ADB

Progress Report on Tranche Release

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India: Rural Cooperative Credit Restructuring and Development Program

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 10 November 2008)

Currency Unit	–	Indian rupees
Re1.00	=	$0.02
$1.00	=	Rs47.80

For the purpose of calculations in this report, the rate for $1.00 = Rs47.80 has been used.

ABBREVIATIONS

ADWDR		Agricultural Debt Waiver and Debt Relief
ADB	–	Asian Development Bank
BR Act	–	Banking Regulation Act
CRAR	–	capital to risk weighted asset ratio
CAS	–	common accounting system
CCS	–	cooperative credit structure
CSA	–	Cooperative Societies Act
DCRR	–	Department of Cooperative Revival and Reforms
DICGC	–	Deposit Insurance and Credit Guarantee Corporation
DAP	–	development action plan
DCCB	–	district central cooperative bank
DLIC	–	District Level Implementation Committee
ED	–	executing department
FY	–	fiscal year
FYP	–	Five-Year Plan
GDP	–	gross domestic product
IA	–	implementing agency
MIS	–	Management information system
MOU	–	Memorandum of Understanding
NABARD	–	National Bank for Agricultural and Rural Development
NBFI	–	non-bank financial intermediary
NDC	–	National Development Council
NIMC	–	National Implementation and Monitoring Committee
NSSO	–	National Sample Survey Organization
PACS	–	primary agricultural credit society
PS	–	participating state
RRB	–	Regional Rural Bank
RCS	–	Registrar of Cooperative Societies
RBI	–	Reserve Bank of India
RCCRDP	–	Rural Cooperative Credit Restructuring and Development Program
SCB	–	state cooperative bank
SLIC	–	State Level Implementation Committee
SLTF	–	State Level Task Force
TA	–	technical assistance

NOTES

(i) The fiscal year (FY) of the Government ends on 31 March. FY before a calendar year denotes the year in which the fiscal year ends e.g., FY2007 ends on 31 March 2008.

(ii) In this report, "$" refers to US dollars.

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I. INTRODUCTION

1. The rural finance paradigm in India for the most part has been driven by credit expansion through government-owned or -controlled financial institutions, particularly within the cooperative credit structure (CCS)[1] comprising primary agricultural credit societies (PACSs), district central cooperative banks (DCCBs), and state cooperative banks (SCBs). The CCS[2] has evolved into one of the largest rural finance systems in the world, with about 135 million members, of whom nearly 60 million are borrowers.

2. Although organized on the principles of self-governance and self-reliance, the CCS has fundamental policy, governance, legal, and institutional problems that have impaired its solvency, sustainability, and efficiency. As a result, the substantial network of CCS has 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 has only been partially realized.

3. The Government of India (the Government) ultimately decided that CCS institutions with a reasonable chance of being revived should be strengthened by addressing the root, rather than proximate causes of their weak performance. The Government constituted a Task Force on Revitalization of the Short-term CCS (the Task Force) in August 2004 to develop a countrywide reform program. The Government accepted the Task Force recommendation for fundamental legal, regulatory, and institutional reforms packaged as an integrated set of measures to be implemented only in states[3] that agree to carry out reforms in their entirety.

4. The Asian Development Bank (ADB) approved the Rural Cooperative Credit Restructuring and Development Program (RCCRDP)[4] for an amount of $1 billion to India on 8 December 2006 to help the Government carry out its reform agenda to improve rural households' access to affordable financial services through an efficient CCS. The RCCRDP supports the reforms of CCS in five participating states (PSs) - Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, and Rajasthan. These PSs have five SCBs, 141 DCCBs, about 39,399 PACSs with about 41 million members.

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[1] CCS for short-term credit has at its base 105,735 PACSs dealing mainly in credit. The PACS are federated into 368 DCCBs with 12,652 branches, which in turn are members of 31 SCBs with 847 branches. The SCBs and DCCBs are classified as banks under the Banking Regulation Act of 1949 since they mobilize public savings. The PACSs are registered as societies under the Cooperative Societies Act of respective states. PACSs are federated into DCCBs which in turn are members of SCBs. The SCBs mobilize resources and intermediate surpluses to provide financial support to the DCCBs. DCCBs also draw deposits through their branch network and primarily lend to PACS. The SCBs and DCCBs also borrow significantly from National Bank for Agriculture and Rural Development (NABARD). PACS are credit institutions at the grass-roots and deal directly with individual members/clients. Membership of PACS is more than 120 million, of which 42% are small and marginal farmers and 37% are marginalized social groups.

[2] In this report, "CCS" connotes the short term cooperative structure as a whole and "CCS institutions" refers collectively to the units of the CCS. The tiers are referred individually as needed. The long-term arm of the CCS is not included in the discussions. Parallel to the short term CCS, the long-term CCS comprises state cooperative agricultural and rural development banks and primary cooperative and agriculture development banks at the district or block level, providing medium and long-term loans for agriculture, rural industries and housing. The Government and state governments have agreed upon reform measure for the long-term CCS.

[3] CCS largely operate under state control. The state governments have been the dominant shareholders, managers, regulators, and concurrent supervisors and auditors of the CCS.

[4] ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Loan to India for the Rural Cooperative Credit Restructuring and Development Program*. Manila.

5. The RCCRDP became effective on 11 December 2006 and is to be released in four tranches. The first tranche ($250 million) was released in February 2007. The second tranche ($250 million) is expected to be released within 12 months of the first tranche, the third tranche ($300 million) within 12 months of the second tranche, and the fourth tranche ($200 million) within 12 months of the third tranche, subject to compliance with the conditions for their release. The Banking Division of the Department of Financial Services, Ministry of Finance is the executing department and NABARD, the apex rural finance agency, is the implementing agency.

6. KfW has parallel financing of €140 million for the RCCRDP and is expected to release the first tranche of its loan with the release of the second tranche of the RCCRDP. A technical assistance (TA) grant from the Government of the United Kingdom through the Department for International Development for $2.0 million is attached to the RCCRDP to support the implementation of CCS reform. The purpose of the TA is to strengthen implementation and monitoring of CCS reform and enhance its social and gender impacts.

7. This progress report presents the status of compliance with the second tranche release actions for the RCCRDP. ADB missions reviewed the RCCRDP in February 2007, March 2008, June 2008 and November 2008. KfW missions reviewed the progress in September-October 2008. ADB and KfW have coordinated their assessments.

II. MACROECONOMIC DEVELOPMENTS AND PROGRAM IMPLICATIONS

8. The Indian economy grew by an annual average of 7.8% during fiscal year (FY) 2002–FY2007, 9.6% in FY2006 and 9% in FY2007. Accompanying the high growth rates, poverty incidence decreased markedly from 36% in FY1994 to 27.5% in FY2005.[5] Nevertheless, in absolute numbers, India still has nearly 302 million poor people. Nearly 73% or 220 million of India's poor live in rural areas. While the economy recorded high growth rates of over 8% in the industrial sector and around 11% in the services sector in FY2007, growth rates in agriculture were below 4% during the same period. Regional disparities in poverty and social indicators persist. The rural–urban divide is also reflected in several development indicators including per capita income; and access to education and health care. Stagnation in agriculture[6] and inadequate rural industrialization has been identified by the Government as key impediments to realizing equitable growth and bridging the rural-urban divide. Accordingly, the thrust of the 11th (FY2007-FY2011) Five Year Plan (FYP)[7] is to scale up investments in the rural and agriculture sector including rural electrification, telecom connectivity, roads, irrigation, and housing to improve agricultural and rural industrial productivity.

9. While India has exhibited resilience, it will not be entirely immune to slowing growth in developed economies. The most visible impact so far has been on the equity market because of reversals of portfolio flows from foreign institutional investors, and the related impact on the domestic foreign exchange markets, and liquidity conditions. The global downturn may be deeper, and the recovery longer, than earlier expected. Consequently, the adverse implications through trade and financial channels for emerging economies, including India, have amplified. The reduced availability of funds leading to tight liquidity conditions and lower public and private investment could hurt growth and employment. Taking these developments and prospects into account, the revised projection of overall real gross domestic product growth for FY2008 range from 7.5 to 8.0% from the 9% projected earlier. Reserve Bank of India (RBI), the central bank,

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[5] Planning Commission, Government of India. 2007. *11th FYP (FY2007–FY2011).* New Delhi.
[6] Planning Commission. Government of India. 2006. *11th FYP (FY2007–FY2011).* New Delhi.
[7] Planning Commission. Government of India. 2006. *Approach Paper to the 11th FYP.* New Delhi.

moved swiftly and decisively among others by supporting a more flexible exchange rate and thereby support the external position through the current account balance,[8] provided extra liquidity to the financial sector through reductions in the cash reserve ratios as well as the repo rates, and raised the limit on external commercial borrowings. In anticipation of this slowdown, the Government has stepped up public expenditure plans such as on education, health, agriculture, and rural employment while ensuring that the size of the fiscal deficit is contained.

10. **Financial Sector.** The financial sector has made significant strides towards diversification and competition. India's equity markets, in particular, have developed well and become a vital source of funding for enterprises and an alternative investment vehicles for households. Technical infrastructure of equity trading is state of the art. Reforms in the capital markets have increased operational and market efficiency, reduced costs and risks, improved market accessibility, and strengthened investor protection. Ongoing reforms of corporate bond markets, insurance, and pension will further deepen and widen the financial sector. The Government is keen to pursue the reforms among others for meeting the growing infrastructure financing needs. At the same time, the Government has been vigilant not to let the capacity and expertise to regulate financial markets fall behind innovations in these markets.

11. Given the size of the Indian banking system[9] and its predominant role in the financial system, banking reforms are a cornerstone of the financial sector reforms. Banking reforms, which started nearly two decades ago, have increased the efficiency of the banking system. Banks both in the public and private sectors are well capitalized – risk weighted capital adequacy ratio is approximately 12.3% - and closely regulated.[10] The non-performing loans are less than 1% of the total deposits, a remarkably low level. Many of the public sector banks have become quite profitable and well capitalized, and they coexist with a vibrant private banking system. No bank has reported direct exposure to sub-prime mortgage assets. Problems assets have been assessed as minimal and fully provided for. In addition, the banks have so far been able to provide credit in line with anticipated targets. Apart from easing of liquidity constraints through a combination of monetary policy measures, no bail outs were found necessary. However, in terms of overall financial depth—the size of the financial system relative to the economy—India does not compare favorably with other countries or even most other emerging markets at a similar stage of development. Despite the apparent strength of the banking system, the ratio of private sector credit to gross domestic product (GDP), at about 50% during FY2007, is low by international standards.[11]

12. **Financial Inclusion**. Financial inclusion—providing not just credit but also other financial services such as savings and insurance products—is a key priority, especially in rural India. Nearly three-quarters of farm households have no access to formal sources of credit and lack instruments to insure against adverse events such as low crop yields due to bad weather.

[8] RBI has been intervening in the market to stabilize the nominal exchange rate with resultant decline in the foreign exchange reserves. Foreign currency assets of RBI declined from $305 billion to $265 billion between May 2008 and 10 October 2008. The foreign currency reserves are still considered substantial.

[9] The banking system comprises the RBI, the central bank, and a network of 93 commercial banks with over 61,000 branches, 196 regional rural banks, and 389 cooperative banks. In addition to banks, the financial sector also includes non-bank financial companies, development finance institutions, insurance companies, and venture capital firms. Aggregate bank deposits were estimated at about $660 billion in FY2007, a 20% increase over the previous year. During FY2007 loans and cash credit increased by about 22%.

[10] The RBI introduced Basel II norms during FY2007; while foreign banks in India and Indian banks with branches abroad have migrated to Basel II from 31 March 2008, the remaining commercial banks have to do the same from 31 March 2009. RBI has also introduced capital adequacy norms for the CCS with a view to bring up the regulatory capital requirements for these banks to the level of commercial banks eventually.

[11] Comparable figure of Peoples Republic of China is about 110%.

The lack of access to formal banking services leaves the rural households vulnerable to informal intermediaries such as moneylenders.[12] The lack of financing and insurance stifles entrepreneurial activities. These problems also affect the urban poor.[13]

13. With inclusive development priority, the long term vision of the development of the financial sector articulated in the Report of the Committee on Financial Sector Reforms[14] seeks to (i) include a larger section of the population into the growth process through a process of financial inclusion; (ii) foster growth; and (iii) protect the economy against financial turbulence. Supporting the CCS reforms, the Committee suggests that CCS eventually move towards a model where members have their funds at stake and exercise control. It also suggests closing unviable cooperative banks and societies, liberalize interest rates, ensure transparency, and strengthen the boards of CCS institutions. The Committee is of the view that while priority sector mandates are well intentioned, they should be revised to focus solely on the sectors that truly need enhanced access, in particular the rural poor. The Committee recommendations corroborate a previous assessment that emphasized revitalizing the CCS for attaining financial inclusion.[15] The Expert Group on Farmers Indebtedness[16] also recommended both real sector and financial sector interventions along with measures for risk mitigation. The Expert Group was of the view that interest burden on farmers facing successive failures could be waived.

14. **Agriculture.** Agriculture remains the predominant sector in terms of employment and livelihood with more than half of India's workforce engaged in it as the principal occupation. However, growth of agricultural GDP decelerated from over 3.5% per year between FY1981-FY1996 to only around 2% between FY1997-FY2004. This deceleration, although most marked in rain-fed areas, occurred in almost all states and covered almost all major sub-sectors, including those such as horticulture, livestock, and fisheries where growth was expected to be high. Consequently, growth of agricultural GDP has been well below the target of 4% set in both 9th and 10th FYPs. Recent trends that have raised concern regarding food security, farmers' income, and poverty include (i) widening economic disparities between irrigated and rain-fed areas, (ii) increased vulnerability to world commodity price volatility, (iii) inefficient use of available technology and inputs with low crop productivity, (iv) degradation of natural resource base, (v) rapid decline in groundwater, with particularly adverse impact on small and marginal farmers,[17] and (vi) increased non-agricultural demand for land and water. Aggravation in social distress as a cumulative impact of the above reflected in an upsurge in farmers' suicides.[18] In addition, the rural poverty is getting concentrated in agricultural labor and artisanal households which account for over 40% of the rural poor.

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[12] Nearly half of the loans taken by those in the bottom quarter of the income distribution are from informal lenders at an interest rate of more than 36% percent a year, which is more than twice the mandated lending rate for banks.

[13] The growing number of urban poor (estimated at 81 million in FY2004) is driven partly by urban-rural migration.

[14] *Draft Report of the Committee on Financial Sector Reforms.* Planning Commission, Government of India. April 2008. This committee was chaired by Dr. Raghuram G. Rajan, Professor Graduate School of Business, University of Chicago and former Economic Counselor of the International Monetary Fund.

[15] The committee on financial inclusion set up by the Government was headed by Dr. C. Rangarajan, the then chairperson of the Prime Minister's Economic Advisory Council and former Governor, RBI.

[16] Set up by the Government and chaired by Professor Radhakrishna, former Director, Indira Gandhi Institute of Development Research, Mumbai. The Expert Group was set up to assess the issues relating to farmers' distress reflected in the spate of suicides in different parts of the country.

[17] Farmers are classified as marginal (up to 1 hectare of landholding), small (1–2), semi-medium (2–4), medium (4–10), and large (10 and above). Farmers include owners, owner-cum-tenants, and tenants. About one-third of the operational farms constitute tenant farmers, most of whom are poor.

[18] The National Sample Survey Organization has observed that in FY2004 income inequality between the rural and urban households and between the cultivators and non-cultivators has been growing.

15. The Government has taken measures to address these issues. The Ministry of Agriculture launched the National Food Security Mission in FY2007 for increasing rice, wheat, and pulses production through area expansion and yield improvement in targeted districts with high potential but relatively low level of productivity. The Government approved the Rashtriya Krishi Vikas Yojana Plan (National Agricultural Development Plan) with an allocation of Rs.250 billion ($5.23 billion) for the 11th FYP.[19] Further, the Government's National Policy for Farmers focuses on production and productivity through a holistic approach to farm sector development including improved farmers' access to productive assets and marketing support, water use efficiency, and technology. In addition, a National Employment Guarantee Program and the Swarnajayanti Gram Swarozgar Yojana are being implemented to mitigate immediate concerns on rural poverty.[20]

16. **Rural Credit.** Recent study[21] indicates there has been significant increase in the credit flow to agriculture, small and medium enterprises and crop loans at administered interest rates. Various measures such as one-time settlement and rescheduling/restructuring schemes for distressed farmers, simplification of procedures, adoption of business correspondent model and the use of smart cards have also facilitated increased credit to the rural sector. The total credit to agriculture increased from Rs620 billion ($12.9 billion) during FY2001 to Rs2,000 billion ($41.8 billion) during FY2006. The share of commercial banks in total agricultural credit during FY2007 at Rs2,253 billion ($47.3 billion) is around 69%. The CCS (20%) and Regional Rural Banks (11%) accounted for the balance. CCS though has much larger number of loan accounts indicating the preponderance of small and marginal farmers in their client base.

17. Although the total agricultural credit has increased, there are serious quantitative as well as qualitative concerns. The outreach of the formal institutional credit structure is very limited. Only 27% of the total rural households received credit from formal sources while 22% received credit from informal sources. The remaining households (i.e. 51%), mainly small and marginal farmers, have virtually no access to credit.[22] Addressing these require comprehensive measures aimed at financial inclusion in terms of innovative products and services to increase access to institutional credit. Issues such as credit flow to tenant farmers, oral leases, and women cultivators, complex documentation processes, high transaction costs, inadequate and ineffective risk mitigation arrangements, poor extension services, weak marketing links, and sectoral and regional issues in credit are also required to be addressed expeditiously. Farmer distress led to defaults and a consequent freeze on their ability to access institutional credit. The overhang of non-performing debt also needs to be reduced.

18. Microfinance has made considerable strides in the past few years. As at the end of March 2008, the number of clients is estimated to be about 55 million.[23] These clients mostly are members of self-help groups (3.4 million groups) financed by the banks and to a lesser

[19] The funds would be provided to state governments as 100% grant depending on the allocation in the state budgets for agriculture.

[20] Both are major nationwide programs. The National Rural Employment Guarantee Program aims to provide employment for 100 days per year to all rural adults. The Swarnajayanti Gram Swarozgar Yojana is a holistic program that provides credit and subsidy-financed assets to groups of poor or self-help groups, and skills development and marketing support.

[21] *Report on Currency and Finance 2006-2008.* RBI. September 2008.

[22] The source-wise distribution of outstanding debt indicates that 58% of debt is from formal sources and more than one-fourth of the outstanding debt is from moneylenders, and the rest from other informal sources. The purpose-wise distribution indicates that nearly 58% of outstanding debt is for agricultural purpose (31% capital expenditure and 28% current expenditure), 7% for non-farm business, and the remaining 35% is for consumption or other purposes. *Situation Assessment Survey of Farmers* (National Sample Survey 59th round) 2003.

[23] *Microfinance India: A State of the Sector Report 2008.* N. Srinivasan, Sage Publications 2008.

extent borrowers of micro-finance institutions (14 million clients). The growth rate of 40% posted by the micro-finance institutions indicates the strong growth potential, which could supplement the efforts of the CCS for enhancing outreach. While the linkages of the CCS with the self-help groups are getting stronger, there is considerable room for growth. The share of CCS in new self-help groups financed increased from 8% in FY2006 to 14% in FY2007. The high level of women client coverage (about 85%) is a redeeming feature of microfinance.

19. The Government has also set an agricultural credit target for FY2008 at Rs2,800 billion ($58.58 billion). The FY2008 budget also provided for the continuance of the short-term crop loans at 7%. An initial provision of Rs16 billion ($334.72 million) has been made in FY2008 budget to enable short-term loans at 7%. In response to the spate of farmer suicides resulting from the depressed agricultural scenario, the FY2008 budget also announced Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme for small and marginal farmers to mitigate distress. The Government issued guidelines for ADWDR Scheme in May 2008 for providing relief to farmers on their overdue balances prior to 31 December 2007.[24] It is estimated that ADWDR Scheme would cost Rs712 billion ($14.98 billion) and is expected to benefit more than 40 million farmers.

20. ADWDR Scheme is designed to ensure that the balance sheets of financial institutions are protected.[25] Further, the guidelines emphasize transparent procedures and accounting to identify and provide relief to only those deserving. ADWDR Scheme distinguishes between debt waiver and debt relief, in that only the small and marginal farmers are eligible for debt waiver and in the case of ‘other farmers’, there will be a one-time settlement under which the farmer will be given a rebate of 25% of the ‘eligible amount’ subject to the condition that the farmer pays the balance of 75%. While this partially addresses the issue of moral hazard, it does not obviate it. Overall, the ADWDR Scheme does not mitigate the debt burden of all farmers; but only those borrowing from banks. Immediate impact on repayments from regular borrowers cannot be ruled out. However, in the current context of tightening liquidity, ADWDR Scheme could help clear the choked credit channels. The long term impact is likely to be mixed; on the one hand finances of CCS would strengthen on account of inflow of cash against chronic defaults. On the other hand, fresh loans are likely to be subject to the risk of voluntary default.

21. An additional measure being considered by RBI is a credit guarantee scheme for the rural sector under which all banks including CCS institutions will have to compulsorily participate. The proposed scheme covers borrowers with aggregate sanctioned limits up to Rs100,000 ($2,092) granted after introduction of the proposed scheme, and whose loans are required to be rescheduled for the second successive time on account of systemic distress.[26] The earlier re-scheduling should have been done as per RBI and NABARD guidelines. The proposed scheme will guarantee up to 60% of the amount outstanding in the guaranteed account/s, as on the date of occurrence of the natural calamity, necessitating rescheduling for the second successive time. The balance loss should be borne by the bank/s concerned.

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

[25] In order to protect the balance sheets of CCS institutions, a separate fund of approximately $2.5 billion has been created to compensate CCS institutions which will be effected by the scheme. Thus, the impact on the CCS institutions is neutral.

[26] ‘Systemic distress’, for the purposes of the proposed scheme, will cover extensive loss of crops states/assets caused due to natural calamities and pests/locusts on an epidemic scale.

III. STATUS OF PROGRAM IMPLEMENTATION

A. Overview

22. The rural finance paradigm in India was driven by credit expansion through financial institutions, including through the CCS. While the large rural network of CCS enhanced access to rural finance, the CCS was neither able to effectively address the demand and supply gaps nor function in a sustainable manner. The policy and legal environment for the CCS tolerated poor financial and operational performance and prevented CCS members from having a say in management decisions. The CCS institutions, in turn, are unable to operate as "local" institutions or meet the needs of their membership.

23. The weaknesses of the CCS have immense adverse economic, social, and political impacts on the rural sector. In particular, they accentuate the demand and supply gap and regional disparities in rural finance service delivery, given its vast network and membership base. As the major institutional provider of agriculture production credit, the deteriorating financial and institutional status of the CCS adversely affects the backward (inputs) and forward (marketing) linkages and their integration with the multipurpose service concept of the cooperative system. Reforming the CCS is required to provide the institutional base for changing the rural economic and sociopolitical landscape. CCS reform is critical to rural transformation given its all India network and links to the broader cooperative structure comprising processing, marketing, input distribution, dairy, and weaving.

24. The Government ultimately decided that CCS institutions with a reasonable chance of being revived should be strengthened by addressing the root, rather than proximate causes of their weak performance. Accordingly, the Government the Task Force[27] in August 2004 to develop a countrywide CCS reform package. The Task Force report submitted on 5 February 2005 recommended fundamental legal, regulatory, and institutional reforms packaged as an integrated set of measures for the all the three tiers (PACSs, DCCBs, and SCBs) to be implemented only in states that agree to carry out reforms in their entirety. The underlying reform principles are as follows:

- (i) A conducive policy and legal environment must be in place to enable the CCS to operate as self-governing and financially viable institutions;
- (ii) The state governments should voluntarily cede control of the CCS;
- (iii) Supervision and regulation of CCS must be significantly enhanced with effective enforcement of RBI recommendations for CCS entities classified as banks;
- (iv) Financial assistance should be provided for cleaning up accumulated losses to restore the value of members' capital in CCS linked to policy, legal, and institutional reforms;
- (v) Only those institutions that meet defined criteria are eligible for reform assistance to ensure prudent use of public resources. Institutions with no turnaround prospects should be amalgamated or wound up;
- (vi) Support to PACSs needs to be prioritized since restructuring the intermediate and upper tiers without addressing the infirmities of the lowest tier is impractical; and

[27] *Report of the Task Force on Revival of Rural Cooperative Credit Institutions*. Government of India, Ministry of Finance, New Delhi. 2005. http://www.nabard.org/departments/departmentforrevivalsreforms.

(vii) Institutional turnaround needs to be in the context of action plans with financial and operational benchmarks.

25. Based on the recommendation of the Task Force the Government formulated a Programme for Revival of the Short Term Cooperative Credit Structure (CCS revival package). Since cooperative matters in India are responsibility of the states, the CCS revival package was submitted to all state governments and consensus arrived on the reforms. The initial estimate of the aggregate (nation-wide) cost of reform of the CCS is $3,021 million. The Government agreed to meet 68% ($2,054 million) of the cost and the balance is to be shared by the state governments ($846 million or 28%) and the CCS ($121 million or 4%). Of the total cost, $2,792 million (92%) is for recapitalization (cleaning up accumulated losses) and $229 million (8%) is for audit, human resource development, and technological support.

26. The reform agenda outlined in the CCS revival package have been structured into three components for the RCCRDP: (i) establishing a policy reform and implementation framework; (ii) building a facilitating legal, regulatory, and governance framework; and (iii) institutional reforms for sustainability. The actions included under the individual components are sequenced by tranches to provide a systematic plan for rolling out the reforms outlined in the policy matrix (Appendix 1) and the design and monitoring framework (Appendix 2). While CCS reform will be implemented in all such states that agree to enter into Memorandum of Understanding (MOU) with the Government,[28] the RCCRDP scope covers five PSs. Four of the five PSs (Andhra Pradesh, Madhya Pradesh, Maharashtra, and Rajasthan) were identified from among those that were assessed by ADB,[29] and the selection of the fifth PS was to be agreed as part of the second tranche action. The Government decided Bihar to be the fifth PS considering the preparedness of the state to implement the reforms and the high poverty incidence in Bihar.[30]

B. Cooperative Credit Structure Reforms and First Tranche Actions[31]

27. The CCS reform is on track with 25 of 29 states having signed MOUs indicating their intention to introduce and implement reforms. These 25 states cover more than 96% of the CCS units in the country. All PSs have adhered to the MOUs expectations. The Banking Division has exercised coordination and management of overall implementation. The dedicated Department for Cooperative Reforms and Revival (DCRR) at NABARD headquarters in Mumbai and DCRR units at NABARD regional offices monitor implementation. In addition, the three-tier structure envisaged for supporting implementation and monitoring is fully operational:

(i) National Level Implementation Committee (NIMC) headed by the Secretary, Department of Financial Services, is responsible for overall policy and strategic direction of reforms;
(ii) State Level Implementation Committees (SLICs) to serve as state level steering committees; and
(iii) District Level Implementation Committees (DLICs) to coordinate efforts at the district level.

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[28] The process of implementing the reforms begins with the signing of MOU among the Government, the participating state government, and NABARD. The MOU outlines the responsibilities, financial obligations, and legislative changes required from the signatories.
[29] Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra, Orissa, and Rajasthan. At first tranche release, four of these PSs (Andhra Pradesh, Madhya Pradesh, Maharashtra, and Rajasthan) signed MOUs.
[30] 40% of Bihar's population is estimated at below poverty line. World Bank's Issue Brief: Poverty *in India* September 2004, http://siteresources.worldbank.org/INTINDIA/Data%20and%20Reference/20283013/Poverty_India_Brief.pdf.
[31] The overall progress applies to the PSs as well, unless otherwise noted in this section.

28. The constitution and functions of the NIMC, SLICs, and DLICs are summarized in Appendix 3. NABARD provides requisite support for facilitating the functions NIMC, SLICS, and DLICs. The NIMC has met six times since the commencement of the CCS reforms. NIMC decisions and guidance on reforms are in public domain.[32] The progress of reforms nation-wide as well as at state level is tracked monthly by NABARD and the progress updated on its website.[33] The monitoring covers progress on execution of MOUs, special audits, release of recapitalization funds, legal reforms, human resources development, common accounting systems, management information system, computerization, expenses incurred in implementation, and state level task force reports. The state-wise monitoring, in addition to the above, includes further details in respect of DCCBs and PACSs and capacity building efforts. Financial and operating performance of CCS is available from the ongoing statistical publications form NABARD.[34] Responses to queries on CCS reforms sought under the Right to Information Act 2005 are also on NABARD website. NABARD also submits audited accounts of the expenses incurred on CCS reforms including for the PSs.[35]

29. Nine states have amended their Cooperative Societies Acts (CSAs) and nine other states have finalized the draft amendments and are in the process of legislating the changes. The amendment to the Banking Regulation (BR) Act is also being pursued. Elections have also been held in some states where the term of office bearers and board of CCS institution have expired, while in others the process is underway. On institutional development aspects, common accounting standards (CAS) and management information system (MIS) have been finalized. The CAS has been notified for implementation and computerization has been sequenced to follow the introduction of CAS and MIS. Measures for improving accounting, human resources, and restoration of CCS autonomy have been taken by the states. NABARD has designed and conducted, through various training partners, courses on special audit, business diversification for PACSs secretaries, CAS, MIS, and governance skills for board members and office bearers of PACSs and officials of cooperation department in states. In total about 0.13 million persons have been trained as of September 2008.

30. Special audits have been completed in 65,981 PACSs and vetted by the respective DLICs. Special audits of 64 DCCBs in three states have been completed and special audit of 141 CCBs is nearing completion in 7 states as at the end of September 2008. The Government and the state governments have made provisions for meeting their share of the cost of the reforms. Recapitalization funds have been released to CCS in seven states. Rs39.77 billion ($0.83 billion) was released by the Government as its share and Rs3.79 billion ($0.07 billion) was released by the state governments as their share of capitalization funds as of October 2008.

31. The announcement and implementation of ADWDR Scheme had an impact on the progress of the CCS reform implementation as also the institutions. Since the ADWDR Scheme had taken precedence over all other initiatives, the staff was intensively engaged in ensuring time-bound implementation of the same. The waiver has sought to provide funding to CCS

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[32] http://www.nabard.org/departments/departmentforrevivalsreforms/nimc

[33] http://www.nabard.org/departments/corebusiness_dcrr_asp

[34] Key Statistics On Cooperative Banks (Short Term And Long Term)*;* Statistical Statements Relating to Cooperative Movement in India; Quarterly Bulletin Of Statistical Information (http://nabard.org/databank/pdf/nabstats_004.pdf); and NABARD Annual Reports (http://www.nabard.org/fileupload/databank/annualreports/engbook2008.pdf).

[35] NABARD receives funds for CCS reforms (nation-wide) from the Government. It provides audited statement of expenses incurred in the PSs for recapitalization, special audits, human resources development, technical support, and implementation.

against loans in default.[36] Several CCS institutions which had low recoveries (and failed to achieve cut-off for qualifying for recapitalization under the revival package) have received the value of defaulted loans from the waiver scheme. As a result, these entities are likely to emerge financially strong. While the cutoff date of participating in the CCS is over, these units in terms of financial parameters are eligible to participate in the CCS reforms.

C. Compliance Status of Second Tranche Release Actions

32. The RCCRDP policy matrix contains 30 actions for second tranche release. Substantial progress has been achieved in complying with the second tranche release actions. Summary of compliance status is in Appendix 4, supporting documentation for compliance is in Appendix 5, and the status on program covenants is in Appendix 6.

1. Establishing a Policy Reform and Implementation Framework

33. The present impaired condition of CCS is largely as a result of political interference that gradually increased tolerance for poor governance and weak performance. Addressing this requires reforms to phase out state interference in CCS while improving the operating environment of the CCS, including through transparent and upfront provision of any interest rate subsidies or debt forgiveness through the budget. The acceptance of the recommendations of the Task Force, establishment of the implementation of framework, and signing of MOUs by the PSs provide the basis for reforming the CCS in a structured manner. The implementation of the second tranche actions under this reform component is on track.

(i) **Action 1: PSs establish SLICs.** SLICs, chaired by the Secretary Finance of the respective state governments, have been set up in all the five PSs.[37] The presence of the state government officials in SLICs ensures ownership of CCS reforms at the PS level. Operating on the basis of roles and responsibilities set out by NABARD and the corresponding terms of reference, the SLICs have met frequently and proved to be effective in planning, facilitating, problem-solving and monitoring overall reform implementation. SLICs have facilitated coordination between different stakeholders (e.g. SCBs, DCCBs, PACSs, PSs, NABARD, and auditors). **Fully complied with.**

(ii) **Action 2*:* PSs establish DLICs.** DLICs have been set up in all the PSs[38] (Andhra Pradesh 22, Bihar 25, Madhya Pradesh 38, Maharashtra 31, and Rajasthan #26) for planning, guiding, and implementing the CCS reforms and reporting the progress to SLICs and NABARD. NABARD district develop managers chair the DLICs. As in the case of SLICs, the DLIC have been able to coordinate the CCS reform at the DCCB and district levels and address implementation aspects within the overall framework set out by NIMC, NABARD and SLICs. The DLICs have also played a critical technical role in vetting the special audit outputs and certifying the final recapitalization claims. **Fully complied with**.

[36] While the CCS reforms provide funding for recapitalization among others, the debt waiver scheme provides relief to farmers in distress by waiving their overdue loans. Potential overlap at the level of individual CCS units will be assessed during further implementation of the CCS reforms as well as the scheme. At this stage, both the CCS reforms and the scheme are at initial stages.

[37] Please refer to Appendix 3 for additional information on SLICs, DLICs, and State Level Task Force (SLTF)s.

[38] Only one DLIC is needed for DCCBs covering more than one district.

(iii) **Action 3: All PSs make budgetary provisions to support CCS reforms.** All PSs have made budgetary allocations and communicated the availability of funds for meeting their share of the cost of CCS reform. While Andhra Pradesh, Madhya Pradesh, and Maharashtra have also released their share of the cost of CCS reform up to this stage, Bihar and Rajasthan will release their share of cost CCS reform on completion of precedent conditions.[39] As needed, the PSs are committed to make further funds available for CCS reform. **Fully complied with.**

(iv) **Action 4: The Government makes budgetary provision to support CCS reforms.** The Government has made budgetary allocations to support CCS reforms and released about $1 billion at the end of August 2008 to NABARD for meeting the Government's share of the cost of CCS reform. The Government will make further provisions for meeting expected costs during CCS reform implementation. **Fully complied with.**

(v) **Action 5: NABARD constitutes SLTFs in PSs to periodically review the performance of CCS especially on good governance and compliance with statutory requirements and suggest improvements.** SLTFs have been set up in all the PSs to review the performance of SCBs and DCCBs, especially on aspects relating to good governance and compliance with statutory requirements; and suggest improvements. The SLTFs are chaired by the head of the NABARD regional office in the PS with the Registrar of Cooperative Societies (RCS), RBI and SCB as members. Some SLTFs have also reviewed the performance of SCBs and DCCBs, made suggestions for improvement in performance, and identified further actions. **Fully complied with.**

(vi) **Action 6: One other PS (i) signs MOU with the Government and NABARD accepting the CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal administrative matters; and (ii) is in compliance with Second Tranche conditions as applicable.** Bihar is the fifth PS (para. 26) and has signed MOU with the Government and NABARD conveying its consent to implement the CCS revival package. The status of compliance of Bihar with the second tranche actions is part of the overall compliance discussions in this progress report. **Fully complied with.**

2. Building a Facilitating Legal, Regulatory, and Governance Framework

34. The conditions included under this component are designed to ensure autonomy and revive the self-help characteristics of the CCS through the amendment of the CSAs. Further, action under this component supports effective regulation of the CCS by removing the regulatory ambiguity and ensuring that all SCBs, DCCBs, and PACSs taking nonmember deposits are fully subject to prudential norms set by the RBI, and that PACSs transacting business only with members are supervised by the registrar of cooperatives based on prudential norms agreed by NABARD. Finally, this component reintroduces regular elections for restoring the democratic character of the CCS and reinforcing a governance framework that separates ownership from management.

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[39] State contribution to CCS reforms (recapitalization) is needed as and when precedent conditions for the release of such funds (e.g. amendments to the CSA, completion of special audits) are achieved.

(i) **Action 7: PSs under NIMC guidance take measures to amend the CSAs as per the MOUs.** The amendment of the CSAs is the most fundamental and significant measure that underpins the entire CCS reform process.[40] Compared to the requirement of taking measures for amendment of CSAs, four PSs (Andhra Pradesh, Madhya Pradesh, Maharashtra and Bihar) have already amended the CSAs and Rajasthan has finalized the amendments after a due consultation process under NIMC guidance. **Fully complied with.**

(ii) **Action 8: Government assesses the need to amend NABARD Act and Deposit Insurance and Credit Guarantee Corporation (DICGC) Act to facilitate CCS reforms.** Amendment of NABARD Act is necessary to render direct financing to CCS institutions (also see Action 18). While there is an existing provision in NABARD Act to provide refinance to DCCBs directly, it is subject to certain conditions that make replication to all tiers of CCS difficult. NABARD has identified the required amendments and written to RBI for facilitating the amendments.

Only deposits of banks including SCBs and DCCBs in India are insured by DICGC. Deposits mobilized by PACSs from individual members are not covered by DICGC. Instead of amending the DICGC Act to cover the deposits of individual members of PACSs, NABARD has developed a Deposit Protection Scheme for the deposits mobilized by PACSs from its members. The draft scheme prepared by NABARD covers all the PACSs receiving recapitalization assistance under the CCS revival package and mobilizing deposits from members. The draft scheme proposes a maximum protection cover of about $1,000; institution of deposit protection fund; and a deposit safety agency to administer the scheme and the deposit protection fund. The proposed scheme will be fine-tuned based on further stakeholder consultation. A high level team led by Chairman, NABARD and comprising senior officers from the Government, DICGC, and NABARD visited Germany and Hungary to study the deposit protection and insurance systems for credit cooperatives. **Fully complied with.**

(iii) **Action 9. Amendments to BR Act, 1949 finalized by Ministry of Finance (Banking Division).** To bring the CCS on par with the rest of the banking system for regulatory purposes, changes in the BR Act are required. The required changes have been identified and incorporated in the proposed amendments.[41] The BR Act amendment bill (as finalized by the RBI and Ministry of Finance) is with a select committee of the Parliament.[42] **Fully complied with.**

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[40] Broad reforms in the Cooperative Societies Act include (i) ensuring full voting membership rights on all users of financial services including depositors, (ii) removing state interventions, (iii) providing a cap of 25% on state government equity in CCS and enabling cooperatives to return the state equity if they desire, (iv) limiting number of state nominees in the Boards of SCBs and DCCBs to one, and none in the PACS, (v) withdrawing restrictive orders on financial matters, (vi) permitting CCS institutions in all the three tiers freedom to take loans from any regulated financial institution, (vii) limiting powers of state governments to supersede the Boards of the CCS institutions, (viii) ensuring timely elections, (ix) facilitating regulatory powers for RBI in the case of SCBs and DCCBs, and (x) prescribing prudential norms including capital to risk weighted asset ratio. Appendix 7 indicates the scope of amendments to CSAs and the desired outcomes.

[41] SCBs and DCCBs to be regulated by RBI; RBI to prescribe fit and proper criteria for elections to Boards of SCBs and DCCBs, chief executive officers with minimum qualifications prescribed by RBI alone to be appointed by SCBs and DCCBs, and cooperatives other than cooperative banks approved by RBI not to accept non-voting member deposit or use words like “bank” or its derivatives in their registered names.

[42] The amendment bill with the select committee is not a public document.

(iv) **Action 10. PSs issues prudential norms for PACSs and nonbank CCS.** Prudential norms to be issued by the PSs are to be developed by NABARD. NABARD has already issued interim guidelines to PSs in May 2007. NABARD has already set up an internal committee to finalize the guidelines. Consultations on the guidelines are near completion and the final guidelines will be released to all PSs for issue to respective CCS institutions in January 2009.[43] In addition, the CAS for the PACSs being rolled out also prescribes books, accounting procedures, accounting standards, prudential requirements in treatment of assets, recognition of income, provisioning, and format of financial reporting. These together ensure that PACSs, for the first time, would be subject to prudential norms relating to income recognition, asset classification, and provisioning. **Substantially complied with.**

(v) **Action 11. PSs prepare plans to hold elections for CCS where the term of the office bearers and boards have expired.** Elections have been held in Andhra Pradesh, Madhya Pradesh, Maharashtra, and Rajasthan. In Bihar the elections are due and will be undertaken after the reorganization of PACSs. Bihar has set up a separate Election Commission for conduct of elections to cooperative boards on time and kept the government department of cooperation away from conducting elections. Elections are expected in the first quarter of 2009. Democratically elected bodies have assumed charge of the PACSs wherever elections have been complete. With the ongoing training, the elected boards would be in a position to strive to meet members' requirements. **Fully complied with.**

(vi) **Action 12. PSs commence the reduction of their equity to a maximum of 25% of the capital at any level of the CCS and convert the equity over 25% to grants to the CCS.** To reduce the influence of the state in the affairs of CCS, the equity stake of government in the CCS institutions has to be brought down to 25%. At first, the net value of equity has to be assessed based on the results of the special audits of DCCBs and SCBs.[44] While special audits for the DCCBs are near completion, the special audits for SCBs have just commenced. The SLICs have been asked to review the position on completion of special audits and plan a graduated approach to reduction of state equity to acceptable levels.[45] PSs are also examining options such as converting equity into grants and interest-free, long-term loans to CCS institutions. This action will be pursued during further implementation on completion of special audits of all the tiers of the CCS structure in the PSs and will be required to be fully complied by the next tranche release under the RCCRDP. **Partially complied with.**

(vii) **Action 13. NABARD issues a policy of annual audits of SCBs and DCCBs by independent chartered accountants commencing financial year FY2007.** NABARD has issued guidelines on audit of DCCBs and SCBs by chartered accountants from the year FY2006. **Fully complied with.**

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[43] The provisioning norms were discussed at the National Seminar on Audit organized by NABARD at Hyderabad on 21-22 November 2008.

[44] In the case of PACS, it is highly unlikely that the state equity would exceed 25%.

[45] The write down of equity would reduce the net worth and consequently ability to leverage the same for additional resource mobilization.

(viii) **Action 14. NABARD issues guidelines for independent rating of SCBs and DCCBs.** Independent rating of SCBs and DCCBs is to be provided as part of the audit (Action 13) by the independent chartered accountants.[46] Rating scales covering regulatory, financial, operational, and management parameters have been devised by NABARD's Department of Supervision. The arrangement of rating through the auditors is cost effective and simple to administer keeping in view of the large number of CCS institutions involved. Standardized rating scales will also facilitate easy comparison. In addition to the rating by the independent chartered accountants, the ratings provided as part of the statutory inspection of SCBs and DCCBs under Section 35(6) of the BR Act will also continue. This rating is however only for the information of the top management of the SCBs and DCCBs. **Fully complied with.**

3. Institutional Reforms for Sustainability

35. Given that policy, legal, and regulatory reforms alone are not sufficient to transform the CCS, actions under this component support sequenced organizational, institutional, and financial restructuring measures. These actions are designed to utilize the social capital and sunk costs of the widespread CCS network, often in places without banks, which could be put to more efficient use through institutional reforms.

(i) **Action 15. NABARD finalizes and issues to CCS in PSs the (i) accounting standards; and (ii) management information system (MIS), including internal control and audit systems.** Guidelines on CAS and MIS for PACS developed by NABARD have been issued to all CCS for immediate implementation.[47] A manual on CAS and a Handbook on MIS have also been issued for reference. The CAS and MIS, to be operationalized in all PSs with effect from 1 April 2008, would introduce accounting practices similar to banks and provide uniformity in accounting practices across the CCS. The integration of PACS with mainstream finance is rendered possible on account of the new CAS. **Fully complied with.**

(ii) **Action 16. NABARD finalizes and issues to CCS in PSs (i) computerization plan, and (ii) human resources development plan.** Based on the conclusions of the technical committee headed by the Managing Director of NABARD, a detailed information technology procurement plan has been finalized and issued to the PSs. The SLICs have been asked to take appropriate decisions on the requirements of computerization of CCS in the state and follow the procedures laid down in the guidelines. The computerization would follow implementation and stabilization of the CAS and MIS in each PS. The guidelines also include procurement related safeguards. NABARD issued a training plan on 18 July 2007 which provided for capacity building of PACSs. Training plan for PACSs is phased to cover (i) how to do existing things better and (ii) diversification and expansion of business. Under the first phase, two modules, (i) one 4-day module for the staff of PACSs, and (ii) one 2-day module for members of the board have been developed. Under the second phase, one 2-day module on CAS and MIS for the staff of PACSs has been developed with elaborate reading materials and trainers' guides. The training is being imparted by field level trainers trained in an

[46] NABARD Circular No. 247/DOS 39/2007 dated 31 December 2007.
[47] http://www.nabard.org/departments/cas.asp

11-day module by state level master trainers. The plan is to complete the entire training program in all the three modules by March 2009. So far, 78,442 persons have been trained in the above modules. As an ongoing process, NABARD is planning further training and capacity development plans. **Substantially complied with.**

(iii) **Action 17. NABARD develops model Action Plans for Revival/ Development Actions Plans for SCBs, DCCBs, and PACSs including financial, productivity, and operational benchmarks.** The Development Action Plans (DAPs) prepared by NABARD[48] provides detailed planning framework for financial and operational planning. The DAPs are well instituted and are widely considered as a systematic approach for business planning and includes tangible performance measures. The CCS have been advised to take into account the changed conditions and financial position for planning diversification and expansion of activities as part of the DAPs. Simultaneously, training courses to provide guidance to the PACSs on diversification and expansion of business have been introduced. **Fully complied with.**

(iv) **Action 18. NABARD considers refinance to CCS either directly or through other regulated financial institutions at terms set by its Board.** NABARD has an existing guideline to enable DCCBs to access NABARD directly for refinance as against through the apex SCBs. Further, on the demand side, the amended CSAs enable the CCS to seek refinance from sources other than NABARD also. Amendments to NABARD Act are felt necessary - in particular to (i) Section 21, dealing with Production and Marketing Credit; (ii) Section 22, dealing with Conversion from Production Credit; (iii) Section 23, dealing with Rescheduling of Loans to artisans, SSIs etc; and (iv) Section 25, dealing with Investment Credit - under the broad head of "Credit Functions of NABARD" so that credit may be made available to CCS in different tiers more easily, as may be approved by the Board of NABARD. Further, some amendments are also felt necessary to Section 2, dealing with the definitions, particularly in regard to cooperative societies to include all types of cooperatives such as Mutually Aided Cooperative Societies and Societies registered under the Multi-State Cooperative Societies Act. **Fully complied with.**

(v) **Action 19. Model plans for ineligible PACSs developed by NABARD.** The measures of growth and viability sought under the DAPs (Action 17) aim to enable institutions to move on the continuum of sustainability. DAP guidelines covers all PACSs and are consequently equally applicable to ineligible PACSs as well. After review of the status during further implementation, it is likely that PSs may decide to consolidate weak PACSs to benefit from scale, merge weak PACSs with stronger ones, or allow the terminally weak ones to close. **Fully complied with.**

(vi) **Action 20. Special audits (to assess the accumulated losses as on 31 March 2004) of PACSs completed in at least two PSs.** Special audits have been completed in four PSs (Andhra Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, all together 33,143 PACSs) and almost near completion in one PS (Bihar). **Fully complied with.**

[48] NABARD Circular No. 104/IDD.03/2007 dated 26 June 2007.

(vii) **Action 21. At least 50% of eligible PACSs in the PSs that have completed special audits sign agreements with DCCBs/DLICs to implement CCS reforms.** All PACSs have signed agreements committing to implement reforms. **Fully complied with.**

(viii) **Action 22. At least 50% of eligible PACSs in the PSs that have completed special audits adopt APRs/DAPs.** The eligible PACSs are regularly preparing their business development plans as required by DAPs for submission to DLICs which vets the same. The DLICs scrutinize the plans and in some cases call for changes in tune with the reform mandate. **Fully complied with.**

(ix) **Action 23. PSs discontinue further placement of cadre-based secretaries in PACSs.** No further placement of cadre staff is taking place in any PS and is also prohibited by the amended CSAs. **Fully complied with.**

(x) **Action 24. PSs prepare plans for phasing-out of cadre-based secretaries in PACSs.** Considering the sensitivities, phasing out of existing cadre-based secretaries is expected through natural attrition and absorption as PACS staff. In Maharashtra, on account of the large numbers involved, the amended CSA provides time till end-2008 for shifting from cadre staff to PACS staff. Madhya Pradesh will develop the phase-out plan in early 2009. There are no cadre-based secretaries in the other three PSs. **Substantially complied with.**

(xi) **Action 25. Support provided by NABARD for cleaning accumulated losses of eligible PACSs in PSs that meet the benchmark requirements of the MOU signed between the Government, relevant PSs and NABARD.** Government share, released through NABARD, of the cost of cleaning accumulated losses in PACSs are as follows [Andhra Pradesh Rs15.58billion ($0.32 billion), Madhya Pradesh Rs5.61 billion ($0.11 billion) and Maharashtra Rs8.2 billion ($0.17 billion)]. No releases have been made to Rajasthan (pending CSA amendment) and Bihar (pending special audit). **Fully complied with.**

(xii) **Action 26. Plan for ineligible PACSs developed by all PSs for selected districts (with at least one district in each participating state) based on the framework developed by NABARD and implementation commenced***.* As indicated in Action 19, DAPs are the framework for strengthening the planning process for realizing viability and growth objectives for all PACSs, including ineligible PACSs. Further, as indicated in Action 19, the PSs could consider consolidation, merger, or attrition of PACSs based on their performance and the probability of turnaround. The implementation of the ADWDR Scheme 2008 is likely to revise the status of some PACSs classified as ineligible based on the outcome of special audits. The funds received against defaulted loans under the ADWDR Scheme 2008 would improve the financial position of ineligible PACSs at par with that required for participation in the CCS reform package.[49] Since the cut-off date for eligibility for CCS reform package is already over, the inclusion of

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[49] While the CCS reforms provide funding for recapitalization among others, the ADWDR Scheme provides relief to farmers in distress by waiving their overdue loans. Potential for overlap, if any, at the level of individual CCS units between the CCS revival package and ADWDR Scheme will be assessed during further implementation of the CCS reform as well as the ADWDR Scheme.

such PACSs in the CCS revival package is a policy matter for NIMC's consideration. **Substantially complied with.**

(xiii) **Action 27. Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in at least two PSs.** Special audits of DCCBs have been completed in Andhra Pradesh (22 DCCBs) and Rajasthan (26 DCCBs). The special audits are near completion in Maharashtra and Madhya Pradesh. In Bihar, the special audits of DCCBs would be completed after special audits of the PACSs are completed. **Fully complied with.**

(xiv) **Action 28. DCCBs that have completed special audits, sign agreements with DLICs to implement CCS reforms.** All DCCBs in PSs have signed agreements with DLICs to implement CCS reforms. **Fully complied with.**

(xv) **Action 29. Special audits (to assess the extent of accumulated losses as on 31 March 2004) completed in at least two SCBs in PSs.** The audit of the CCS is a sequential process where the results of the lower tiers feed into the audit of the next higher tier. While at the base level the special audits of PACSs is time-consuming, and the audits of DCCBs have been completed in some PSs, the process of special audit for SCBs have just begun with expected completion by end-March 2009 but in any event all such audits to be completed prior to the release of the next tranche under the RCCRDP. **Partially complied with.**

(xvi) **Action 30. SCBs that have completed special audits, sign agreements with SLICs to implement CCS reforms.** While audits are yet to be completed, the SCBs have signed agreements with SLICs for implementing CCS reform indicating their commitment. **Substantially complied with.**

D. Technical Assistance

36. The piggy-backed technical assistance[50] of $2 million attached to the RCCRDP has not yet commenced and NABARD has suggested change in scope. These were submitted too late for consideration since this technical assistance is funded by the DFID Trust Fund which closed on 30 June 2008. A further view on continuation of this technical assistance and change in scope will be taken after alternate arrangements with DFID are worked out. While the continuation of this technical assistance will add value in terms of capacity building, the risk of its discontinuation can be partly offset by the €10 million technical assistance package from KfW as part of its loan in support of the RCCRDP.

IV. CONCLUSION

37. CCS reform entails correcting entrenched policy, regulatory, governance, and institutional issues exacerbated by longstanding political interference. In addition, the hierarchy of stakeholders extends all the way down to the grassroots level often has different paradigms for the CCS. Harmonizing legal and regulatory issues that affect the CCS and the scale at which it has to be achieved is also challenging. Further, managing resistance to reforms requires balancing the urgent need to reform the CCS with the need to maintain social stability, especially in resource-poor areas with evident farmer distress. The steep hike in food and fuel prices in early 2008 added to the burden of farmers. As a result, the Government stepped in to

[50] TA 4887- Ind: Capacity Building for Rural Cooperative Credit Structure Program

address urgent socio-political issues, including a package of measures to ameliorate farmer distress, as well as debt waiver and relief. Monetary measures for easing liquidity constraints in response to the financial crisis will also help the flow of credit to the agriculture sector.

38. Government has deftly managed to move the CCS reform agenda forward. The amendment of the CSAs in PSs is a significant achievement. While it took longer than expected leading to nearly a year's delay in release of the second tranche, the amended CSAs ensure that envisaged financial, regulatory, and institutional reforms run its full course. The overall progress reflects the growing recognition by stakeholders of the significance of improving rural living standards where most people live. In this context, delays on some actions are not seen as a risk, though early completion of further reforms would necessarily be pursued. With regard to the overall progress, the RCCRDP has achieved full compliance with twenty three tranche release conditions and substantial compliance with five conditions. Two tranche release conditions have been partially complied; Action 12 relating to reduction in state government equity in PACSs to below 25% and Action 29 which relates to special audits being completed in at least two SCBs in PSs. Both of these tranche release conditions will be required to be fully complied by the next tranche.

39. The RCCRDP seeks to remedy the shortcomings in the CCS through a programmatic approach where the reform conditions are designed to develop a self-sustaining CCS structure that can leverage its strengths. Importantly the reformed CCS would win the confidence of its members and start mobilizing savings. Savings services not only benefit the rural poor, but also insulate the CCS from external liquidity shocks. Anchored in an overall strategy of inclusive growth, the CCS reform will enable rural outreach and financial inclusion through provision of financing to weakest sections of the rural economy. The status on the design and monitoring framework (Appendix 8) suggest that reforms will necessarily have to deepen before the CCS could demonstrate appreciable change in operating performance.

V. RECOMMENDATION

40. In view of the substantial progress made on the implementation of the Rural Cooperative Credit Restructuring and Development Program, as evidenced by the full compliance with 23 of the 30 tranche release conditions; substantial compliance with 5 tranche release conditions and partial compliance with 2 tranche release conditions, the President recommends that the Board approve, on a no-objection basis:

(i) the waiver of full compliance with two tranche release conditions, which shall be fully complied with by the next tranche release; and

(ii) the release of the second tranche in the amount of $250,000,000 for the Rural Cooperative Credit Restructuring and Development Program loan.

POLICY MATRIX

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
(i) Establishing a Policy Reform and Implementation Framework				
A nationwide policy framework for strengthening the short-term cooperative credit structure (CCS) is adopted	The Task Force of the Government of India (the Government) undertakes a review of the performance of the CCS—comprising the state cooperative banks (SCBs), district central cooperative banks (DCCBs), and Primary Agricultural Credit Societies (PACSs) and develops a CCS reform framework. **(Report of the Task Force on Revitalizing the CCS)** Consensus on CCS reforms between Government and the state governments based on recommendations of the Task Force. **(Statement of Consensus issued by the Government and state governments)** Government communicates the agreed CCS reform framework to state governments including financing and implementation arrangements. **(Letter of the Government to participating states [participating states])** At least four states (hereinafter referred to as participating states) sign memoranda of understanding (MOUs) with the Government and the National Bank for Agriculture and Rural Development (NABARD) accepting the CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal	Participating states establish state-level implementation committees (SLICs). **(Notifications and terms of reference)** Participating states establish district level implementation committees (DLICs). **(List of DLICs constituted)** All participating states make budgetary provisions to support CCS reforms. **(Letter indicating provisions)** The Government makes budgetary provision to support CCS reforms. **(Letter indicating provisions)** NABARD constitutes State Task Forces in participating states to periodically review the performance of CCS especially on good governance and compliance with statutory requirements and suggest improvements. **(Notifications)** One other participating state (i) signs MOU with the Government and NABARD accepting the CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal administrative matters; and (ii) is in compliance with Second Tranche conditions as applicable. **(Signed MOU)**	Government completes first stakeholder consultation on the assessment of CCS reform undertaken by the independent agency and as required, advises stakeholders on appropriate measures to address related feedback on the assessment. (**Assessment Report of the independent agency to the Government and Report on stakeholder consultation from the Government to Asian Development Bank [ADB]**) The Government makes budgetary provision to support CCS reforms. **(Letter indicating provisions)** All participating states make budgetary provisions to support CCS reforms. **(Letter indicating provisions)**	Government completes second stakeholder consultation on the second assessment of CCS reform undertaken by the Independent Agency and as required, advises stakeholders on appropriate measures to address related feedback on the assessment. (**Second Assessment Report of Independent Agency to the Government and Report on stakeholder consultation from the Government to ADB**) The Government makes budgetary provision to support CCS reforms. **(Letter indicating provisions)**

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
	administrative matters. **(Signed MOUs)** The Government makes budgetary provision to initiate CCS reforms. **(Letter indicating provisions)** At least one participating state makes budgetary provisions to initiate CCS reforms. **(Letter indicating provisions)** Government constitutes the National Implementation and Monitoring Committee (NIMC**)** to oversee the CCS reform process. **(Notification)** NABARD establishes Department for Cooperative Revival and Reforms at its head office to support CCS reforms. **(Notification and terms of reference)**			
(ii) Building a Facilitating Legal, Regulatory, and Governance Framework				
(a) Establishing a Conducive Legal Framework for CCS				
A conducive legal framework for autonomous operations is adopted		Participating states under NIMC guidance take measures to amend the Cooperative Societies Acts (CSAs) as per the MOUs. **(Status of CSA amendment)** Government assesses the need to amend NABARD Act and Deposit Insurance and Credit Guarantee Corporation Act to facilitate CCS reforms. **(Assessment outcome)**	Participating states enact legislation amending the CSAs. **(Amended CSAs as notified, and in force)** Participating states issue rules and regulations as required under the amended CSAs. **(Rules and Regulations issued/notified by participating states)** Based on the assessment under the earlier tranche, if required, NABARD Act, 1982 and Deposit Insurance and Credit Guarantee Corporation Act, 1961 amended. **(Amended Acts notified and in force)**	Implementation status of rules and regulations corresponding to the amended CSAs in all participating states. (**Participating state-wise implementation status of amended CSAs)**

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
(b)	**Instituting Effective Regulation**			
Orderly development of the CCS and enhanced deposit protection	Government initiates action for amending the Banking Regulation Act, 1949 (Bank Regulation Act). **(Status of initial actions)**	Amendments to Bank Regulation Act, 1949 finalized by the Ministry of Finance (Banking Division). (**Finalized Amendments**) Participating states issue prudential norms for PACSs and nonbank CCS**. (Prudential norms for PACSs)**	Bank Regulation Act, 1949, amended. **(Amended Act notified and in force)** Supervision and regulation of CCS classified as banks undertaken in the participating states in accordance with the amended CSAs. **(Draft SCB and DCCB prudential norms)** Prudential norms for CCS (SCBs and DCCBs) and eligibility for board of directors and chief executive officers developed based on amended Bank Regulation Act ,1949, and applied on the CCS (SCBs and DCCBs). **(Impact on net worth of SCBs and DCCBs)**	Prudential norms applied to the PACSs **(participating state-wise assessment of impact of enhanced prudential norms)**
(c)	**Enhancing Good Governance**			
Restoring the democratic character of the CCS and enhancing good governance		Participating states prepare plans to hold elections for CCS where the term of the office bearers and boards have expired.(**Participating state-wise plans**) Participating states commence the reduction of their equity to a maximum of 25% of the capital at any level of the CCS and convert the equity over 25% to grants to the CCS. **(Participating state-wise data).** NABARD issues a policy of annual audits of SCBs and DCCBs by independent chartered accountants commencing financial year 2006–2007.	Participating states government nominees on PACSs' boards withdrawn. **(Participating state-wise notifications and numbers of nominees withdrawn)** Participating states hold elections in the CCS and install new boards of directors and office bearers in all the SCBs and half of the number of DCCBs. **(Participating state-wise SCBs and DCCBs)** Participating states complete the reduction of equity to a maximum of 25% of the capital at any level of the CCS and convert the equity	Participating states complete elections to all DCCBs and PACSs and install new boards of directors and office bearers. **(Participating state-wise election details)** Rating of SCBs and at least 50% of DCCBs conducted by approved rating agency. **(Rating results of SCBs and**

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
		(Policy on audits of SCBs and DCCBs) NABARD issues guidelines for independent rating of SCBs and DCCBs**. (Guidelines on independent rating of SCBs and DCCBs)**	over 25% to grants to the CCS. **(Participating state-wise list of SCBs and DCCBs)** Participating states government nominees on boards of SCBs and DCCBs limited to one. **(Participating states notifications)** Directors on boards of all the CCS (SCBs and DCCBs) not meeting the approved criteria identified by participating states. **(Participating state-wise directors identified)** CCS (SCBs and DCCBs) terminate the tenure of directors on CCS boards representing defaulting PACSs. **(Participating states notifications)** Rating of SCBs conducted by approved rating agency. (**Rating results for SCBs)**	**DCCBs)** Directors on boards of the CCS (SCBs and DCCBs) not meeting the approved criteria removed by participating states. **(Participating state-wise list of directors removed)**
(iii) Institutional Reforms for Sustainability				
(a) National Bank for Agriculture and Rural Development				
International best practices are mainstreamed in the CCS	NABARD develops (i) draft accounting standards, and (ii) draft management information system. **(Draft systems and plans)** NABARD issues guidelines linking refinance to CCS with the implementation of CCS reforms. (**Refinance guidelines**) NABARD develops formats for special audits (to assess the extent of	NABARD finalizes and issues to CCS in participating states the (i) accounting standards; and (ii) management information system, including internal control and audit systems. **(Accounting Standards and Management Information System)** NABARD finalizes and issues to CCS in participating states (i) computerization plan, and (ii) human	NABARD implements in all participating states the (i) accounting standards, (ii) management information system including internal control and audit systems, (iii) computerization plan, and (iv) human resources development plan for the CCS. **(Qualitative and quantitative progress)**	NABARD continues implementation in all participating states of the (i) accounting standards; (ii) management information system, including internal control and audit systems; (iii) computerization plan;

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
	accumulated losses as on 31 March 2004). (**Special audit formats**) NABARD conduct sample special audits in two participating states. **(Sample audit results)**	resources development plan. (**Computerization Plan and Human Resources Development Plan**) NABARD develops model Action Plans for Revival (APRs)/Development Actions Plans (DAPs) for SCBs, DCCBs, and PACSs including financial, productivity, and operational benchmarks. **(Model APRs/DAPs)** NABARD considers refinance to CCS either directly or through other regulated financial institutions at terms set by its Board. **(Assessment outcome—NABARD)** Model plans for ineligible PACSs developed by NABARD. **(Plan for Ineligible PACSs)**		and (iv) human resources development plan for the CCS. **(Qualitative and quantitative progress)**
(b)	**Primary Agricultural Credit Societies**			
Strengthening the PACSs to provide a stronger foundation for the CCS		Special audits (to assess the accumulated losses as on 31 March 2004) of PACSs completed in at least two participating states. **(Participating state-district wise number of PACSs audited)** At least 50% of eligible PACSs in the participating states that have completed special audits sign agreements with DCCBs/DLICs to implement CCS reforms. **(Participating state-district wise number)** At least 50% of eligible PACSs in the participating states that have completed special audits adopt APRs/DAPs.	Special audits (to assess the extent of accumulated losses as on 31 March 2004) of PACSs completed in all participating states. **(Participating state-wise number of PACSs audited)** Participating states implement plans to phase out cadre-based secretaries in PACSs. **(Participating state-wise implementation details)** Eligible PACSs adopt APRs/DAPs in all participating states. **(Participating state-district wise**	Support provided by NABARD for cleaning accumulated losses of eligible PACSs in participating states that meet benchmark requirements of the MOUs. **(Participating state-wise number of PACSs and amount)** Participating states implement plans for phase out of cadre-based secretaries in PACSs. **(Participating state-district wise**

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
		(Participating state-district wise number of PACSs adopting APRs/DAPs) Participating states discontinue further placement of cadre-based secretaries in PACSs. (**Participating states notifications)** Participating states prepare plans for phasing out of cadre-based secretaries in PACSs. **(Participating state-district-wise plans)** Support provided by NABARD for cleaning accumulated losses of eligible PACSs in participating states that meet the benchmark requirements of the MOU signed between the Government, relevant participating states and NABARD. **(Participating state-wise number of PACSs and amount)** Plan for ineligible PACSs developed by all participating states for selected districts (with at least one district in each participating state) based on the framework developed by NABARD and implementation commenced. **(Participating state-wise Plan for Ineligible PACSs)**	**number of PACSs adopting APRs/DAPs)** Plan for ineligible PACSs developed and implementation commenced in participating states that have ineligible PACSs. **(Participating state-wise Plan for Ineligible PACSs and status of PACSs brought under the Plan for Ineligible PACSs)** Support provided by NABARD for cleaning accumulated losses of eligible PACSs in participating states that meet benchmark requirements of the MOUs. **(Participating state-wise number of PACSs and amount)**	**implementation details)** Implementation of APRs/DAPs. **(Participating state-wise number of PACSs that meet APRs/DAPs benchmarks)** Implementation of plan for ineligible PACSs by participating states. **(Participating state-wise status of PACSs under the Plan for Ineligible PACSs)**
(c)	**District Central Cooperative Banks**			
Reform DCCBs into sustainable institutions		Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in at least two participating states. **(Participating state-wise list of DCCBs)** DCCBs that have completed special	Eligible DCCBs adopt APRs/DAPs. **(Participating state-wise APRs/DAPs adopted)** Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs	Support provided by NABARD for cleaning accumulated losses of DCCBs in participating states that meet benchmark requirements of the

Objectives	First Tranche ($250 million)	Second Tranche (within 12 months of the First Tranche) ($250 million)	Third Tranche (Within 12 months of the Second Tranche) ($300 million)	Fourth Tranche (Within 12 months of the Third Tranche) ($200 million)
		audits, sign agreements with DLICs to implement CCS reforms. **(Participating state-wise list of DCCBs audited)**	completed in all participating states. **(Participating state-wise list of DCCBs audited)** Support provided by NABARD for cleaning accumulated losses of DCCBs in participating states that meet benchmarks requirements of the MOUs **(Participating state-wise number of DCCBs and amount)**	MOUs. **(Participating state-wise number of DCCBs and amount)** Progress on implementation of APRs/DAPs. **(Participating state-wise number of DCCBs that meet APRs/DAPs benchmarks)**
(d)	**State Cooperative Banks**			
Transform SCBs into apex institutions that support efficiency and sustainability of the system		Special audits (to assess the extent of accumulated losses as on 31 March 2004) completed in at least two SCBs in participating states. **(Audit findings)** SCBs that have completed special audits, sign agreements with SLICs to implement CCS reforms. **(Signed agreements)**	SCBs adopt APRs/DAPs. **(APRs/DAPs adopted by SCBs)** Special audits (to assess the extent of accumulated losses as on 31 March 2004) of SCBs completed in all participating states. **(Audit findings)** Support provided by NABARD for cleaning accumulated losses of SCBs in participating states to meet benchmark requirement of the MOUs. **(SCB-wise amount)**	Support provided by NABARD for cleaning accumulated losses of SCBs in participating states that meet benchmark requirements of the MOUs. **(SCB-wise amount)** Progress on implementation of APRs/DAPs. **(SCB-wise report on APRs/DAPs benchmarks)**

Design and Monitoring Framework

Design Summary	Performance Targets/ Indicators	Data/Reporting Mechanisms	Assumptions and Risks
Impact Enhanced income and employment growth for the rural poor in the participating states	• Increased rural per capita incomes (by at least 5% within 7 years) • Improved social indicators in rural areas (at least 5% improvement in basic indicators within 7 years) • Reduced incidence of rural poverty ($1/day) (by at least 5% points within 7 years)	• Government evaluations of 10th/ 11th Five-Year Plans • Independent assessment of program impacts and baseline surveys • Evaluation reports of participating states • ADB evaluation reports • World Bank and United Nations Development Program reports	**Assumptions** • Government and participating states' sustained political and financial commitment to CCS reform agenda • Effective implementation of complementary reforms **Risks** • Weak implementation of CCS and complementary reforms • Extraneous conditions (such as climate) negatively impact rural economic growth
Outcomes Improved access by rural households to affordable financial services through a sustainable and efficient CCS in the participating states	• Increased lending to agricultural activities (annual increase of at least 5% per annum during the Program period) • Increased number of small and marginal farmers access credit (access improves by at least 5% during the Program period) • Reduced NPA levels in the CCS (decline by at least 5% during the Program period) • Improved repayment rate in CCS (aggregate repayment rate improves each year during the Program period) • Improved CCS profitability (aggregate profitability improves each year during the Program period) • Diminished costs of services from the CCS (average costs reduce successively during the Program period)	• Independent assessments of program implementation and impacts • RBI/NABARD reports • Progress reports and/or BTORs from ADB review missions • Government statistics • Biannual implementation reports	**Assumptions** • Government and participating states' political and financial commitment to reforms • Corporate governance norms, business-related processes, etc. are rigorously framed and implemented **Risks** • Absence of political will in amalgamating and closing weak PACSs • Weak implementation of the reform and institutional strengthening agendas
Outputs A nationwide policy framework for strengthening the short-term CCS	• MOUs signed by five participating states (4 MOUs signed by Nov 2006 and the fifth by Mar 2007) • Government/participating states make budgetary provisions to initiate CCS reforms (starting Oct 2006) • SLICs and DLICs established (Jun 2007) • NABARD establishes Department for Cooperative Revival and Reforms (by Oct 2006) • Government constitutes NIMC (by Oct 2006) • State Task Forces constituted (by Jun 2007) • Stakeholder consultations held by the Government (first Nov 2008 and second by Nov 2009)	• Biannual implementation reports • Independent assessments of program implementation and impacts • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions	**Assumptions** • Government and participating states' political and financial commitment to reforms • Implementation committees are formed with stakeholder input **Risks** • Participating states waver in their commitment to CCS reforms

Design Summary	Performance Targets/ Indicators	Data/Reporting Mechanisms	Assumptions and Risks
A conducive legal framework for autonomous CCS operations	• Measures to amend the CSAs initiated by participating states (starting by Jan 2007) • Amended CSAs enacted by participating states (by Jun 2008) • Need for amending NABARD Act and Deposit Insurance Credit Guarantee Act reviewed (by Jun 2007) • Rules and regulations for amended CSAs issued by participating states (by Nov 2008) • NABARD Act and Deposit Insurance Credit Guarantee Act amended if necessary (by Nov 2008)	• Official Gazette • Relevant government orders • State legislative reports/amended Acts • Participating states administrative orders • Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions • Parliamentary briefings and reports	**Assumptions** • Government and participating states' political and financial commitment to the reform agenda • Smooth tabling of legislation **Risks** • Absence of political will in tabling and passing legislation
Orderly development of CCS and enhanced depositor protection	• Amendments to the Bank Regulation Act finalized (Jun 2007) • Amended Bank Regulation Act enacted (by Jun 2008) • Prudential norms issued by participating states for PACSs and nonbank CCS (by Jun 2007) • Prudential norms applied to PACS (Jun 2008) • Supervision and regulation done in participating states in line with amended CSA for CCS classified as banks (starting by Sept 2008) • Prudential norms issued and eligibility of CEOs and Boards developed in participating states in line with amended Bank Regulation Act (by Sept 2008)	• Official Gazette • Amended Act • RBI/NABARD reports • Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions • Parliamentary briefings and reports • State legislative reports	**Assumptions** • Government and participating states political and financial commitment to the reform agenda • Smooth tabling of legislation • RBI and NABARD provide required guidelines **Risks** • Absence of political will in tabling and passing legislation • Participating states resist RBI's regulatory role
Democratic character of the CCS restored and governance enhanced	• Election plans prepared by participating states for the CCS (by Jun 2007) • Equity share in CCS reduced to maximum of 25% and converted to grant by participating states (completed by Nov 2008) • Guidelines for annual audits and rating of SCBs and DCCBs issued by NABARD (by Jun 2007) • Elections held and new directors and office bearers installed in SCBs and DCCBs (beginning by January 2008) • Participating state nominees limited to one on SCBs/DCCBs boards and withdrawn from PACSs' boards (beginning January 2008) • Directors on boards of SCBs/DCCBs not meeting approved criteria and of loss-making entities identified and removed (beginning by Jun 2008) • Independent ratings of SCBs/DCCBs conducted (first rating by Nov 2008)	• Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions	**Assumptions** • Government and participating states' political and financial commitment to reforms • Enabling legal and regulatory changes are put in place in a timely manner **Risks** • Participatings states waver in their commitment to CCS reforms • SLICs and DLICs are ineffective in moving reform process forward

Design Summary	Performance Targets/ Indicators	Data/Reporting Mechanisms	Assumptions and Risks
International best practices mainstreamed in the CCS	• Accounting standards, MIS, HRD, and computerization plans issued by NABARD and implemented in CCS in all participating states (no later than Nov 2007) • Format for special audits developed and sample audits conducted by NABARD (by Oct 2006) • Guidelines linking refinance to CCS reforms issued by NABARD (by Oct 2006) • Refinance from other financial institutions considered by NABARD (by Jun 2007) • Model plans for ineligible PACSs developed by NABARD (by Jun 2007) • Model APRs/DAPs prepared by NABARD (by Jun 2007)	• Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • NABARD reports • Progress reports/BTORs from ADB review missions	**Assumptions** • Government's political commitment to the reform agenda • Efficient execution of MIS, HRD, and computerization plans **Risks** • Absence of adequate expertise in undertaking required IT related functions/tasks • Absence of political will in eliminating human resources redundancies • NABARD unwilling to amend refinance policy
PACSs strengthened to provide stronger foundation for the CCS	• Placement of cadre-based secretaries discontinued in participating states (beginning no later than Jun 2007) • Phase out of cadre-based secretaries initiated (no later than Jun 2008) • Special audits conducted (initiated by Nov 2006 and completed by Nov 2008) • Eligible PACSs sign agreements with DCCBs/DLICs (continuous, beginning Mar 2007) • Financial support provided to clean accumulated losses (continuous, beginning Jun 2007) • APRs/DAPs adopted and implemented (continuous, beginning no later than Jun 2007) • Plans for ineligible PACSs developed and initiated in PSs (beginning no later than Jun 2007)	• Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions	**Assumptions** • Government and participating states' political and financial commitment to reforms • Audit format, model APRs/DAPs, and plan for ineligible PACSs developed and implemented in a timely manner **Risks** • Participating states waver in their commitment to CCS reforms • Absence of political will dealing with ineligible PACSs • SLICs and DLICs are ineffective in moving reform process forward
DCCBs reformed into sustainable institutions	• Agreement letters signed with DLICs (completed by Nov 2007) • Special audits conducted (initiated by Mar 2007 and completed by Nov 2008) • Financial support provided to clean accumulated losses (continuous, beginning no later than Mar 2008) • APRs/DAPs adopted and implemented (continuous, beginning no later than Jan 2008)	• Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions	**Assumptions** • Government and participating states' political and financial commitment to reforms • Audit format and model APRs/DAPs developed and implemented in a timely manner **Risks** • Participating states waver in their commitment to CCS reforms • DCCBs staff are resistant to change • SLICs and DLICs are ineffective in moving reform process forward

Design Summary	Performance Targets/ Indicators	Data/Reporting Mechanisms	Assumptions and Risks
SCBs reformed to effectively perform as apex institutions supporting efficiency and sustainability of the CCS	• Agreement letters signed with SLICs (completed by Mar 2007) • Special audits conducted (initiated by Mar 2007 and completed by Nov 2008) • Financial support provided to clean accumulated losses (continuous, beginning no later than Mar 2008) • APRs/DAPs adopted and implemented (continuous, beginning no later than Jan 2008)	• Biannual implementation reports • Monitoring and fulfillment of tranche release conditions • Progress reports/BTORs from ADB review missions	**Assumptions** • Government and participating states' political and financial commitment to reforms • Audit format and model APRs/DAPs developed and implemented in a timely manner **Risks** • Participating states waver in their commitment to CCS reforms • SCB staff are resistant to change • SLICs are ineffective in moving reform process forward
Key Activities with Milestones **Establishing a Policy Reform and Implementation Framework** 1.1 Adopt comprehensive reform package based on Task Force Report (May 2006) 1.2 Obtain in principle concurrence on reform package with participating states (Aug 2006) 1.3 Sign MOUs with participating states (4 by Nov 2006; fifth by no later than Mar 2007) 1.4 Government and participating states make budgetary provisions (starting Oct 2006 and as needed thereafter) 1.5 Institutional set up established for steering and implementing reforms (starting Oct 2006) 1.6 Consultations held with stakeholders to assess reform implementation (prior to third and fourth tranche release) 1.7 Establish SLICs/DLICs (no later than Jun 2007 in all participating states) 1.8 Establish State Task Forces (no later than Jun 2007 in all participating states)			**Inputs** Total Cost ($1,428 million) ADB Loan ($1,000 million) KfW loan ($175 million equivalent) DFID Technical Assistance ($2 million) Government/participating states ($251 million) **State-wise cost in $ millions** **Gujarat** Special Audit: 0.8 Systems & Procedures: 9.4 HRD: 1.8 Implementation Costs: 6.5 Total Inst. Reform Costs: 18.5 Cleaning of Accumulated Losses: 191.5

ADB = Asian Development Bank, APR = Action Plans for Revival, BTOR = back-to-office report, CCS = cooperative credit structure, CEO = chief executive officer, CSA = Cooperative Societies Act, DAP= Development Action Plan, DCCB = district central cooperative bank, DCRR = Department of Cooperative Revitalization and Reforms, DFID = Department for International Development, DLIC = district-level implementation committee, HRD = human resource development; IT = information technology, KfW = Kreditanstalt für Wierderaufbau, MIS = management information system, MOU = memorandum of understanding, NABARD = National Bank for Agriculture and Rural Development, NIMC= National Implementation and Monitoring Committee, NPA = nonperforming assets, PACS = primary agricultural credit society, RBI= Reserve Bank of India, SCB = state cooperative bank, SLIC = state-level implementation committee, PS = participating state.

CONSTITUTION AND ROLES AND RESPONSIBILITES OF THE NATIONAL IMPLEMENTATION AND MONITORING COMMITTEE, STATE LEVEL IMPLEMENTATION COMMITTEES, DISTRICT LEVEL IMPLEMENTATION COMMITTEES, AND STATE LEVEL TASK FORCES

Committee	Members	Roles and Responsibilities
National Implementation and Monitoring Committee (NIMC)	Chairman: Secretary (Financial Sector), Department of Financial Services, Ministry of Finance **Members** • Secretary, Ministry of Agriculture • Deputy Governor, Reserve Bank of India (RBI) • Chairman/Managing Director, National Bank for Agriculture and Rural Development (NABARD) • Secretary in charge of Cooperation – participating states • Two co-operators	(i) Overall policy and strategic direction of cooperative credit structure (CCS) reform. (ii) Monitoring progress and achievements of CCS reform
State Level Implementing and Monitoring Committees (SLICs)	Chairman: Secretary, Finance of state government **Members** • Secretary Cooperation • Chief General Manager, NABARD Regional Office • Registrar of Cooperative Societies (RCS) • Managing Director, State Cooperative Bank (SCB) • Chartered Accountant • Special Invitee: Executive Director, NABARD The SLICs may co-opt subject specialists for such periods as considered necessary.	The role of SLIC is one of planning, facilitating, problem-solving, and monitoring overall implementation of the CCS reform in the state. Also: (i) To approve a road-map for implementation of CCS reform in the state including time-frame for various activities and sub-activities to be undertaken be various stakeholders, (ii) To monitor implementation on the basis of the approved road-map, (iii) To ensure proper and timely conduct of special audit in the CCS, (iv) To vet and finalize the quantum of financial assistance in respect of CCS institutions and recommend for release to NABARD, (v) To ensure installation of a common accounting system and internal control system backed by proper management information system, (vi) To guide and monitor human resource development initiatives in the CCS, (vii) To submit necessary information and feedback to National Implementation and Monitoring Committee, NABARD, etc. from time to time, and (viii) To ensure timely compliance of the covenants of Memorandum of Understanding by CCS units, sort out field level operational problems and guide and supervise the overall implementation of the CCS Revival Package in the state.

District Level Implementing and Monitoring Committees (DLICs)	Chairman cum Convener: District Development Manager, NABARD **Members** • Representative of District Administrator • Chief Executive Officer, District Central Cooperative Bank (DCCB) • Joint Registrar of Cooperative Societies (RCS)/ District RCS • Chartered Accountant • Special Invitee: NABARD Regional Office representative In districts with no designated district development manager, NABARD Regional Office will designate a suitable official for the purpose. The DLICs may co-opt subject specialists including a senior officer of the Audit Department as special invitees for such period as deemed necessary.	The role of DLIC is one of planning, coordinating, and guiding the implementation of the CCS Revival Package in the district. Its main responsibilities are: (i) Conduct special audits, (ii) Finalization of the amount of financial assistance to CCS in the district and recommendation to the SLIC and NABARD, (iii) Monitoring achievements of all benchmark activities by primary agricultural credit societies (PACSs) and DCCBs contemplated under the CCS reforms package, (iv) Identification of PACSs and DCCBs for direct assistance, (v) Identification of PACSs that need to be merged with other PACSs or closed and suggesting measure therefore, (vi) Overseeing computerization, human resource development, and common accounting system in the district, (vii) Overseeing preparation and implementation of action plan for business development by PACSs and DCCBs, and (viii) Submission of necessary information and feedback to SLIC and NABARD from time to time.
State Level Task Force (SLTB)	Chairman, Chief General Manager, NABARD, Regional Office **Members** • RCS • General Manager/Deputy General Manager, RBI • Managing Director, SCB	(i) To review the performance of the SCB and DCCBs in the state periodically, (ii) To review the aspects relating to good governance, compliance with statutory requirements of regulatory and supervisory norms and actions initiated by RBI and NABARD, (iii) To suggest improvements in the functioning of SCB, DCCBs in the state including their human resource development, and (iv) To suggest any other measures required for improving the efficiency and viability of SCB and DCCBs in the state.

SUMMARY STATUS OF SECOND TRANCHE ACTIONS

Second Tranche Actions	Status
1. Participating states establish state-level implementation committees.	**Fully complied with.**
2. Participating states establish district level implementation committees	**Fully complied with.**
3. All participating states make budgetary provisions to support cooperative credit structure (CCS) reforms.	**Fully complied with.**
4. The Government makes budgetary provision to support CCS reforms.	**Fully complied with.**
5. National Bank for Agriculture and Rural Development (NABARD) constitutes state task forces in participating states to periodically review the performance of CCS especially on good governance and compliance with statutory requirements and suggest improvements.	**Fully complied with.**
6. One other participating state (i) signs memorandum of understating (MOU) with the Government and NABARD accepting the CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal administrative matters; and (ii) is in compliance with second tranche conditions as applicable.	**Fully complied with.**
7. Participating states under the national implementation and monitoring committee (NIMC) guidance take measures to amend the Cooperative Societies Acts (CSAs) as per the MOUs.	**Fully complied with.**
8. Government assesses the need to amend NABARD Actand Deposit Insurance and Credit Guarantee Corporation Act to facilitate CCS reforms.	**Fully complied with.**
9. Amendments to Banking Regulation Act, 1949 finalized by Ministry of Finance (Banking Division).	**Fully complied with.**
10. Participating states issue prudential norms for primary agricultural credit societies (PACS) and nonbank CCS**.**	**Substantially complied with.**
11. Participating states prepare plans to hold elections for CCS where the term of the office bearers and boards have expired.	**Fully complied with.**
12. Participating states commence the reduction of their equity to a maximum of 25% of the capital at any level of the CCS and convert the equity over 25% to grants to the CCS.	**Partially complied with.**
13. NABARD issues a policy of annual audits of the state cooperative banks (SCBs) and district central cooperative banks (DCCBs) by independent chartered accountants commencing financial year 2006–2007.	**Fully complied with.**
14. NABARD issues guidelines for independent rating of SCBs and DCCBs**.**	**Fully complied with.**
15. NABARD finalizes and issues to CCS in participating states the (i) accounting standards; and (ii) management information system, including internal control and audit systems.	**Fully complied with.**
16. NABARD finalizes and issues to CCS in participating states (i) computerization plan, and (ii) human resources development plan.	**Substantially complied with.**
17. NABARD develops model action plans for revival/development actions plans (DAPs) for SCBs, DCCBs, and PACSs including financial, productivity, and operational benchmarks.	**Fully complied with.**
18. NABARD considers refinance to CCS either directly or through other regulated financial institutions at terms set by its board.	**Fully complied with.**
19. Model plans for ineligible PACSs developed by NABARD.	**Fully complied with.**
20. Special audits (to assess the accumulated losses as on 31 March 2004) of PACSs completed in at least two participating states.	**Fully complied with.**

Second Tranche Actions	Status
21. At least 50% of eligible PACSs in the participating states that have completed special audits sign agreements with DCCBs/district level implementation committees to implement CCS reforms.	**Fully complied with.**
22. At least 50% of eligible PACSs in the participating states that have completed special audits adopt action plans for revival/development action plans.	**Fully complied with.**
23. Participating states discontinue further placement of cadre-based secretaries in PACSs.	**Fully complied with.**
24. Participating states prepare plans for phasing out of cadre-based secretaries in PACSs.	**Substantially complied with.**
25. Support provided by NABARD for cleaning accumulated losses of eligible PACSs in participating states that meet the benchmark requirements of the MOU signed between the Government, relevant participating states, and NABARD.	**Fully complied with.**
26. Plan for ineligible PACSs developed by all participating states for selected districts (with at least one district in each participating state) based on the framework developed by NABARD and implementation commenced.	**Substantially complied with.**
27. Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in at least two participating states.	**Fully complied with.**
28. DCCBs that have completed special audits, sign agreements with district level implementation committees to implement CCS reforms.	**Fully complied with.**
29. Special audits (to assess the extent of accumulated losses as on 31 March 2004) completed in at least two SCBs in participating states.	**Partially complied with.**
30. SCBs that have completed special audits, sign agreements with state level implementation committees to implement CCS reforms.	**Substantially complied with.**

DOCUMENTATION IN SUPPORT OF SECOND TRANCHE ACTIONS

Second Tranche Actions	Documentation Received
1. Participating states establish state-level implementation committees. **(Notifications and terms of reference)**	**Documentation** - Participating-state wise notification of formation of state level implementation committees - Standard terms of reference issued by National Bank for Agriculture and Rural Development (NABARD)
2. Participating states establish district-level implementation committees (DLICs). **(List of DLICs constituted)**	**Documentation** - List of DLICs constituted - Standard terms of reference issued by NABARD - Notifications of formation of district level implementation committees
3. All participating states make budgetary provisions to support cooperative credit structure (CCS) reforms. **(Letter indicating provisions)**	**Documentation** - Letters and documents indicating provisions form all participating states
4. The Government makes budgetary provision to support CCS reforms. **(Letter indicating provisions)**	**Documentation** - Government letters indicating transfer of funds
5. NABARD constitutes state task forces in participating states to periodically review the performance of CCS especially on good governance and compliance with statutory requirements and suggest improvements. **(Notifications)**	**Documentation** - Notifications from all participating states - Proceedings of meetings from select participating states
6. One other participating state (i) signs memorandum of understanding (MOU) with the Government and NABARD accepting the CCS reform package, including commitment to share the cost of reforms and to ensure autonomy of CCS in all financial and internal administrative matters, and (ii) is in compliance with second tranche conditions as applicable. **(Signed MOU)**	**Documentation** - Signed MOU from Bihar
7. Participating states under the national implementing and monitoring commission's guidance take measures to amend the Cooperative Societies Acts (CSA) as per the MOUs. **(Status of CSA amendment)**	**Documentation** - Amended CSA from four participating states - Finalized amendments form the remaining participating state
8. Government assesses the need to amend NABARD Act, 1982 and Deposit Insurance and Credit Guarantee Corporation Act, 1961 to facilitate CCS reforms. **(Assessment outcome)**	**Documentation** - NABARD note summarizing the outcome - Draft deposit guarantee scheme for primary agriculture credit societies (PACSs)
9. Amendments to Banking Regulation Act, 1949 finalized by Ministry of Finance (Banking Division). (**Finalized Amendments**)	**Documentation** - Government letter indicating progress
10. Participating states issue prudential norms for PACSs and nonbank CCS**. (Prudential norms for PACSs)**	**Documentation** - Interim guidelines from NABARD
11. Participating states prepare plans to hold elections for CCS where the term of the office bearers and boards have expired. (**Participating state-wise plans**)	**Documentation** - Letters indicating status of elections in four participating states

Second Tranche Actions	Documentation Received
12. Participating states commence the reduction of their equity to a maximum of 25% of the capital at any level of the CCS and convert the equity over 25% to grants to the CCS. **(Participating state-wise data)**	**Documentation** - Participating state-wise latest status of state government equity
13. NABARD issues a policy of annual audits of State Cooperative Banks (SCBs) and District Central Cooperative Banks (DCCBs) by independent chartered accountants commencing financial year 2006–2007. **(Policy on audits of SCBs and DCCBs)**	**Documentation** - Policy on audits from NABARD
14. NABARD issues guidelines for independent rating of SCBs and DCCBs**. (Guidelines on independent rating of SCBs and DCCBs)**	**Documentation** - Guidelines on independent rating from NABARD
15. NABARD finalizes and issues to CCS in participating states the (i) accounting standards; and (ii) management information system, including internal control and audit systems. **(Accounting Standards and Management Information System)**	**Documentation** - Accounting Standards form NABARD - Management Information System from NABARD
16. NABARD finalizes and issues to CCS in participating states (i) computerization plan, and (ii) human resources development plan. (**Computerization Plan and Human Resources Development Plan**)	**Documentation** - Detailed computerization plan for PACS from NABARD - Training details for PACS from NABARD
17. NABARD develops model Action Plans for Revival (APRs)/Development Actions Plans (DAPs) for SCBs, DCCBs, and PACSs including financial, productivity, and operational benchmarks. **(Model APRs/DAPs)**	**Documentation** - DAP guidelines from NABARD
18. NABARD considers refinance to CCS either directly or through other regulated financial institutions at terms set by its Board. **(Assessment outcome - NABARD)**	**Documentation** - Existing NABARD circular - Note from NABARD summarizing assessment
19. Model plans for ineligible PACSs developed by NABARD. **(Plan for Ineligible PACSs)**	**Documentation** - Clarification on application of DAPs from NABARD
20. Special audits (to assess the accumulated losses as on 31 March 2004) of PACSs completed in at least two participating states. **(participating state-district wise number of PACSs audited)**	**Documentation** - Participating state-district-wise number of PACS audited from NABARD
21. At least 50% of eligible PACSs in the participating states that have completed special audits sign agreements with DCCBs/DLICs to implement CCS reforms. **(participating state-district wise number)**	**Documentation** - Participating state- district wise number of PACS from NABARD - Sample copy of the agreements signed from NABARD
22. At least 50% of eligible PACSs in the participating states that have completed special audits adopt APRs/DAPs. **(participating state-district wise number of PACSs adopting APRs/DAPs)**	**Documentation** - Covered by documentation received for Action 17
23. Participating states discontinue further placement of cadre-based secretaries in PACSs. (**Participating state notifications)**	**Documentation** - Amended CSAs

Second Tranche Actions	Documentation Received
24. Participating states prepare plans for phasing out of cadre-based secretaries in PACSs. **(Participating state district-wise plans)**	**Documentation** - Plan from Maharashtra
25. Support provided by NABARD for cleaning accumulated losses of eligible PACSs in participating states that meet the benchmark requirements of the MOU signed between the Government, relevant participating states and NABARD. **(Participating state-wise number of PACSs and amount)**	**Documentation** - Participating state-wise number of PACSs and amount from NABARD
26. Plan for ineligible PACSs developed by all participating states for selected districts (with at least one district in each participating state) based on the framework developed by NABARD and implementation commenced. **(Participating state-wise plan for ineligible PACSs)**	**Documentation** - Same as Actions 17 and 19
27. Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in at least two PSs. **(Participating state-wise list of DCCBs)**	**Documentation** - Participating state-wise list of DCCBs from NABARD
28. DCCBs that have completed special audits, sign agreements with DLICs to implement CCS reforms. **(Participating state -wise list of DCCBs)**	**Documentation** - PS-wise list of DCCBs from NABARD
29. Special audits (to assess the extent of accumulated losses as on 31 March 2004) completed in at least two SCBs in participating states. **(Audit findings)**	**Documentation** - No data received. Special audits ongoing.
30. SCBs that have completed special audits, sign agreements with SLICs to implement CCS reforms. **(Signed agreements)**	**Documentation** - Signed agreements from all participating states

STATUS OF PROGRAM COVENANTS

Covenants	Comments/compliance
Program Implementation and Coordination	
Schedule (Sch.) 5, 1(a) The Ministry of Finance (Banking Division) shall be the executing department (ED) responsible for coordination and management of overall implementation of the Program. National Bank for Agriculture and Rural Development (NABARD) shall be the implementing agency (IA) responsible for day-to-day implementation of the Program	Being complied with.
Sch. 5, 1(b) The Government of India (the Government) shall ensure that the ED, the IA, and all participating states undertake activities and respective responsibilities as included under the loan agreement and related documents in a timely manner to achieve the objectives for the Program	Being complied with.
Sch. 5, 2(a), (b), (c), (d) The Government will and will cause NABARD and the participating states to (a) maintain the policies adopted and actions taken prior to the date of the Loan Agreement for the Program, as described in the development policy letter and the policy matrix, for the duration of the Program and subsequently; (b) promptly adopt and implement the policies and take the actions included in the Program as specified in the development policy letter and policy matrix; (c) ensure that such policies and actions continue in effect for the duration of the Program and subsequently; and maintain adequate staff and funds for satisfactory and timely completion of the Program.	Being complied with.
Sch. 5, 3(a), (b), (c) The Government shall ensure that the Program is implemented in a timely and effective manner in accordance with the Program implementation mechanism attached as appendix 7 to the Report and Recommendation to the President (RRP) for the cooperative credit structure (CCS) reforms. (a) The Government shall ensure that the National Implementation and Monitoring Committee (NIMC) set up under First Tranche requirements serves as the Program steering committee for the duration of the Program; (b) the Government shall ensure that the State Level Implementation Committees (SLICs) set up by the participating states under Second Tranche requirements shall be responsible for guiding and monitoring the implementation of the CCS reforms package and the Program at participating state levels; (c) the Government shall ensure that the District Level Implementation Committees (DLICs) to be set up by the participating states under the Second Tranche requirements shall be responsible for guiding and monitoring the implementation of the CCS reforms and the Program at District levels of the participating states.	The overall level of compliance is good given (i) the scale and complexity of the Program, (ii) the impact on farm households of the steep hike in food and fuel prices in early 2008, and (iii) the announcement of the Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme.
Counterpart Funds	
Sch. 5, 4. The Government will ensure that (a) the counterpart funds will be used for the costs associated with CCS reform under the Program and shall, in particular, transfer the counterpart funds generated under the Loan, through NABARD, under normal arrangements for transferring external assistance to the Participating states and shall treat such counterpart funds as an	The Government has transferred the counterpart funds to NABARD and in turn NABRAD has released such funds to the participating states that have met the precedent conditions for release of

Covenants	Comments/compliance
additionality to its transfers allocated to the Participating states; and (b) all Participating states make available on a timely basis, the counterpart funds required for the Program through timely budget appropriations/allocations and in accordance with relevant memoranda of understanding (MOUs) and/or agreements.	such funds. Correspondingly, the participating states have made available their share of the cost of reforms.
Participating States	
Sch. 5, 5(a) Notwithstanding the inclusion of four identified participating states under the First Tranche, in the event that any one such identified participating state has not achieved or is not likely to achieve the subsequent Tranche (i.e., the Second Tranche) conditions in time and that may cause delay in release of the Second Tranche for the benefit of other identified participating states, and unless otherwise required by Asian Development Bank (ADB), the Government may substitute such participating state with another participating state subject to the following principles: (i) The participating state proposed to be included shall have fulfilled the conditions under the First Tranche as also shall be in compliance with the actions listed in the policy matrix (ii) and loan agreement, as of the date of such substitution; (iii) The substitution shall be limited to only one participating state and shall no be revocable; (iv) The substitution shall not be beyond a date six months after release of the First Tranche, or of the date of Second Tranche, whichever is earlier; (v) The substitution shall not disturb the adjustment costs already incurred towards release of First Tranche under the Program; and (vi) It shall also be required that under such substitution arrangements, GoI shall: (1) continue to finance and support the participating state that has been taken out from the Program, towards cooperative credit structure (CCS) reforms as reflected in the development policy matrix; (2) provide GoI's share of financing under the Program to the newly included participating state; and (3) will require all participating states (including that taken out and newly included) to be included in reports to be provided to ADB for PPMS, accounts and related reforms and reports as required under the loan agreement.	Being complied with.
Sch 5, 5(b) The Government shall also ensure that the additional participating state to be included as stipulated in the Second Tranche release is included not later than six months of release of First Tranche	Bihar was included as the fifth participating state on 12 July 2007, i.e., within six months of release of first tranche.
CCS Policy Reforms	
Sch. 5, 6(a) The Government and the participating states will ensure that the reforms under the Program, including institutional, legal, and financial reforms, and respective MOUs/agreements between various agencies under the CCS reform package are formulated, finalized, and implemented to the satisfaction of ADB.	The reform actions under the Program so far have been as per the agreement between ADB and the Government.

Covenants	Comments/compliance
Sch. 5, 6(b) As part of the legal and institutional reforms and compliance of various tranche releases, the Government will ensure and cause the participating states to undertake the necessary amendments referred to in the development policy letter and ensure their implementation in an effective and timely manner.	Legal actions expected from participating states up to the second trance have progressed well.
Sch. 5, 7. The Government will ensure that CCS will have autonomy in all financial and internal administrative matters as outlined in the MOUs/respective agreements.	While amendments to Cooperative Societies Acts (CSAs) enhance autonomy, the changes to rules and regulations have to be notified (all participating states) to give effect to autonomy. CCS has been directed to provide credit at predetermined interest rates to certain class of borrowers. The Government has provided the related costs to the CCS to compensate the deficits in margin as a result of such lending.
Sch. 5, 8. In case of natural calamities and unforeseen circumstances that affect the equity and liquidity of the CCS, ADB will be consulted immediately and a remedial action plan acceptable to ADB prepared.	Government's announcement of ADWDR Scheme for mitigating farmer distress as a public policy measure was widely publicized. The Government announced the advance release of funds for ADWDR Scheme to ease implementation constraints. All participating lending institutions are expected to receive funds for the waivers and relief granted to eligible farmers.
Accounts and Disbursements	
Sch. 5, 9(a) Without limiting the generality of paragraph 4 of Schedule 3 of the loan agreement, in addition to the deposit account, the Government through ED, shall cause NABARD to maintain separate records and accounts on the use of Program funds following sound accounting principles, and shall have such accounts and records audited annually by auditors acceptable to ADB, and shall furnish, within six months of the close of the financial year, certified copies of the audit reports together with the auditor's opinion to the ED, ADB, and Kreditanstalt für Wierderaufbau (KfW).	Being complied with.
Sch. 5, 9(b) Considering the large number of entities covered by the Program, NABARD shall additionally confirm to the ED, the usage of funds for the purposes of the Program (recapitalization, audits, human resources development, and implementation costs) in the participating state.	Being complied with. NABARD submits audited accounts with regard to expensed incurred for CCS reforms in the participating states.
Safeguards and Social Issues	
Sch. 5, 10. The Government through the ED shall cause NABARD and participating states to ensure that activities under the Program, if become applicable, shall be carried out in accordance with the applicable safeguard policies of ADB (i.e., involuntary resettlement policy,	No re-settlement activities are envisaged.

Covenants	Comments/compliance
1995, environment policy, 2002, and indigenous peoples policy, 1998) and related laws and regulations of the Government /participating state.	
Information Sharing, Review	
Sch. 5, 11. Without limiting the generality of Sections 7.04 and 7.05 of the loan regulations, (i) The Government will keep ADB informed of modifications if any in the CCS reform package in so far as these may impact the Program in any manner. (ii) As and when CCS reforms are supported by other agencies, the ED shall facilitate coordination amongst the various agencies. (iii) The ED shall regularly exchange views and information with ADB and KfW on any problems, constraints encountered during the Program implementation to address any changes to overcome or mitigate these.	No substantive modifications have been made. The high-level NIMC periodically reviews implementation and takes measures as necessary for facilitating implementation.
Stakeholder Participation	
Sch. 5, 12(a) The Government will ensure that all activities, documents, and enactments under the Program are undertaken in consultation with relevant stakeholders and their feedback incorporated as appropriate in finalizations; through proper institutional mechanisms in place for communication and feedback on all relevant policy actions from stakeholders.	Different mechanisms set up for stakeholder involvement has been used such as the NIMC, SLICs, DLICs, and State Level Task Forces. Opportunities for receiving feedback has also been created through the democratically elected boards of different tiers of the CCS where user members of the of the CCS hold office.
Sch. 5, 12(b) The Government will take all steps necessary to ensure that relevant enactments including amendments to existing laws under the agreements reached with the Government are (a) undertaken with full stakeholder participation and views thus provided are incorporated as appropriate; (b) tabled in the Parliament/State legislatures, respectively, for consideration and enactment well in time and in sync with related tranche release requirements, and (c) brought into force, and implemented effectively.	The legislative changes have been discussed with cooperators in the different states even at the time of signing the Memorandum of Understanding with the Government and NABARD. In some states NABARD had discussions with representatives of CCS to explain the benefits of proposed changes to the CSA and the need for state governments to agree to the reform agenda. Consultations and the need to arrive at consensus have taken more time but have been useful in taking the CCS reform agenda forward.
Performance Monitoring, Reports	
Sch. 5, 13(a), (b), (c) Without limiting the generality of Section 7.04 of the loan regulations (a) The Government shall through the ED, cause NABARD to set up by not later than January 2007, a program performance management system (PPMS) as agreed on with the ADB and cause it to be operated by NABARD throughout the Program implementation at the participating states. Under PPMS, the Government through the ED shall periodically review the Program, drawing on requirements, benefit monitoring, progress, and achievements under the Program;	The monitoring mechanism set up by NABARD produces monthly participating-state wise progress updates. The Government also reviews the progress through NIMC meetings. The benefit monitoring will be set during further implementation since impacts would be available once the reform process has run it its full course.

Covenants	Comments/compliance
(b) The Government through the ED shall require NABARD to provide bi-annual PPMS reports to the ED and ADB within two months of the end of each half-year; (c) Regular review missions and mid-term review mission around June 2008 shall be undertaken by ADB, KfW, the Government of India through the ED, NABARD, and participating states, that shall include evaluation of Program scope, implementation, progress, reform agenda, capacity building, disbursements to end beneficiaries, governance, anticorruption risk assessment and related matters. The reviews shall include modifications and improvements in achieving the overall objectives of the Program.	NABARD updates the progress every month on its website. Mid-term review will be undertaken in third quarter 2009 to coincide with the completion of tranche three actions.
Technical Assistance	
Sche. 5, 14(a) In carrying out policy measures and activities under the Program and policy matrix, the Government through the ED shall cause NABARD and participating states to ensure that recommendations provided under the technical assistance are duly considered for appropriate adoption in a timely manner in consultation with ADB; and (b) as and when other agencies support the Program for the CCS Reforms the ED shall facilitate coordination of related inputs.	Technical assistance activities have not yet commenced.
Compliance Status with Particular Covenants in Loan Agreement	
Section 4.01 (a) The Government shall cause the Program to be carried out with due diligence and efficiency and inconformity with sound administrative, financial, environmental, and rural credit practices. (b) in the carrying out of the Program, the Government shall perform, or cause to be performed, all obligations set forth in Schedule 5 of the loan agreement	Being complied with.
Section 4.02 The Government shall make available, promptly as needed, the funds, facilities, services, and other resources which are required, in addition to the proceeds of the loan, for the carrying out of the Program.	Being complied with.
Section 4.03 The Government shall ensure that the activities of it departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Being complied with.
Section 4.04 (a) The Government shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible items financed out of the proceeds of the loan and to indicate the progress of the Program.	Being complied with.
(b) The Government shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a).	Being complied with.
Section 4.05 (a) as part of the reports and information referred to in Section 7.04 of the loan regulations, the Government shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the policy letter.	Being complied with.

Covenants	Comments/compliance
(b) Without limiting the generality of the foregoing or Section 7.04 of the loan regulations, the Government shall furnish, or cause to be furnished, to ADB bi-annual reports on the carrying out of the Program, and on the accomplishment of the targets and carrying out of the actions set out in the policy letter.	Being complied with.

SCOPE OF AMENDMENTS TO COOPERATIVE SOCIETIES ACTS

Amendments to CSA	Desired Outcomes
1. Ensuring full voting membership rights to all depositors and borrowers.	Improved governance and greater discipline in financial decisions.
2. Providing autonomy to cooperative credit structure (CCS) in all financial and internal administrative matters, especially in the following areas: (i) interest rates on deposits and loans in conformity with Reserve Bank of India (RBI) guidelines; (ii) borrowings and investments; (iii) loan policies and individual loan decisions; (iv) personnel policy, staffing, recruitment, posting, and compensation to staff; and (v) internal control systems, appointment of auditors, and compensation for the audit.	Professionalism in operations Greater accountability of management Operations and processes driven by business requirements.
3. Restricting the equity of state government's to a maximum of 25% in CCS at any level and limiting state government participation in the board of cooperative banks – State Cooperative Banks (SCBs) and District Central Cooperative Banks (DCCBs) - to only one nominee and not to have any state government nominee on the board of Primary Agricultural Credit Societies (PACSs). Any institution at any level wishing to reduce the equity of the state government further would be free to do so and the CCS institution will not be prevented from doing so.	Limiting the influence of state government in ownership and management of the CCS. Making the CCS member-driven entities.
4. Allowing transition of any cooperative institution registered under the State Cooperative Societies Act to the parallel Self Reliant Cooperative Societies Act, when enacted (wherever enacted), and permitting cooperatives under the Self Reliant Cooperative Societies Act (wherever enacted) to be members of federal structures registered under the Cooperative Societies Act and vice versa.	To provide for truly independent cooperatives at the primary level and ensure that they could be part of the CCS if they so desire.
5. Allowing freedom to any CCS institution to affiliate or disaffiliate with a federal structure of its choice.	Autonomy to the CCS institutions to choose their higher tier institution in order to serve the member's interests better. This would improve quality of service from higher tiers to lower tiers and introduce customer relationship management concepts.
6. Allowing freedom of entry and exit for any unit of CCS at any level with no mandated restrictions of geographical boundaries for its operations.	Freedom from monopolistic hold of higher tiers over lower tiers. Introducing competition among higher tier institutions.
7. Withdrawing any restrictive orders on financial matters like investments to be made by CCS institutions and permitting them to invest funds, subject to the guidelines as may be prescribed by the RBI.	Enabling the CCS institutions to take business decisions professionally in the interest of their institutions and members within the framework of banking norms.
8. Permitting any CCS institution to take loans from any RBI regulated financial institution, and refinance from National Bank for Agriculture and Rural Development (NABARD) or any other refinancing agency directly or through any RBI-regulated financial institution of its choice and not necessarily from only the federal tier to which it is affiliated, and similarly, placing its deposits with or making investments in any regulated financial institution of its choice and not necessarily with only the federal tier to which it is affiliated.	Autonomy to CCS institutions to invest with and borrow funds from best possible sources. Ensuring that higher tier institutions compete on service cost and quality.
9. Laying down guidelines for the purpose of payment of dividend by PACSs in consultation with NABARD.	Ensuring a normative framework for continued strengthening of finances and net worth of the CCS institutions

	Restrict distribution of surpluses in an *ad hoc* manner.
10. There shall be no compulsion on contribution to funds other than those required for improving the net worth/owned funds of CCS institutions.	Arresting the past trend of making CCS institutions contribute to several funds and purposes that did not serve the members and did not contribute to the objectives of the institutions.
11. The director representing a cooperative society other than PACS on the board of a DCCB shall get disqualified in the event of the PACS committing a default for a period exceeding 90 days. The person who is a defaulting member or office-bearer of a defaulting PACS shall not be eligible to be elected to the Board of the PACS or the DCCB as the case maybe, or continue on the Board for more than one year unless the default is cleared.	Zero tolerance of default and ensuring that the office bearers set the right examples.
12. Ensuring implementation of regulatory prescriptions of the RBI in the case of SCBs and DCCBs, including supercession of the Board of the SCB or DCCB or winding up of the SCB or DCCB and appointment of a liquidator, within one month of being so advised by the RBI.	Bringing SCBs and DCCBs under the sole regulatory authority of RBI. Extinguishing the independent powers enjoyed by the state governments.
13. Supercession of the Board of the SCB or a DCCB by the Registrar of Cooperative Societies (RCS) under any other clause of the state CSA shall be done only in consultation with RBI. The Board of a PACS shall be superseded by the RCS only under the following conditions: (i) if a PACS incurs losses for three consecutive years, or (ii) if serious financial irregularities or frauds have been identified, or (iii) if there are judicial directives to this effect, or (iv) there is perpetual lack of quorum.	Introducing full regulation of RBI over SCB and DCCBs Prevention of arbitrary suspension of cooperative democracy in PACSs through adoption of norms for guiding decisions on supercession of Boards of PACSs.
14. Ensuring timely elections before the expiry of the term of the existing Board of CCS institutions and within two months from the date of supercession of any Board. Also, ensuring that members of the Board of a PACS which has been superseded due to a reason as in 13 above would not be entitled to contest again for a period of at least three years after supercession.	Prevention of arbitrary control of CCS institutions by state governments. Ensuring continued democratic functioning of the CCS institutions.
15. Ensuring approval of the by-laws of the CCS institutions within one month form the date of submission to the RCS.	To replace the existing cumbersome procedures for amendment of by-laws by the CCS institutions. Enabling sound and autonomous governance.
16. Prescribing prudential norms, including capital to risk asset ratio, for all financial cooperatives other than co-operative banks, but including PACS in consultation with NABARD.	Bringing the CCS institutions on par with banking system in terms of their accounting and finances.
17. Removing at the request of NABARD/RBI, director(s)/chief executive officers (CEOs) who do not fulfill the fit and proper criteria stipulated by RBI in the case of SCB and DCCBs.	Professionalization of SCBs and DCCBs through placement of competent CEOs.
18. Prescribing co-option of professionals on the Board of the SCBs and DCCBs with full voting rights, in case professionals as stipulated by the RBI do not get elected to the Board of the SCBs or DCCBs.	Making boards professional by filling in gaps in expertise in the elected boards.
19. Auditing of SCBs and DCCBs by chartered accountants approved by NABARD.	Improving quality of audit and making it on par with other banks.
20. Deregistering as societies, PACS which are using the word “Bank,” “Banking,” “Banker,” or any other derivative of the word “bank” in their registered names.	Compliance with Banking Regulation Act 1949 and prevention of misleading practices that might harm the public.
21. Abolition of arrangements for placement of staff by the state authorities such as through “Cadre staff” systems in those states where such systems exist.	Staff accountability to the boards of the cooperative institutions.

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DESIGN AND MONITORING FRAMEWORK – STATUS

Design Summary	Performance Targets/ Indicators	Comments
Impact Enhanced income and employment growth for the rural poor in the participating states	Increased rural per capita incomes (by at least 5% within 7 years) Improved social indicators in rural areas (at least 5% improvement in basic indicators within 7 years) Reduced incidence of rural poverty ($1/day) (by at least 5% points within 7 years)	Per capita income increased by 7.6%, 8.1%, and 7.2% in financial year (FY)[1]2005, FY2006, and FY2007. Government of India budget expenditure on social sectors increased from 10.8% in FY2005 to16.4% in FY2007. Data since the commencement of the Rural Cooperative Credit Restructuring and Development Program (the Program) is not yet available. The most recent information indicates that poverty ratio declined by 9% between FY1993 and FY2004.
Outcomes Improved access by rural households to affordable financial services through a sustainable and efficient CCS in the participating states	Increased lending to agricultural activities (annual increase of at least 5% per annum during the Program period) Increased number of small and marginal farmers access credit (access improves by at least 5% during the Program period) Reduced NPA levels in the CCS (decline by at least 5% during the Program period) Improved repayment rate in CCS (aggregate repayment rate improves each year during the Program period) Improved CCS profitability (aggregate profitability improves each year during the Program period) Diminished costs of services from the CCS (average costs reduce successively during the Program period)	Agriculture credit registered a compound annual growth rate of 27% during FY2003- FY2007.. The number of small farmer borrowers increased by 21% between FY2004–FY2006 (from 12.7 million to 15.4 million). NPAs at the level of SCBs and DCCBs showed a very marginal decline during FY2006 compared to FY2005. As a result of ADWDR Scheme, the NPA levels are expected to decline significantly. However, this is not performance based reduction. Sustaining the reduced level NPAs as a result of this ADWDR Scheme will have to be monitored. Overdue loan percentage has remained largely the same during FY2004 to FY2006. 27 out of 31 SCBs and 271 out of 369 CCBs reported profits across the country during FY2006. Profitability for both SCBs and DCCBs marginally declined during FY2006 compared to FY2005. Profitability is expected to increase as a result of the reform measures envisaged under the Program. Cost of service delivery in CCBs as a % of working capital declined in case of three participating states but showed increase in case of other two.

[1] FY2005 covers 1 April 2005 to 31 March 2006.

Design Summary	Performance Targets/ Indicators	Comments
Outputs A nationwide policy framework for strengthening the short-term CCS	MOUs signed by five participating states (4 MOUs signed by Nov 2006 and the fifth by Mar 2007)	Already achieved as documented in the progress report.
	Government/participating states make budgetary provisions to initiate CCS reforms (starting Oct 2006)	Already achieved as documented in the progress report.
	SLICs and DLICs established (Jun 2007)	Already achieved as documented in the progress report.
	NABARD establishes DCRR (by Oct 2006)	Already achieved as documented in the progress report.
	Government constitutes NIMC (by Oct 2006)	Already achieved as documented in the progress report.
	State Task Forces constituted (by Jun 2007)	Already achieved as documented in the progress report.
	Stakeholder consultations held by the Government (first Nov 2008 and second by Nov 2009)	First stakeholder consultation to be held in the first quarter of 2009.
A conducive legal framework for autonomous CCS operations	Measures to amend the CSAs initiated by participating states (starting by Jan 2007)	Measures already undertaken.
	Amended CSAs enacted by participating states (by Jun 2008)	Amendment of the CSAs is a third tranche action. Nevertheless, CSAs have been amended by four participating states and is in advanced stages of completing the legislative process in the remaining participating state.
	Rules and regulations for amended CSAs issued by participating states (by Nov 2008)	To be done as third tranche action. Participating states are in the process of developing the rules and regulations.
	Need for amending NABARD Act and DICGC Act reviewed (by Jun 2007)	The need for amendments to these Acts has been assessed.
	NABARD Act and DICGC Act amended if necessary (by Nov 2008)	NABARD is in consultation with RBI on amendments to NABARD Act for further facilitating the availability of refinance support to the CCS institutions. Instead of amending the DICGC Act, a self funding deposit protection scheme is likely to be introduced for the deposits mobilized by the PACSs.

Design Summary	Performance Targets/ Indicators	Comments
Orderly development of CCS and enhanced depositor protection	Amendments to the Banking Regulation Act finalized (Jun 2007)	The amendments are with select committee of the Parliament.
	Amended Banking Regulation Act enacted (by Jun 2008)	This will be pursued as a third tranche action.
	Prudential norms issued by participating states for PACSs and nonbank CCS (by Jun 2007)	NABARD has provided interim guidelines to the participating states and the final guidelines are expected in January 2009. Prudential norms for PACSs are also covered by the common accounting standard and the management information system introduced as part of the CCS reform package.
	Prudential norms applied to PACS (Jun 2008)	To be reviewed as third and fourth tranche actions.
	Supervision and regulation done in participating in line with amended CSA for CCS classified as banks (starting by Sept 2008)	To be reviewed as third and fourth tranche actions.
	Prudential norms issued and eligibility of chief executive officers and Boards developed in participating states in line with amended Banking Regulation Act (by Sept 2008)	To be reviewed as third and fourth tranche actions. In the meantime, NABARD has written to participating states on the application of fit and proper criteria for chief executive officers of DCCBs and SCBs.
Democratic character of the CCS restored and governance enhanced	Election plans prepared by participating states for the CCS (by Jun 2007)	Election plans have been prepared in the participating states.
	Equity share in CCS reduced to maximum of 25% and converted to grant by participating states (completed by Nov 2008)	NABARD has advised the participating states on actions required for the reduction of state's equity to a maximum of 25%. This will be pursed during further implementation.
	Guidelines for annual audits and rating of SCBs and DCCBs issued by NABARD (by Jun 2007)	Guidelines issued by NABARD for audit and rating.
	Elections held and new directors and office bearers installed in SCBs and DCCBs (beginning by January 2008)	Elections have been held in four participating states and are scheduled to be held in one more participating state.
	Participating state nominees limited to one on SCBs/DCCBs boards and withdrawn from PACSs' boards (beginning January 2008)	To be reviewed as third and fourth tranche actions.
	Directors on boards of SCBs/DCCBs not meeting approved criteria and of loss-making entities identified and removed (beginning by Jun 2008)	To be reviewed as third and fourth tranche actions.
	Independent ratings of SCBs/DCCBs conducted (first rating by Nov 2008)	As per NABARD guidelines, auditors (independent chartered accountants) of the CCS would undertake the ratings. The progress of undertaking ratings will be reviewed during further implementation.

Design Summary	Performance Targets/ Indicators	Comments
International best practices mainstreamed in the CCS	Accounting standards, MIS, human resources development, and computerization plans issued by NABARD and implemented in CCS in all participating states (no later than Nov 2007)	Accounting standards and MIS have been made applicable from FY2008. Computerization plan, starting at the level of PACS has been sequenced to follow the stabilization of accounting and MIS. Human resource development for PACSs have been prioritized in view of the serious capacity deficit in PACSs.
	Format for special audits developed and sample audits conducted by NABARD (by Oct 2006)	Completed.
	Guidelines linking refinance to CCS reforms issued by NABARD (by Oct 2006)	Completed.
	Refinance from other financial institutions considered by NABARD (by Jun 2007)	Completed.
	Model plans for ineligible PACSs developed by NABARD (by Jun 2007)	The ongoing DAPs are being applied for business and viability planning.
	Model APRs/DAPs prepared by NABARD (by Jun 2007)	The ongoing DAPs will serve the purpose of business and viability planning.
PACSs strengthened to provide stronger foundation for the CCS	Placement of cadre-based secretaries discontinued in participating states (beginning no later than Jun 2007)	Available information indicates that participating states have discontinued placement of cadre-based secretaries.
	Phase out of cadre-based secretaries initiated (no later than Jun 2008)	Phase out to be undertaken only through involuntary attrition, absorption by PACS as their own staff, and re-deployment.
	Special audits conducted (initiated by Nov 2006 and completed by Nov 2008)	Special audits of PACS completed except in Bihar where a some PACSs still remain to be audited.
	Eligible PACSs sign agreements with DCCBs/DLICs (continuous, beginning Mar 2007)	PACSs have signed letters of undertaking.
	Financial support provided to clean accumulated losses (continuous, beginning Jun 2007)	Initial installments of recapitalization funding released in three participating states except Bihar and Rajasthan.
	APRs/DAPs adopted and implemented (continuous, beginning no later than Jun 2007)	All PACSs are required to submit DAPs for vetting by DLIC.
	Plans for ineligible PACSs developed and initiated in participating states (beginning no later than Jun 2007)	As indicated in the progress report the ineligible PACSs will continue with DAPs

Design Summary	Performance Targets/ Indicators	Comments
DCCBs reformed into sustainable institutions	Agreement letters signed with DLICs (completed by Nov 2007) Special audits conducted (initiated by Mar 2007 and completed by Nov 2008) Financial support provided to clean accumulated losses (continuous, beginning no later than Mar 2008) APRs/DAPs adopted and implemented (continuous, beginning no later than Jan 2008)	Agreements signed with DLICs. Special audits ongoing and expected to be complete by end December 2008. Financial support would follow completion of special audits. DCCBs continue to prepare and submit DAPs.
SCBs reformed to effectively perform as apex institutions supporting efficiency and sustainability of the CCS	Agreement letters signed with SLICs (completed by Mar 2007) Special audits conducted (initiated by Mar 2007 and completed by Nov 2008) Financial support provided to clean accumulated losses (continuous, beginning no later than Mar 2008) APRs/DAPs adopted and implemented (continuous, beginning no later than Jan 2008)	Agreement letters with SLICs. Special audits would be carried out after completion of special audits of DCCBs. Financial support would follow completion of special audit. SCBs continue to prepare and submit DAPs to the SLIC.

ADWDR= Agricultural Debt Waiver and Debt Relief, APR = Action Plans for Revival, CCS = cooperative credit structure, CSA = Cooperative Societies Act, DAP= Development Action Plan, DCCB = district central cooperative bank, DICGC = Deposit Insurance and Credit Guarantee Corporation, DLIC = district level implementation committee, MIS = management information system, MOU = memorandum of understanding, NABARD = National Bank for Agriculture and Rural Development, NPA = nonperforming asset, PACS = primary agricultural credit society, SCB = state cooperative bank, SLIC = state-level implementation committee.