituting 2.32 % total debt relief accounts were benefitted. In Local area banks 100 accounts were benefitted and in Urban Cooperative Banks 11,090 accounts were benefitted. In terms of amount wise, under debt relief in PSBs 4,334.35 crore was received constituting 97.13 % of the total amount received by all the banks. In private banks 109.90 crore was received constituting 2.44 % of the total amount received by all the banks. The local area banks received 0.62 crore and Urban Cooperative Banks received 18.57 crore.

TABLE 2 (No. of accounts in thousands and amount in million Rs.)

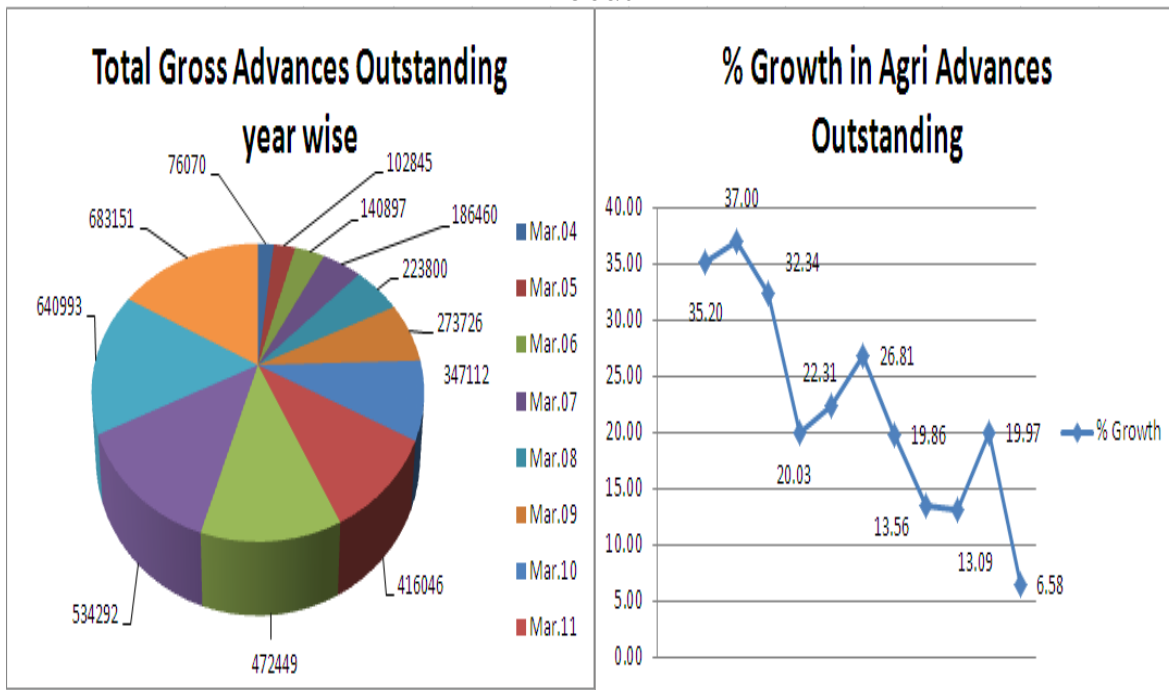
	DEBT RELIEF		% of Total	
	Total Accs	Amt paid (Rs)	Accts	Amt paid
Total Public Sector Banks	3854.11	4341.35	97.40	97.13
Total Private Sector Banks	91.75	109.09	2.32	2.44
Total Local Area Banks	0.11	0.62	0.00	0.01
Total Urban Cooperative Banks	11.09	18.57	0.28	0.42
Total of All Banks	3957.06	4469.63		

FIG. 3 & 4



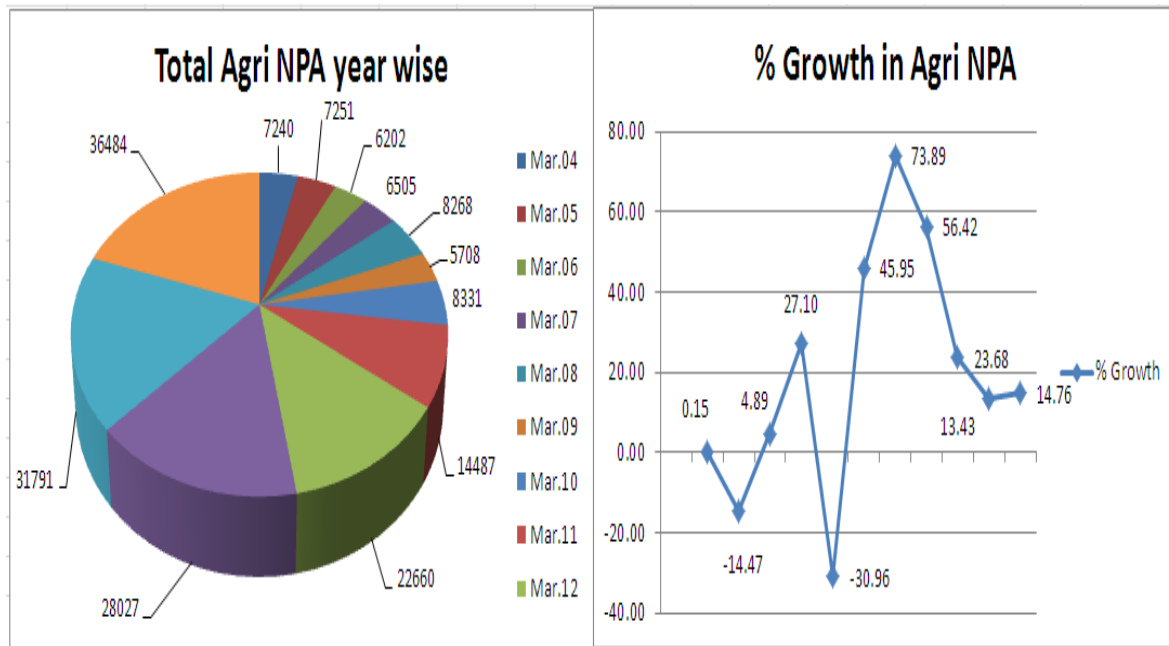
Public sector banks played a major role in the ADWDRS 2008 and to understand the economic impact we studied the lending done by Public sector banks towards agriculture sector, there are 28 public sector banks including SBI and its associates starting from March 2005 till March 2011. The data shows the Total Agriculture advances outstanding and Agriculture NPA disbursed by Public sector banks (PSBs) towards agriculture sector covering both direct agriculture and indirect agriculture from March 2004 till March 2015. In terms of Total Agriculture advances outstanding in PSBs has shown increasing trend (Quite obvious as Agriculture comes under priority sector lending). The agriculture advances outstanding increased from 76060 Crore in the year 2004 to 223800 Crore in the year 2008. The average agriculture credit growth rate during this period was 31.14 %. Post ADWDRS, 2008 the agriculture advances outstanding increased from 273726 Crore in the year 2009 to 683151 Crore in the year 2015. The average agriculture credit growth rate during this period was 19.27 %. The trend in the disbursement of agriculture advances year wise in PSBs during the last 12 years is plotted in the Chart below.

FIG. 5 & 6



In terms of Total Agriculture NPAs in PSBs has shown undulating trend (Due to waiver and relief provided under ADWDRS, 2008). The agriculture NPA increased from 7240 Crore in the year 2004 to 6505 Crore in the year 2008. The average agriculture NPA growth rate during this period was -3.14 %. Post ADWDRS, 2008 the agriculture NPA increased from 8268 Crore in the year 2009 to 36484 Crore in the year 2015. The average agriculture NPA growth rate during this period was 28.03 %. The trend in the growth of agriculture NPA year wise in PSBs during the last 12 years is plotted in the Chart below.

FIG. 7 & 8



To study the performance of ADWDRS 2008, we obtained the data on amount crystallised as eligible under the scheme both Debt relief and Debt waiver state wise and then compared it with the total no. of account and amount of fresh loan provided to beneficiaries of the scheme till 27.05.2015. In terms of growth amount wise for different States and Union Territories, has shown undulating trend. Only three major states Karnataka, Tamilnadu and West Bengal has shown positive growth in terms of lending to the beneficiaries of ADWDRS 2008. Out of these 3 states Karnataka has shown 103.92 % growth from 1.53 Crore to 3.12 Crore. Tamilnadu has shown 17.25 % growth from 3309.13 Crore to 3879.91 Crore. West Bengal has shown 46.79 % growth from 954.09 Crore to 1400.52 Crore. Most of the states have shown negative trend and few states due to non-availability of data we are unable to check their growth.

FIG. 9

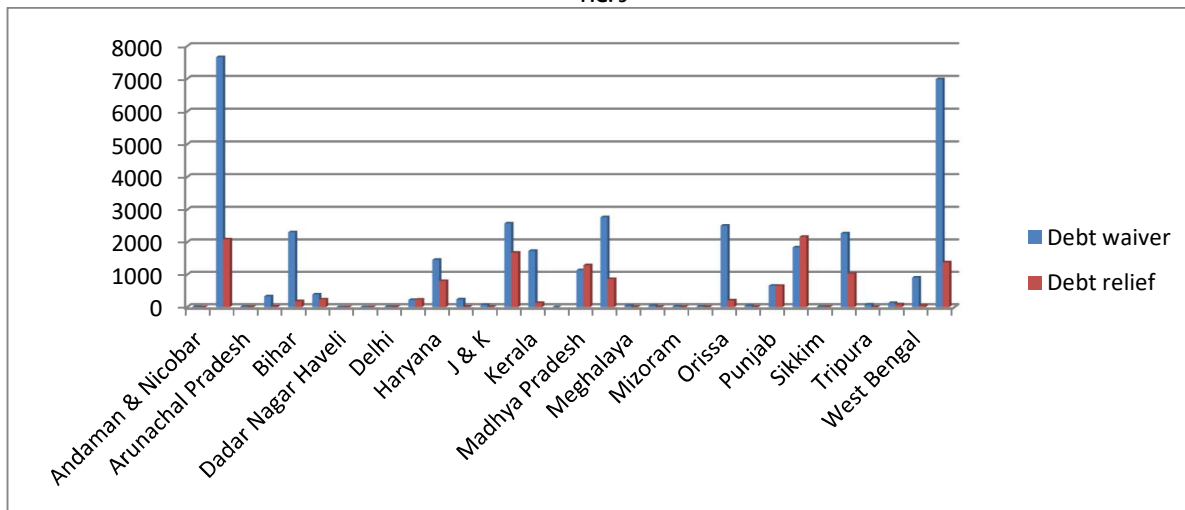
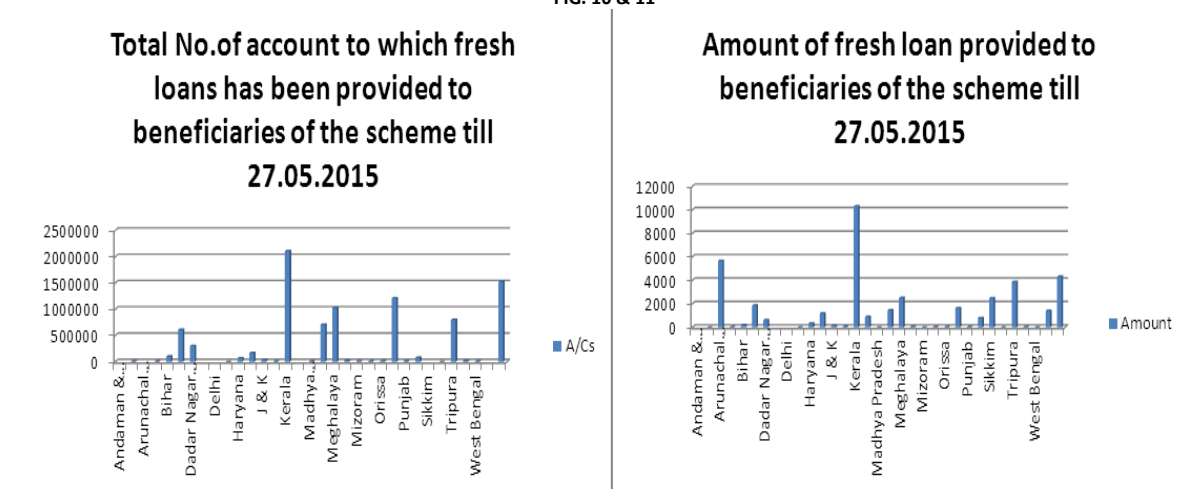


FIG. 10 & 11



SUMMARY OF FINDINGS

The following are the main findings from the study conducted:

1. It is evident in the Debt waiver implementation PSBs have played major role in terms of account has benefitted 1.11 crore constituting 93.32% of total debt waiver accounts. In terms of amount wise received under debt waiver, PSBs received 17,752 crore constituting 96.77% of total debt waiver amount received by all the banks.
2. PSBs played major role even in lending to other farmers and for investment credit in agriculture. In terms of no. of beneficiaries 0.38 crore constituting 97.64 % of total debt relief accounts were maintained by PSBs.
3. In terms of amount wise received under debt relief, PSBs received 4,334.16 crore constituting 97.54 % of total debt relief amount received by all the banks. In terms of no. of account under agriculture lending in PSBs has shown undulating trend there is a variation ranging from – 88 % to 970.48 %. Due to the implementation of ADWDRS there has been sudden rise before the launch of scheme in 2007 and after the launch of scheme 2009.
4. In terms of amount outstanding wise, under agriculture lending in PSBs has shown undulating trend. Starting from 2005 till 2008 there was a continuous increase till ADWDRS, 2008 then there was a sudden surge of 56.65 % in 2009, and the growth picked up in 2010 by 58.25% and decreased again in 2011 by 7.09%.
5. In terms of credit growth amount wise for different States and Union Territories, has shown undulating trend. Only three major states Karnataka, Tamilnadu and West Bengal has shown positive growth in terms of lending to the beneficiaries of ADWDRS 2008.
6. Out of 3 states Karnataka has shown 103.92 % growth from 1.53 Crore to 3.12 Crore. Tamilnadu has shown 17.25 % growth from 3309.13 Crore to 3879.91 Crore. West Bengal has shown 46.79 % growth from 954.09 Crore to 1400.52 Crore.
7. In terms of decline of credit to the beneficiaries of ADWDRS, 2008. Delhi stands first at 98.04%, followed by Uttarakhand at 96.66%, then by Manipur at 89.65%.
8. Commercial banks got Rs.49,710.09 crore out of total Rs.52,259.86 crore benefit to farmers under ADWDRS, 2008.
9. PSBs have always played major role in lending to agriculture sector lending loans to small, marginal and other farmers. PSBs borrowers were the major beneficiaries under ADWDRS due to wide reach and most branches located in rural and semi urban areas. Encourage banks to open more branches in tier 2 and tier 3 cities.
10. Due to the implementation of ADWDRS there has been sudden rise before the launch of scheme in 2007 and after the launch of scheme in 2009. In terms of amount wise under debt relief raises doubt whether any leakage of information about ADWDRS almost a year before to become beneficial for scheme.
11. To find the reasons from the PSBs for not extending credit to the beneficiaries of ADWDRS scheme. It defeats the purpose of launching ADWDRS to enable farmers get fresh credit for agriculture.

SUGGESTION

The following are the suggestions to study the trend of debt waiver and debt relief and growth of agriculture in PSBs from 2005 till 2011 and study on no. of beneficiaries under ADWDRS Total No. of account and Amount of fresh loans provided to beneficiaries of the scheme till 27.05.2015:

- Encourage banks to open more branches in tier 2 and tier 3 cities.
- Advise PSBs to maintain the spirit of relief schemes so that it will be more beneficial to the economy of the country.
- Increasing intensity of agriculture credit.
- Despite the impressive gains made by the rural credit delivery system in terms of resource mobilisation, geographical coverage and functional reach, the financial health of the rural credit institutions has deteriorated raising questions about their sustainability. Nearly three quarters of the farmer households still do not have access to the formal credit system and have no means to insure themselves against income shocks. This leaves them vulnerable to the informal money lenders.
- Credit for Promoting Rain-fed Agriculture: Nearly 65 per cent of agriculture in India is rain-fed, cultivated largely by small and marginal farmers. Evidently, improving productivity here is critical to overall agricultural growth. We cannot raise agricultural growth consistently to 4 per cent per annum without a focus on research and agricultural credit in rain-fed areas.

CONCLUSIONS

Agriculture defines the emotional and economic well-being of India. True, agriculture's share in GDP is less than 15 per cent but it still remains the direct domain of over half of the population whose economic prospects are linked to the performance of agriculture. Clearly, improving the performance of agriculture is the key to our quest for inclusive growth and poverty reduction.

We need to do many things to improve the performance of our agriculture sector; improving the flow of agricultural credit is one of the important ones. This requires effort from all the three institutional segments - commercial banks, RRBs and cooperatives. Commercial banks need to find innovative ways of reaching out to farmer, RRBs need to leverage on their comparative advantage and cooperatives have to improve their governance structures.

Around the world, governments have routinely intervened in credit markets in an effort to stimulate economic activity. Although it is often hypothesized that, such interventions have severe repercussions for credit discipline and borrower expectations; surprisingly little robust evidence exists to evaluate these claims.

Farmer households that borrowed predominantly from the informal sector were excluded from the ADWDRS scheme. This exclusion, which was built into the scheme, was exacerbated in its implementation.

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