ADB

Validation Report

Reference Number: PVR-401
Project Number: 36343
Loan Number: 2281
July 2015

India: Rural Cooperative Credit Restructuring and Development Program

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CCS	–	cooperative credit structure
DCCB	–	district central cooperative bank
KfW	–	German Bank for Reconstruction and Development
MOF	–	Ministry of Finance
NABARD	–	National Bank for Agriculture and Rural Development
NIMC	–	National Implementation and Monitoring Committee
NPL	–	nonperforming loan
PACS	–	primary agriculture credit society
PCR	–	program completion report
PPMS	–	program performance monitoring system
RCCRDP	–	Rural Cooperative Credit Restructuring Development Program
SCB	–	state cooperative bank
TA	–	technical assistance

NOTE

In this report, "$" refers to US dollars.

Key Words

adb, asian development bank, ccs, cooperative credit structure, india, national bank for agriculture and rural development, profitability, pacs, primary agriculture credit society, rural cooperative, rural financing, validation

PROGRAM BASIC DATA

Project Number:	36343	**PCR Circulation Date:**	30 Sep 2014	
Loan Number:	2281	**PCR Validation Date:**	Jul 2015	
Project Name:	**Rural Cooperative Credit Restructuring and Development Program**			
Country:	India		**Approved** ($ million)	**Actual** ($ million)
Sector:	Finance	**Total Project Costs:**	1,428.00	1,048.76
ADB Financing: ($ million)	**ADF:** 0.00	**Loan:**	1,000.00	800.00
		Borrower:	251.00	126.32
	OCR: 1,000.00	**Beneficiaries:**	0.00	0.00
		Others:	0.00	0.00
Cofinancier:	DFID TA kfW	**Total Cofinancing:** DFID TA KfW	2.00 175.00	0.05 122.39
Approval Date:	8 Dec 2006	**Effectiveness Date:**	10 Mar 2007	21 Feb 2007
Signing Date:	11 Dec 2006	**Closing Date:**	30 Jun 2010	30 Jun 2013
Project Officers:	A. Sharma V. Rao	**Location:** ADB headquarters ADB headquarters	**From:** Dec 2006 Apr 2009	**To:** Mar 2009 Jun 2013
Validator:	C. Dingcong, Consultant	**Peer Reviewer:**	L. Hauck, Senior Evaluation Specialist, IED2	
Quality Reviewer:	B. Nguyen, Senior Evaluation Specialist, IED2	**Director:**	B. Finlayson, IED2	

ADB = Asian Development Bank; ADF = Asian Development Fund; DFID = Department for International Development of the United Kingdom; IED2 = Independent Evaluation Department, Division 2; KfW = German Bank for Reconstruction and Development; OCR = ordinary capital resources; PCR = project completion report; TA = technical assistance.

I. PROGRAM DESCRIPTION

A. Rationale

1. Until 2006, India's economic growth, although robust, had not been broad-based or inclusive. Of particular concern was the poor performance of the agriculture sector that had been on a long-term declining trend. With about two-thirds of the population deriving their livelihood from agriculture and nearly three-quarters of the country's poor, or about 200 million people, living in rural areas, the impact of the long-term decline in agricultural performance on the quality of life of India's poor had been severe.

2. The role of finance is a critical input for strengthening the rural economy and agricultural production base. However, the response of the formal rural finance system had been increasingly inadequate. The rural financial paradigm, for the most part, was driven by credit expansion through government-owned or controlled financial institutions, particularly within the credit cooperative structure (CCS) comprising of primary agricultural credit societies (PACSs), district central cooperative banks (DCCBs), and state cooperative banks (SCBs). In 2006, with about 135 million members, India's CCS was one of the largest rural financial systems in the world.

3. While the CCS was organized on the principles of self-governance and self-reliance, there were fundamental policy, governance, legal, and institutional problems that impaired its solvency, sustainability, and efficiency. As a result, the substantial network of CCS had neither been able to effectively address the demand and supply gaps in rural finance, nor function as a sustainable financial intermediary. Consequently, the objective of enhancing rural financial intermediation, especially to the asset-poor and disadvantaged rural households, was not fully realized.

4. Given its role in rural transformation, it was of vital importance to reform the CCS to make financial services to the rural poor more efficient and less expensive. Greater access to capital would support agricultural growth, which would contribute to increased income and employment for the poor. The Asian Development Bank (ADB) approved a $1 billion loan for the Rural Cooperative Credit Restructuring and Development Program (RCCRDP) in December 2006 to help the government carry out its reform agenda to improve rural households' access to affordable financial services through an efficient CCS.[1] The program supported the reforms of CCS in five participating states—Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, and Rajasthan—with the design based largely on the work of India's Vaidyanathan Committee, which was convened by India's Ministry of Finance (MOF) in December 2004.

B. Expected Impact

5. The expected impact of the program was enhanced income and employment growth for the rural poor in the participating states through better access to rural finance. The impact indicators identified in the program framework were (i) increased rural per capita incomes by at least 5% within 7 years, (ii) basic social indicators in the rural areas improved by at least 5% within 7 years, and (iii) reduced incidence of rural poverty ($1/day) by at least 5 percentage points within 7 years.

C. Objectives or Expected Outcome

6. The expected outcome of the RCCRDP was improved access by rural households to affordable financial services through a sustainable and efficient CCS in the participating states. The six outcome indicators specified in the program framework were (i) increased lending to agricultural activities (at least 5% increase per annum during the program period), (ii) increased number of small and marginal farmers having access to credit (at least 5% improvement during the program period), (iii) reduced non-performing asset levels in the CCS (at least 5% decline during the program period), (iv) improved repayment rate in CCS (aggregate repayment rate improves yearly during the program period), (v) improved CCS profitability (aggregate profitability improves yearly during the program period), and (vi) diminished costs of services for the CCS (average costs reduced successively during the program period).

D. Outputs

7. The program comprised three components: (i) establishing a policy reform and implementation framework; (ii) building a facilitating legal, regulatory, and governance framework for CCS; and (iii) initiating institutional reforms for the sustainability of the CCS.

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[1] ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to India for the Rural Cooperative Credit Restructuring and Development Program.* Manila.

8. Expected outputs of the program consisted of (i) a nationwide policy framework for strengthening the CCS, (ii) a conducive legal framework for autonomous CCS operations, (iii) orderly development of the CCS and enhanced depositor protection, (iv) democratic character of the CCS restored and governance enhanced, (v) international best practices mainstreamed in the CCS, (vi) PACSs strengthened to provide stronger foundation for the CCS, (vii) DCCBs reformed into sustainable institutions, and (viii) SCBs reformed to effectively perform as apex institutions supporting efficiency and sustainability of the CCS (PCR, para.2). The program had 45 output performance indicators based on the 89 tranche release conditions.

E. Provision of Inputs

9. ADB provided a loan of $1 billion from its ordinary capital resources, to be released in four tranches over a period of 3.5 years. The first three tranches were disbursed totaling $800 million, with the second and third tranches being delayed due to unmet tranche release conditions (paras. 14–15). The final tranche of $200 million was canceled because of unmet conditions (PCR, para. 25). The German Bank for Reconstruction and Development (KfW) provided parallel financing of €140 million to support the CCS reform.[2]

10. Based on the work of the Vaidyanathan Committee, the cost for implementing the reform program in the five participating states was estimated at $1.43 billion. The support of ADB and KfW was to cover about 80% of the cost. The costs of the program, however, were underestimated, particularly for the recapitalization, which were based on the March 2004 data that were not subjected to rigorous accounting standards (PCR, para. 15). As a result, the central government had to increase its contribution to recapitalization from $2.0 billion to $3.4 billion.

11. The program was classified Category C under the ADB environmental categorization. An environmental assessment of the policy reforms was conducted and no potential environmental impacts were identified.

12. A technical assistance (TA) grant of $2 million on Capacity Building for Rural Cooperative Credit Structure Reform was also approved in conjunction with the program loan.[3] The TA grant was funded by the Department for International Development (DFID) of the United Kingdom. The TA grant was to strengthen implementation and monitoring of CCS reform and enhance its social and gender impacts. Following the approval of the loan and TA grant, the Grant Thornton Advisory was recruited using quality and cost-based method. However, the program completion report (PCR) reported that no work was done under the TA grant for reasons that were unclear as the documentation was limited and with little institutional memory of the TA grant at ADB, National Bank for Agriculture and Rural Development (NABARD), and DFID (PCR, para. 28).[4] After a period of inactivity, NABARD requested in June 2007 for an amendment of the TA grant, which at that point was too late for consideration because the DFID Trust Fund that funded it was about to be closed.[5] The TA grant was canceled and no work was done under the contract. The TA grant was rated by the PCR *unsuccessful* and the performance of consultants was not rated because no work was done.

[2] At the time of the preparation of the program completion report, the parallel financing portion of KfW was not yet closed and had undisbursed portion.

[3] See footnote 1.

[4] ADB. 2014. *Completion Report: Rural Cooperative Credit Restructuring and Development Program in India.* Manila.

[5] The DFID Trust Fund was closed on 30 June 2008.

F. Implementation Arrangements

13. The Banking Division of the MOF was the executing agency for the program while NABARD, the apex rural finance agency, was the implementing agency. High-level coordination was provided by the National Implementation and Monitoring Committee (NIMC), which served as the program's steering committee. Each state and district established an implementing and monitoring committee to coordinate efforts of the reform program at their level. ADB was not a member of any of these committees. The PCR pointed out that there were deficiencies in the implementation arrangements. First, only the states of Andhra Pradesh and Rajasthan had road maps for ineligible PACSs, which perpetuated unprofitable and undercapitalized PACSs in the other states. Second, arrangements for monitoring and collection of data were inadequate. The TA grant was to fund the setting up of the program performance monitoring system (PPMS), but this was not carried out (para. 12). Third, the composition of NIMC did not include ADB. For large facilities such as the RCCRDP, ADB should have been given the opportunity to be a member in the implementing committees or at least as an observer, to anticipate problems and influence implementation.

14. Of the 89 tranche release conditions spread across four tranches, 67 were fully complied with, 11 were substantially complied with, and 11 were partly complied with. Among those fully complied with were the (i) participation of five states in the reform program, (ii) amendments to the cooperative societies acts in all participating states, (iii) proposed amendments to the Banking Regulation Act finalized by MOF, and (iv) phase out of the cadre system. Among those conditions that were substantially complied with included the plans issued by NABARD to participating states for the development of accounting standards, a management information system, human resource development, and withdrawal of government nominees in PACS boards. The conditions partly complied with included the (i) development and implementation of plans for ineligible PACSs by all participating states, (ii) insufficient support by NABARD for clearing the accumulated losses of eligible CCSs, and (iii) partial compliance on the criteria for directors in the DCCB boards.

15. Although the fourth tranche was canceled, of the 16 policy actions intended to be supported by that tranche, seven were fully met and nine were not fully met. Unmet conditions included counterpart funding, computerization, corporate governance reforms, and implementation of action plans for ineligible PACSs (PCR, para. 25). This validation shares the view of the PCR that the cancellation of the final tranche was appropriate because (i) the program was already extended by 36 months, (ii) there was a considerable number of unmet conditions, and (iii) it was likely that it will take several years to meet the remaining tranche release conditions.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

16. The PCR rated the program *relevant*. At appraisal, the program was consistent with India's Tenth Five Year Plan[6] that included agricultural growth as one of the focus areas to promote inclusive growth, and to the ADB country partnership strategy[7] that identified agriculture and rural development as an important feature to mainstream poverty reduction. At

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[6] Planning Commission, Government of India. 2002. *Tenth Five Year Plan, 2002–2007.* New Delhi.
[7] ADB. 2003. *Country Strategy and Program: India, 2003–2006.* Manila.

completion, the program remained consistent with India's Twelfth Five Year Plan [8] that considered agriculture a critical sector for inclusive growth, and the ADB country partnership strategy (2009–2012),[9] where agriculture's systemic weaknesses were identified as a key binding constraint.

17. The program design followed the recommendations of a high-level task force—the Vaidyanathan Committee—which was commissioned by MOF to overhaul the CCS. The task force recommended fundamental legal, regulatory, and institutional reforms packaged as an integrated set of measures to be implemented only in states that agree to carry out reforms in its entirety. The ADB program loan essentially funded the implementation of these recommendations in the five participating states.

18. The program's basic premise of corporate governance reforms prior to recapitalization was conceptually sound. However, there were weaknesses in the program design and implementation. The magnitude of the problems of the PACSs could have been better understood and resourced had there been a special audit before the program started. Greater and early focus on computerization could have helped improve data collection and could have supported program modifications. Not all of the legislative initiatives that required statutory changes were necessary as alternative regulatory and executive actions were able to achieve the desired outcome.[10] The time frame for implementation was unrealistic given the scope of reforms and the number of institutions involved. The risk mitigating measures were insufficient for the program's size (PCR, para. 52). As indicated by the PCR, additional risk mitigating measures should have been taken, such as initially piloting the program in one or two states prior to large-scale expansion, participation of ADB in NIMC, and conduct of a midterm program evaluation. The program costs were based on 2004 balance sheet estimates that were not subject to rigorous accounting standards (para. 10). In view of this, the loan program should have adequately anticipated how to address possible cost overruns, e.g., additional counterpart funding, expansion of ADB's facility, other donor support, and others.

19. At program inception, it was envisaged that participating states would implement action plans for PACSs that did not have reasonable prospects for recovery, i.e., those with loan recovery rates of less than 30%.The CCS reforms envisaged that these institutions with no turnaround prospects should be amalgamated or wound up. In its first meeting, NIMC modified the eligibility for recapitalization by allowing PACSs to be eligible for recapitalization if their recovery rate improved from below 30% to 50% within 3 years, and if they did not, recapitalization would be left to the responsible DCCB. This weakened the criteria for eligibility, and with poor baseline data, it was impossible to track how many of the over 100,000 PACSs across India benefited from these changes. Further, it sent the impression that reforms could be avoided and that there was regulatory tolerance for unviable PACSs.

20. While the basic premise of good governance prior to recapitalization was sound, the weaknesses in the design and change in the eligibility criteria for PACSs reduced the program's relevance. In addition, the cancellation of the accompanying TA grant weakened the program design. The TA grant could have funded ongoing data collection and performance monitoring, which were vital in assessing the progress and effectiveness of the program. The

[8] Planning Commission, Government of India. 2013. *Twelfth Five Year Plan, 2012–2017.* New Delhi.

[9] ADB. 2009. *Country Partnership Strategy: India, 2009–2017.* Manila.

[10] For example, amendments to the Banking Regulation Act (BRA) of 1949 were required in the program to bring the CCS on par with the rest of the banking system. This required approval by the Parliament. However, the Reserve Bank of India, through executive and regulatory actions, was able to introduce reforms without having to wait for the actual amendment of the Banking Regulation Act.

TA grant could have provided external accountability through a team of consultants tasked to assess and monitor the CCS reform implementation and helped address the program's data deficiencies. On these bases, this validation assesses the program *less than relevant*.

B. Effectiveness in Achieving Program Outcome and Outputs

21. The PCR rated the program *less than effective*. The envisaged outcome of improved access by rural households to affordable financial services through a sustainable and efficient CCS in the participating states was not fully realized. Of the 16 conditions for the final or fourth tranche release, only seven were met (PCR, Appendix 2). Hence, the fourth tranche was canceled.

22. Of the 45 expected outputs that were based on the program's 89 tranche release conditions, 36 or 80% were achieved (PCR, Appendix 3).The notable outputs achieved were the (i) enactment of the amended cooperatives societies acts by participating states, (ii) establishment of standards for CCS board members and management, (iii) conduct of special audits by NABARD, and (iv) discontinuation of the cadre-based secretaries in PACS. However, the PCR indicated that some of the outputs achieved were of questionable stringency. For instance, the minimum capital requirement set for PACSs was only 4% compared to the international norm of 8% by Basel II. The outputs that were not fully met included those that were important to the reforms. These were the (i) cleaning of the CCS accumulated losses, which was a financial restructuring measure; (ii) implementation of plans for ineligible PACSs to ensure viability; and (iii) computerization in CCS to improve record keeping and monitoring.

23. Despite the shortfalls in outputs and unmet tranche conditions, the program achieved four of the six outcome indicators. First, agricultural lending increased by at least 14% and on an average of 21% per annum, exceeding the target of 5% per annum during the program period. Second, the number of PACS borrowers increased by 35%, exceeding the target of 5%. The PCR indicated the weaknesses of these two outcome indicators—that banks generally do not lack incentives for increasing lending, the challenge, rather, is maintaining profitability and sustaining growth. The third outcome indicator was also achieved with aggregate CCS nonperforming loans (NPL) as percentage of aggregate loans falling from 22% in 2006 to 14% in 2012, exceeding the target of at least 5% decline. However, the PCR doubts this achievement; it was unclear as to what extent the target was attained without the debt waiver scheme that provided relief for small farmers.[11] The fourth indicator of improved repayment rate was likely achieved based on available data from SCBs and DCCBs—that recovery of loans to demand ratio increased from 75% to 85% from 2006 to 2012. The fifth outcome target of improved CCS profitability was not achieved with aggregate profits lower than the preceding year in 5 out of 6 years. Sixth, the outcome target of diminished costs of services from CCS was not achieved. Operating costs as percentage of revenues, or efficiency ratio, of SCBs and DCCBs increased from 2006 to 2012 indicating increased inefficiency in operations.

24. This validation assesses the program *less than effective*. While there were notable outputs achieved, there were also significant outputs critical to the reforms that were not fully realized. The cancellation of the fourth tranche reduced the effectiveness of the program and affected the attainment of the program's envisaged outcome.

[11] In 2008, MOF announced a debt waiver scheme that provided debt relief for small and marginal farmers. While the waiver may have improved the level of nonperforming loans, it encourages defaults and creates a strong disincentive for farmer borrowers to promptly settle their loans.

C. Efficiency of Resource Use in Achieving Outcome and Outputs

25. The PCR rated the program *less than efficient.* The program was extended twice for an accumulated delay of 36 months. The delays were due to the unmet tranche release conditions broadly associated with the time needed to implement the reforms, the higher-than-anticipated costs, and resistance to the closure of ineligible PACSs.

26. The PCR indicated that the program represented poor value for money in that the government spent Rs98.6 billion or $1.6 billion to facilitate legal amendments, governance reforms, and institutional development but the financial sustainability of the CCS was not fundamentally altered. The SCBs and DCCBs have remained undercapitalized with about 50% not meeting the 9% capital adequacy ratio—the standard for commercial banks and which they must comply with by March 2017. The Reserve Bank of India estimated that Rs64.9 billion ($1.1 billion) of additional funding is needed for DCCBs alone to achieve the regulatory minimums.[12]

27. This validation shares the view of the PCR that a smaller ADB loan could have achieved similar value addition to the CCS. ADB had little role in designing the program and, essentially, its contribution was in monitoring implementation. In view of the priorities to develop agriculture and the rural sector, the government would have undertaken a similar program with or without ADB support. Hence, there was no need to allocate $1 billion. A smaller loan with strong support for monitoring would have been more efficient. Further, there was no solid statistical evidence showing that ADB's engagement improved the financial results. In fact, SCBs and DCCBs in general have not improved their efficiency of operations, have remained undercapitalized, and had no substantial improvement in profitability (para. 29).

28. In view of the substantial delays in implementation and since the amount spent for the reforms did not fundamentally change the financial condition of the CCS, this validation assesses the program *less than efficient*.

D. Preliminary Assessment of Sustainability

29. The PCR rated the program *less than sustainable*. Data drawn by the PCR from the Reserve Bank of India showed that while NPLs have fallen, they have remained normatively high toward the end of the program period. In 2012, the NPL ratio of PACS was highest at 27%, while that of DCCBs was 10% and SCBs at 7%. The percentage of unprofitable DCCBs and SCBs has generally declined but the percentage of unprofitable PACSs remained relatively high toward the end of the program period. In 2012, the percentage of unprofitable institutions was highest among PACS at 39%, while it was 14% for DCCBs and 10% for SCBs. If the CCS is to be sustained without continued infusions of government capital, the NPLs have to be reduced and their profitability improved. This validation also assesses the program *less than sustainable* because, overall, the program achievements have not produced a financially sustainable CCS system for rural finance.

[12] Reserve Bank of India. 2013. *Report of the Expert Committee to Examine Three-Tier Short-Term Cooperative Credit Structure.* Mumbai.

E. Institutional Development

30. The PCR rated the institutional development of the program *significant*. The program did not achieve sustainability for the CCS but there were significant changes in the development of institutions. These included the amendments to the cooperative societies acts, introduction of statutory audits, adoption of standards for management and board members, and discontinuation of the cadre system. For these reasons, this validation also considers the institutional development of the program *significant*.

F. Impact

31. The PCR rated the impact of the program *moderate*. It indicated that while the impact indicators were achieved, they were poorly specified and the link of increased rural incomes, improved social indicators, and reduced poverty with the CCS reforms was weak. First, per capita consumption expenditures[13] in participating states increased on average by 147% during the program period, exceeding the target of at least 7%. Second, the impact indicators for improved social indicators were met in terms of infant mortality, access to hospitals, and literacy rates increasing by at least 5%. Third, poverty was reduced for the population living below $1.25 per day with the percentage falling from 41.6% in 2005 to 32.3% in 2010.

32. The PCR is of the view that appropriate indicators should have been included particularly on CCS financial viability and adequacy of capital. If assessed based on these indicators, the PCR rating of the program's impact *is moderate*. In terms of profitability, on the aggregate, the CCS remained unprofitable with 39% of the unprofitable PACS driving the system losses. In terms of efficiency, the efficiency ratio of SCBs increased from 10.3% in 2006 to 12.7% in 2012, while for DCCBs, it increased from 20.0% to 24.3%, indicating increasing inefficiency of operations. Third, a significant number of SCBs and DCCBs have remained undercapitalized with about 50% of them not meeting the 9% capital adequacy requirement that applies to banks, and that will be applied to them by March 2017. This validation shares the view of the PCR that these additional impact indicators are appropriate and have stronger link with the CCS reforms. Based on these metrics, this validation also considers the impact of the program *moderate*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

33. The PCR rated the performance of MOF *less than satisfactory*. MOF did some important contributions to the CCS reforms. First, MOF developed the program based on the Vaidyanathan Committee's basic premise that corporate governance reforms should precede recapitalization. Second, it accorded the project high-level support during the initial phase of the program. Third, the cooperative societies acts of participating states were amended, and management information systems, accounting standards, more qualified boards and chief executive officers, and appropriate regulatory norms were introduced in varying degrees. Fourth, the program design included an amendment to the Banking Regulation and NABARD Acts but when this was stalled due to various domestic factors, including the time and process involved in legislation, existing regulatory frameworks were used to achieve the same outcomes.

[13] Per capita consumption was used as proxy indicator for per capita rural income.

34. However, there were countervailing measures that were unfavorable to the program. First, 2 years into the program, the government announced a debt waiver scheme that provided debt relief for farmers. This undermined the reforms, particularly the sustainability of CCS, in that it created an atmosphere that encourages default and created strong disincentives for borrowers to promptly repay their loans. Second, the shortfall in counterpart funding made it difficult to meet the tranche release conditions particularly on cleaning accumulated losses. Hence, the program was not completed. This left the CCS undercapitalized and the governance reforms losing momentum. In view of the counterproductive debt waiver scheme and the unmet tranche release conditions, this validation views the performance of MOF as *less than satisfactory*.

B. Performance of the Asian Development Bank

35. The PCR rated the performance of ADB *less than satisfactory*. Five reasons were indicated for this rating. First, the PCR is of the view that the government could have undertaken the initiatives of the program in a similar manner with or without ADB support; there was no statistical evidence to show that the ADB assistance improved financial results of CCS (PCR, Table 3). Second, there were weaknesses in the program design that included (i) a special audit of PACS that should have been conducted before the program started; (ii) lack of earlier focus on computerization; and (iii) overreliance on legislative initiatives, not all of which were necessary. Third, the program should have been tested with a smaller funding facility and expanded if successful. In addition, the large funding facility for the program restricted available funding for other initiatives in India and elsewhere. Fourth, there was lack of institutional checks and balance and potential conflict of interest on the part of ADB—the program's driver from origination to approval was disproportionately the director of the originating division instead of the mission leaders.[14] Fifth, records of the program were not centrally maintained, which made consolidation difficult especially for a multiyear program where staff turnover is inevitable. In view of all these factors, this validation also views the performance of ADB as *less than satisfactory.*

IV. OVERALL ASSESSMENT, LESSONS AND RECOMMENDATIONS

A. Overall Assessment and Ratings

36. The PCR rated the program *less than successful*. The envisaged outcome of improved access by rural households to affordable financial services through a sustainable and efficient CCS was not fully realized. There were weaknesses in the design and the change in the eligibility criteria for PACSs affected the attainment of a sustainable and efficient CCS in the participating states. The cancellation of the fourth tranche reduced the effectiveness of the program and some significant outputs critical to the reforms were not fully realized. There were substantial delays in implementation and despite the amount spent for reforms, the financial condition of the CCS was not fundamentally changed. This validation rates the overall performance of the program *less than successful*.

[14] The director was a former employee of NABARD and was involved in the design of the program.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Less than relevant	There were weaknesses in the design and the change in the eligibility criteria for PACSs reduced the relevance of the program (paras. 17–20).
Effectiveness in achieving outcome and outputs	Less than effective	Less than effective	
Efficiency in achieving outcome and outputs	Less than efficient	Less than efficient	
Preliminary assessment of sustainability	Less than sustainable	Less than sustainable	
Institutional development	Significant	Significant	
Impact	Moderate	Moderate	
Overall assessment	**Less than successful**	**Less than successful**	
Borrower and executing agency	Less than satisfactory	Less than satisfactory	
Performance of ADB	Less than satisfactory	Less than satisfactory	
Quality of PCR		Satisfactory	Refer to para. 41.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PACSs = primary agriculture credit societies, PCR = program completion report.
Source: ADB Independent Evaluation Department.

B. Lessons

37. The PCR presented valuable and important lessons from the implementation of the program. The results of the program highlight the need for ADB to conduct adequate due diligence even though the policy framework was largely based on the recommendations of the high-level Vaidyanathan Committee. Greater focus on data collection should have been made in the program design in view of the limited data available for DCCBs and PACS. The program concept should have been piloted first in one or two states, and expanded to other states once proven successful. Ambitious reform programs should have realistic time frames to allow sufficient time to comply with tranche release conditions. While the ADB assessment anticipated much of the possible program problems, additional risk mitigation measures should been made to include piloting of the program prior to large-scale expansion, active participation of ADB in NIMC, and the conduct of a midterm program evaluation. Lastly, tranche release conditions that require statutory changes should be avoided as the legislative process takes time particularly in getting the approval of the Parliament. The lessons are appropriate and this validation has no additional lesson to offer.

C. Recommendations

38. The program-related recommendations of the PCR are suitable. For banking sector reforms, ADB should review past policy actions that contradict the purposes of the loan and highlight these risks at appraisal. In view of the *less than successful* rating and the complexities of the CCS that operates over a large geographical area, no further assistance should be provided by ADB for the rural CCS and focus instead on other initiatives within rural and inclusive finance.

39. The general recommendations of the PCR are appropriate. These included (i) anticipating shortfalls when there is reasonable probability that actual costs will exceed original estimates; (ii) larger tranches to come toward the end of the program to provide incentives for program completion; (iii) include systems in the design that can collect ongoing data on performance and provide adequate monitoring; (iv) provide external accountability and consider smaller facilities to maximize the efficiency of development resource; (v) maintain centralized record keeping within ADB departments; (vi) in situations where national governments convene task forces to assess public policy problem, ADB may better support the implementation of the task force's recommendation rather than duplicating its work; (vii) when support is needed for ambitious reforms, ADB may consider piloting smaller facilities before moving into larger programs; (viii) allow adequate time for implementing ambitious and complicated reforms; and (ix) for large facilities, ADB should require membership in implementing committees, or at least as observer if membership is not politically possible.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation and Utilization

40. A PPMS operated by NABARD was established to track reform progress. The PPMS tracked the implementation of the policy matrix and the progress in achieving the indicators identified in the program framework. This validation notes that the impact indicators should have been linked more closely with the CCS reforms to include indicators for portfolio quality, capital adequacy, and financial sustainability.

B. Comments on Project Completion Report Quality

41. This validation rates the PCR *satisfactory.* It is generally well written and provided various evidences to substantiate the ratings. The lessons were drawn from the findings and the recommendations were sound. Table 4 aptly summarized the program outcomes and their status. The presentation of the status of compliance with tranche policy conditions in Appendix 2 was informative. The status of the outputs was clearly presented in Appendix 3 and was helpful in understanding the extent of achievement of the targets.

C. Data Sources for Validation

42. Sources used for this validation were the PCR, report and recommendation of the President, loan review mission reports, aide-memoire of review missions, and progress reports on tranche releases.

D. Recommendation for Independent Evaluation Department Follow-Up

43. No recommendation is presented.