ADB

Completion Report

Number: 36343
Loan Number: 2281
September 2014

India: Rural Cooperative Credit Restructuring and Development Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – Indian rupees (Re/Rs)

		At Appraisal	At Program Completion
		(30 September 2006)	(30 June 2013)
Re1.00	=	$0.0210	$0.0167
$1.00	=	Rs45.93	Rs59.71

ABBREVIATIONS

ADB	–	Asian Development Bank
CCS	–	cooperative credit structure
CPS	–	country partnership strategy
DCCB	–	district central cooperative bank
NABARD	–	National Bank for Agriculture and Rural Development
NIMC	–	National Implementation and Monitoring Committee
PACS	–	primary agriculture credit society
SCB	–	state cooperative bank
TA	–	technical assistance

NOTES

(i) The fiscal year (FY) of the Government of India and its agencies begins on 1 April and ends on 31 March. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 begins on 1 April 2013 and ends on 31 March 2014.

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

Vice-President	W. Zhang, Operations 1
Director General	H. Kim, South Asia Department (SARD)
Director	B. Carrasco, Public Management, Financial Sector and Trade Division, SARD
Team leader	D. Lambert, Senior Finance Specialist, SARD
Team members	A. M. Alipio, Associate Project Officer, SARD R. M. Arao, Associate Research Analyst, SARD A. Bravo, Senior Operations Assistant, SARD V. Rao, Principal Financial Sector Specialist, SARD

CONTENTS

			Page
BASIC DATA			i
I.	PROGRAM DESCRIPTION		1
II.	EVALUATION OF DESIGN AND IMPLEMENTATION		1
	A.	Relevance of Design and Formulation	1
	B.	Program Outputs	3
	C.	Program Costs	3
	D.	Disbursements	4
	E.	Program Schedule	4
	F.	Implementation Arrangements	4
	G.	Conditions and Covenants	5
	H.	Related Technical Assistance	5
	I.	Consultant Recruitment and Procurement	6
	J.	Performance of Consultants, Contractors, and Suppliers	6
	K.	Performance of the Borrower and the Executing Agency	6
	L.	Performance of the Asian Development Bank	7
III.	EVALUATION OF PERFORMANCE		8
	A.	Relevance	8
	B.	Effectiveness in Achieving Outcome	8
	C.	Efficiency in Achieving Outcome and Outputs	9
	D.	Preliminary Assessment of Sustainability	10
	E.	Institutional Development	11
	F.	Impact	11
IV.	OVERALL ASSESSMENT AND RECOMMENDATIONS		12
	A.	Overall Assessment	12
	B.	Lessons	12
	C.	Recommendations	14
APPENDIXES			
1.	Program Framework		16
2.	Status of Compliance with Tranche Policy Conditions		22
3.	Summary of Outputs		36
4.	Status of Compliance with Loan Covenants		39
5.	Technical Assistance Completion Report		43

BASIC DATA

A. Loan Identification

1.	Country	India
2.	Loan Number	2281
3.	Program Title	Rural Cooperative Credit Restructuring and Development Program
4.	Borrower	Ministry of Finance
5.	Executing Agency	Ministry of Finance, Banking Division
6.	Amount of Loan	$1,000,000,000
7.	Program Completion Report Number	1485

B. Loan Data

1.	Appraisal	
	– Date Started	13 September 2006
	– Date Completed	30 September 2006
2.	Loan Negotiations	
	– Date Started	8 November 2006
	– Date Completed	15 November 2006
3.	Date of Board Approval	8 December 2006
4.	Date of Loan Agreement	11 December 2006
5.	Date of Loan Effectiveness	
	– In Loan Agreement	10 March 2007
	– Actual	21 February 2007
	– Number of Extensions	
6.	Closing Date	
	– In Loan Agreement	30 June 2010
	– Actual	30 June 2013
	– Number of Extensions	2
7.	Terms of Loan	
	– Interest Rate	LIBOR
	– Maturity (number of years)	15
	– Grace Period (number of years)	3
8.	Terms of Relending (if any)	None
	– Interest Rate	Not applicable
	– Maturity (number of years)	Not applicable
	– Grace Period (number of years)	Not applicable
	– Second-Step Borrower	Not applicable

9. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
26 February 2007	21 December 2010	46 months
Effective Date	**Original Closing Date**	**Time Interval**
21 February 2007	30 June 2010	40 months

b. Amount ($ million)

Tranche	Amount	Date
1	250	26 Feb 2007
2	250	19 Dec 2008
3	300	21 Dec 2010
4	0	Cancelled
Total	**800**	

10. Local Costs (Financed)

- Amount ($) None
- Percent of Local Costs
- Percent of Total Cost

C. Program Data

1. Program Cost ($ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	1,000	800
Local Currency Cost	0	0
Total	1,000	800

2. Financing Plan ($ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	251.00	126.32
ADB Financed	1,000.00	800.00
Other External Financing		
- DFID TA	2.00	0.05
- KfW Loan[a]	175.00	122.39
Total	1,428.00	1,048.76

IDC Costs		
Borrower Financed	None	None
ADB Financed		
Other External Financing		
Total	1,428.00	1,048.76

ADB = Asian Development Bank, DFID = Department for International Development of the United Kingdom, IDC = interest during construction, TA = technical assistance.
[a] Although KfW's parallel financing is not yet closed, ADB decided to proceed with this project completion report because KfW is restructuring the undisbursed portion, which is expected to be applied for somewhat different purposes.

3. Cost Breakdown by Program Component ($ million)

Component	Appraisal Estimate	Actual
A. Policy Loan	1,000	800
Total	1,000	800

4. Program Performance Report Ratings

	Ratings	
Implementation Period	**Development Objectives**	**Implementation Progress**
From 31 Dec 2006 to 31 Jan 2009	S	S
From 1 Feb 2009 to 28 Feb 2009	S	HS
From 1 Mar 2009 to 31 Jul 2010	S	S
From 1 Aug 2010 to 30 Nov 2010	S	PS
From 1 Dec 2010 to 31 Dec 2010	S	S
From 1 Jan 2011 to 30 June 2013	Program loans are not rated in eOps	

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Loan Inception	20–22 Dec 2006	2	6	Financial
Review 1	23 Jul 2009	1	1	Financial
Review 2	3–9 Nov 2009	3	7	Financial
Review 3	4–5 Apr 2010	1	2	Financial
Review 4	14–18 Oct 2010	1	5	Financial
Review 5	18–22 Jul 2011	1	5	Financial
Program completion review	25–26 Mar 2014 29–30 Apr 2014 3 Jun 2014	1	5	Financial

I. PROGRAM DESCRIPTION

1. The Asian Development Bank (ADB) approved a loan of $1 billion for the Rural Cooperative Credit Restructuring and Development Program in November 2006. The program's objective was to support policy and institutional reforms in the rural cooperative credit structure (CCS) in the participating Indian states of Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, and Rajasthan.

2. The program's outputs were
   (i) a nationwide policy framework for strengthening the CCS,
   (ii) a conducive legal framework for autonomous CCS operations,
   (iii) orderly development of the CCS and enhanced depositor protection,
   (iv) democratic character of the CCS restored and governance enhanced,[1]
   (v) international best practices mainstreamed in the CCS,
   (vi) primary agricultural credit societies (PACSs) strengthened to provide stronger foundation for the CCS,[2]
   (vii) district central cooperative banks (DCCBs) reformed into sustainable institutions, and
   (viii) state cooperative banks (SCBs) reformed to effectively perform as apex institutions supporting efficiency and sustainability of the CCS.

3. The program's rationale was that CCS reform would make financial services to the rural poor more efficient and less expensive. Better access to capital would support agricultural growth, which would contribute to enhanced income and employment for the rural poor.[3] The CCS reforms were part of a wider government program to support the lower-income and particularly rural segments of the population. Similar initiatives included the National Rural Employment Guarantee Act (2005), the Agricultural Debt Waiver and Debt Relief Scheme (2008), and the Food Security Act (2013).

4. The program, which ADB was to disburse in four tranches over a 42-month period, became effective in February 2007 and was originally scheduled to close in June 2010. In July 2010, ADB extended the closing date by 21 months to March 2012. In May 2012, ADB approved a second extension of 15 months to June 2013. In June 2013, $200 million of the $1 billion program remained undisbursed and was cancelled.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. The program was consistent with ADB's country strategy and India's development objectives at origination. ADB's country partnership strategy (CPS) included eight thematic and sector priorities, of which agriculture and rural development was described as "arguably the most important feature of the new strategy to mainstream poverty reduction."[4] Similarly, India's

---

[1] The term "democratic character" is taken directly from the report and recommendation of the President. It is understood to mean that CCS members, as shareholders, will influence board composition and business decisions through elections.

[2] The CCS provides short-term credit to rural borrowers and has three tiers: state cooperative banks (SCBs), district central cooperative banks (DCCBs), and primary agricultural societies (PACSs).

[3] For more detailed information on the program's objectives, components, outputs, and rationale, see ADB. 2006. *Report and Recommendation of the President to the Board of Directors on the Proposed Program Loan and Technical Assistance Grant to India for Rural Cooperative Credit Restructuring and Development Program.* Manila.

[4] ADB. 2003. *Country Strategy and Program: India, 2003–2006*. Manila.

Tenth Five-Year Plan included agricultural development as one of three sector-specific foci to promote socially inclusive growth.[5]

6. The program remained consistent with ADB's CPS and India's development objectives at completion. At the financial close in June 2013, agriculture was a critical sector in India's Twelfth Five-Year plan as a key driver of inclusive growth.[6] Agriculture's systemic weaknesses are similarly identified as a key binding constraint in ADB's CPS, 2009–2012.[7]

7. Stakeholder participation and level of ownership were high. Prior to the program's design, India's Ministry of Finance commissioned a high-level task force (the Vaidyanathan Committee) to make recommendations on the overhaul of the CCS.[8] The Vaidyanathan Committee had well-respected members and represented diverse stakeholders, so its recommendations carried a high degree of weight. ADB's program essentially funded implementation of the Vaidyanathan Committee's recommendations in the five participating states.

8. In December 2003, ADB initiated project preparatory technical assistance (TA) with funding from the Department for International Development of the United Kingdom.[9] Yet, because of the limited overlap of the preparatory TA with the work of the Vaidyanathan Committee, the TA's impact on the program design was likely minimal. More specifically, the TA delivered an interim report in September 2004, a draft final report during December 2004–February 2005, and the final report in October 2005. Meanwhile, India's Ministry of Finance had convened the Vaidyanathan Committee in August 2004, and the committee delivered its report in December 2004; it was this report that drove ADB's program design.

9. The program's basic premise was conceptually sound—i.e., corporate governance reforms as preconditions for recapitalization—but there were design and implementation limitations. They included ADB's indicators in the design monitoring framework (paras. 39, 45–46), timing of computerization (para. 49), limited implementation period (para. 51), insufficient risk mitigation for the program's size (para. 52), requirements for legislative action (para. 53), and management of potential cost overruns (para. 59). Additionally, statutory auditors were responsible for conducting the special audits, and the District Level Implementation Committees for vetting audit results. Given that such work carries an inherent potential for conflicts of interest, it would have been appropriate to incorporate independent third-party verification into the implementation.

10. There was one significant modification during implementation. States were to implement action plans for PACSs that did not have reasonable prospects for recovery (defined as PACSs with loan recovery rates of less than 30% at the program's inception). The National Implementation and Monitoring Committee (NIMC), which provided program oversight, weakened this criterion at its first meeting. PACSs could become eligible for recapitalization if they improved their recovery rate from below 30% to 50% within 3 years and, if they did not, recapitalization was left to the responsible DCCB. With over 100,000 PACSs across India and poor baseline data, it is uncertain how many PACSs ultimately benefited from these changes,

---

[5] Planning Commission. 2002. *Tenth Five-Year Plan, 2002–2007*. New Delhi: Government of India.

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

[7] ADB. 2009. *Country Partnership Strategy: India, 2009–2012*. Manila. However, the focus of the next CPS is slightly different and emphasizes the role of agriculture in water resources management; see ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

[8] Ministry of Finance. 2005. *Report of the Task Force on Revival of Rural Cooperative Credit Institutions.* New Delhi: Government of India.

[9] ADB. 2003. *Technical Assistance to India for Preparing the Rural Finance Sector Restructuring and Development Project*. Manila.

but coming at the NIMC's first meeting, the decision may have inadvertently signaled that reforms could be avoided and, more generally, regulatory forbearance.

B. Program Outputs

11. The program had 45 outputs, which were based on the program's 89 tranche release conditions. Out of the 45 outputs, 36 were fully or effectively achieved to include, notably, the amendment of the cooperative societies acts, establishment of standards for CCS board members and management, introduction of accounting standards, and elimination of the cadre system (Appendix 3).

12. The nine partially or unachieved outputs, however, include important reforms such as resolving poorly performing PACSs and the full clearing of accumulated losses (Table 1). Moreover, of the achieved outputs, some were of questionable stringency. For example, participating states were required to issue prudential standards for PACSs, but they did not need to follow national or international norms. The minimum capital requirement was set at 4%, which was half of the 8% required by Basel II.

Table 1: Significant Unachieved Outputs

Output	Comments
Accounting standards, management information systems, human resources, and computerization plans issued by NABARD and implemented in CCS	Computerization implementation in all DCCBs expected by 2014; PACSs generally not computerized
Financial support provided to clean CCSs' accumulated losses	Not completed. Many CCSs remain undercapitalized, which limits their lending capacity and sustainability
Plans for ineligible PACSs developed and initiated	To date, only Andhra Pradesh and Rajasthan have completed road maps for ineligible PACSs. The failure to close underperforming PACSs perpetuates weak institutions and fosters moral hazard

CCS = cooperative credit structure, DCCB = district central cooperative bank, NABARD = National Bank for Agriculture and Rural Development, PACS = primary agriculture cooperative society, SCB = state cooperative bank.
Source: Asian Development Bank.

13. The plan for ineligible PACSs was of particular significance. The survival of unprofitable and undercapitalized PACSs weakens the viability of the CCS (para. 43).

C. Program Costs

14. The adjustment cost for implementing the program in the five participating states was $1.43 billion. The estimate came largely from the work of the Vaidyanathan Committee. ADB and KfW sized their support so that it would cover approximately 80% of the adjustment cost.

15. Costs were underestimated. The program based its estimates for recapitalization on data from March 2004. However, as the special audits of the PACSs progressed, the costs of recapitalization increased from Rs136.0 billion to Rs193.3 billion. The central government's contribution to recapitalization increased from $2.0 billion to $3.4 billion. Costs escalated because (i) the special audits had identified higher losses than anticipated, (ii) some PACSs continued to lose money after the initial 2004 estimate, and (iii) more institutions were allowed into the program than originally anticipated because of the changes to the eligibility criteria.

D. Disbursements

16. The disbursement schedule was not realistic. The first three tranches were delayed, and ADB cancelled the final tranche because of unmet conditions (Table 2).

Table 2: Projected and Actual Tranche Disbursement

Tranche	Tranche Amount	Original Deadline	Actual Date	Tranche Delay (Months)
1	$250 million	11 Mar 2007 (90 days after loan signing)	26 Feb 2007	0
2	$250 million	25 Feb 2008 (within 12 months after tranche 1)	19 Dec 2008	10
3	$300 million	18 Dec 2009 (within 12 months after tranche 2)	21 Dec 2010	12
4	$200 million	20 Dec 2011 (within 12 months after tranche 3)	Cancelled	

Source: Asian Development Bank.

17. The disbursement schedule was delayed because of the multiple layers of stakeholders and the sheer number of institutions. For example, state legislators had to amend their respective cooperative societies acts. Before doing so, the National Bank for Agriculture and Rural Development (NABARD) first had to approve the proposed text. The state legislators then had to pass the amendments, after which the states had to develop business procedures to make the reforms operational. Finally, the board of each CCS had to approve the changes.

E. Program Schedule

18. ADB extended the closing date by 21 months, from 30 June 2010 to 31 March 2012, and then further extended the date by 15 months (cumulatively 36 months) from 31 March 2012 to 30 June 2013.

19. The delays resulted from unmet tranche release conditions that broadly fell into three categories:

(i) Implementation took longer than anticipated (e.g., corporate governance reforms, computerization).
(ii) There was more expense than anticipated (e.g., clearing of accumulated losses).
(iii) Political resistance was encountered (e.g., closure of ineligible PACSs).

20. The program's risk assessment anticipated these issues but did not include sufficient controls to mitigate them (para. 52).

F. Implementation Arrangements

21. The Ministry of Finance (Banking Division) was the executing agency and NABARD the implementing agency. To organize its work, NABARD established the Department for Cooperative Revival and Reforms. To coordinate implementation across ministries and government levels, the central government established the National Implementing and Monitoring Committee (NIMC), each state established a state-level implementing and monitoring committee, and each district established a district-level implementing and monitoring committee. ADB was not a member of any of these committees.

22. The implementation arrangements had some deficiencies: action plans for ineligible PACSs (para. 13), monitoring and data collection (para. 59), and composition of the NIMC (para. 59).

G. Conditions and Covenants

23. The program had 89 tranche release conditions spread across four tranches (Table 2). Out of the 89 actions, 67 were fully complied with, 11 were substantially complied with, and 11 were partly complied with (Appendix 2).

24. The tranche amounts could have been better distributed. Whether originally planned or through subsequent amendments, program loans often defer some of the most difficult tranche release conditions to the latter tranches. This program followed that pattern, and if the larger disbursements had come at the program's end (e.g., tranche 4 of $350 million instead of $200 million), it would have better aligned the most difficult policy actions with the size of the tranche.

25. Out of the final tranche's 16 policy actions, 9 were not fully met. Additionally, there remained 13 conditions from previous tranches that were not fully met. The unmet conditions included counterpart funding, computerization, corporate governance reforms, and implementation of action plans for ineligible PACSs. The cancellation was appropriate because (i) ADB had already extended the program by 36 months, (ii) there was a material number of unmet tranche release conditions, and (iii) it would likely have required several years to fulfill the remaining tranche conditions assuming that Government of India budgetary resources were made available to complete implementation. Indeed, given the volume of deferred conditions at the third tranche release, the cancellation may have even been overdue. The reasons for and recommendations to address noncompliance are discussed in paras. 48–53 and 59.

26. Loan covenants were partially met, with exceptions generally pertaining to the unmet tranche release conditions (Appendix 4).

H. Related Technical Assistance

27. In conjunction with the program loan, ADB approved a technical assistance (TA) grant, funded by the Department for International Development of the United Kingdom, for $2 million to finance capacity building. The purpose of the TA was to strengthen implementation of the cooperative society reforms and enhance their social and gender impacts.

28. The TA is rated *unsuccessful*. Following loan and TA approval, ADB retained Grant Thornton Advisory for the TA and made a small mobilization payment. Thereafter, the sequence and driver of events becomes somewhat unclear because of limited documentation on and institutional memory of the TA at ADB, NABARD, and the Department for International Development of the United Kingdom. After retaining the consultancy, there seems to have been a period of inactivity. Then, in June 2007, NABARD requested amendment of the TA. The request, however, came too close to the program's deadline to consider, and the TA was cancelled.[10] The cancellation was significant because the TA would have funded data collection and monitoring, the absence of which undermined the program's effectiveness.

---

[10] ADB. 2014. *India: Capacity Building for Rural Cooperative Credit Structure (CCS) Reform*. Manila.

I. Consultant Recruitment and Procurement

29. Grant Thornton Advisory was recruited under the TA using quality- and cost-based method. However, no work was done under the contract (para. 28).

J. Performance of Consultants, Contractors, and Suppliers

30. Given that no work was done under the contract, there is no basis for assessing Grant Thornton Advisory's performance, and its performance is recorded as *not rated*.

K. Performance of the Borrower and the Executing Agency

31. The borrower and executing agency's performance was *less than satisfactory*. This rating appreciates that the borrower and executing agency did make some important contributions, specifically as follows:

(i) **Developed the project.** The Vaidyanathan Committee's basic premise—that corporate governance reforms should anchor the recapitalization of viable institutions—was sound.

(ii) **Initially afforded the project high-level support.** Although meetings later became intermittent, the NIMC met regularly at inception, and its chair and participation included senior representatives from the Reserve Bank of India, NABARD, and the Ministry of Finance.

(iii) **Achieved important corporate governance reforms.** Although the program did not achieve all of its aims, corporate governance reforms were material. Most significantly, states amended their cooperative societies acts. Furthermore, management information systems, standardized accounting, more technically qualified boards and chief executive officers, and more rigorous regulatory norms were all introduced to varying degrees.

(iv) **Overcame legislative limitations.** The original program included amending the Banking Regulation and NABARD Acts. Legislative actions often hinge on diverse domestic factors, many of which are outside of ADB's control. When the legislation stalled, the borrower was able to use the existing regulatory framework to accomplish the same ends.

32. The counterweights to these achievements are twofold. First, the borrower announced a debt waiver scheme in 2008 that provided debt relief for small and marginal farmers, and that undermined the CCS reforms. Indeed, the Vaidyanathan Committee had flagged the detrimental impact of debt waivers:

> The States (and in some cases the Union Government) have not helped the regulatory authority. On the contrary, their actions (e.g., waiver of loans in 1989 by the Union Government, periodic waivers of interest and principal by the State Governments…) have contributed to an atmosphere, that encourages defaults in payment and worse…
>
> Practically all reviews have recommended strongly against waivers of interest and loan repayment by governments, restraining or impeding recovery processes and such other measures, that create strong disincentives to borrowers to settle their dues fully and promptly.[11]

[11] Reserve Bank of India. 2004. *Draft Final Report of the Task Force on Revival of Cooperative Credit Institutions.* Mumbai.

33. The announcement of a debt waiver 2 years into the program was counterproductive. Although the debt waiver benefited the CCSs in the short term by reducing their nonperforming loans, it hurt them in the long term by undermining the credit culture. The counterargument that the central government had to respond to a rise in suicides among indebted farmers is problematic. For the Rs716.8 billion (approximately $12 billion) spent, there were more cost-effective ways to boost rural incomes, particularly because the debt waiver excluded farmers who were indebted to the informal sector and who are often the poorest.

34. Second, the program was not completed. Among the unmet tranche release conditions, perhaps the most significant obstacle was the funding shortfall. India's implementation costs were $1 billion more than originally estimated (para. 15). Although there were competing demands for fiscal resources and the borrower never committed to covering any potential shortfalls, the cancellation remains unfortunate. The shortfall was materially less than the cost of the debt waiver, and not only did it leave the CCS undercapitalized but also, without the incentive of funding from the central government, the corporate governance reforms lost some momentum.

L. Performance of the Asian Development Bank

35. ADB's performance was *less than satisfactory*:

(i) **Value addition**. ADB funded an initiative that India would have undertaken, more or less in the same manner, whether or not ADB had provided support, and there is no statistical evidence that ADB's engagement improved the financial results. A DCCB from an ADB participating state was no more likely to have a capital adequacy ratio of at least 7% at the end of the program than a DCCB from a non-ADB participating state (Table 3). The factor that is correlated with a 7% capital adequacy ratio is whether or not a state signed a memorandum of understanding to participate in the reforms by 2006 (the original deadline). Signing the memorandum on time is a proxy for a state's commitment to reform. These states were more likely to prioritize implementation and, because they started earlier, had more time to execute.

(ii) **Program design**. ADB's program should have perhaps started after the special audit of the PACSs, so that the depth of the problems were better understood and resourced. An earlier focus on computerization would have helped data collection, and the program was overly reliant on legislative initiatives, not all of which were necessary as the program was eventually able to achieve some of the desired outcomes through alternative regulatory action.

(iii) **Program size**. With the effectiveness of the program unknown, it would have been better to test the concept through a smaller facility and then to have expanded it if successful. Additionally, because the facility was 58% of ADB's loan approvals to India in 2006, it limited the funding available for other initiatives. Moreover, ADB has internal limits on program loan approvals. By approving $1 billion for this program, it restricted ADB's program lending in India and elsewhere.

(iv) **Institutional checks and potential conflicts of interest**. Interviews with persons internal and external to ADB suggest that the program's driver, particularly from origination to approval, was disproportionately the director of the originating division instead of the co-mission leaders.[12] While there may be circumstances to justify this involvement, particularly if there were limitations on

[12] The co-mission leaders came from two different divisions within ADB's South Asia Department; one had a specialization in finance and the other in agricultural economics.

staff resources with relevant skills, this is problematic for two reasons. First, in this particular instance, the director was a former employee of NABARD, which creates at least a perception of a potential conflict of interest. Second, the division director provides the first check on program quality. If he or she is too closely involved in the design, it can compromise this check's effectiveness.

(v) **Record keeping**. Staff turnover—particularly during a multiyear program—is inevitable. To mitigate its impact, good record keeping is essential. For this transaction, ADB did not centrally maintain the program's files, which were difficult to consolidate and remain somewhat incomplete.

Table 3: Impact of Various Factors on the Likelihood of a District Central Cooperative Bank Having a Capital Adequacy Ratio of at Least 7% at the Program's Conclusion

Item	Odds Ratio (%)	Z-Score	Significant at 95% Interval	Significant at 99% Interval
State under ADB facility	75	(0.99)	No	No
State under World Bank facility	95	(0.19)	No	No
State per capita income, 2008 (proxy for financial health of a state's cooperatives at inception)	106	1.37	No	No
State signed memorandum of understanding by 2006 (proxy for state commitment to reform)	367	4.47	Yes	Yes
Constant	68	(0.79)		

( ) = negative, ADB = Asian Development Bank.
Note: Results are estimated through a probit regression.
Source: Asian Development Bank.

III. EVALUATION OF PERFORMANCE

A. Relevance

36. The program was *relevant*. It was consistent with India's development priorities and ADB's country and sector strategies both at origination and completion (para. 5–6). The Vaidyanathan Committee's diagnostic assessment was comprehensive, provided a solid foundation, and gave the government a high degree of ownership in the program development. With the exceptions of the special audits and computerization, the policy actions were appropriately sequenced with an emphasis on corporate governance reforms preceding recapitalization.

37. Despite these strengths, there were weaknesses in program design (para. 35), data collection (para. 49), and time frame (para. 51). A greater emphasis on institutional controls (e.g., internal audit, reporting) could have enhanced the impact of the corporate governance reforms. Although details are minimal, the cancellation of the accompanying technical assistance implies a design weakness (para. 28). Furthermore, coordination between ADB, the World Bank, and KfW could have been improved. The World Bank's program design differed from those of ADB and KfW. Had all three institutions shared the same design, it would have not only created operational efficiencies for the CCS but also aligned the development institutions' advocacy for difficult reforms.

B. Effectiveness in Achieving Outcome

38. The program was *less than effective*. This rating flows from the earlier assessment of unachieved tranche release conditions and outputs. With one-quarter of the tranche release

conditions unmet (paras. 23–25, Appendix 2) and one-fifth of the outputs unmet (paras. 11–13, Appendix 3), it is difficult to attribute the outcomes to the program—particularly because some of the unachieved tranche conditions and outputs were among the most significant.

39. Notwithstanding, the program did achieve four out of the six outcome indicators (Table 4). However, the outcome indicators had design weaknesses. For example, indicators (i) and (ii) relate to increased lending. Generally, banks do not lack incentives to increase lending; rather, the challenge is to maintain profitable and sustainable loan growth. Indicator (iii), which focuses on nonperforming assets, is in principle a strong outcome indicator, but a 5% point reduction in the CCS nonperforming loan ratio is not meaningful because the ADB and World Bank assistance alone represented 4 percentage points of such a reduction.

Table 4: Summary of Outcomes and their Status

Outcome	Status
(i) Increased lending to agricultural activities (annual increase of at least 5% per annum during the program period)	Achieved. During FY2007–FY2012, agricultural lending increased by at least 14% and on average by 21% per annum.
(ii) Increased number of small and marginal farmers access credit (access improves by at least 5% during the program period)	Achieved. The number of small farmers borrowing from PACSs increased 35% during FY2006–FY2012.
(iii) Reduced NPA levels in the CCS (decline by at least 5% during the program period)	Achieved. CCS aggregate nonperforming loans as a percentage of aggregate loans fell from 22% as of FY2006 to 14% as of FY2012 with SCBs and DCCBs driving the improvement. However, it is unclear to what extent this target would have been achieved without the $12 billion debt waiver scheme that benefited NPA levels.
(iv) Improved repayment rate in CCSs (aggregate repayment rate improves each year during the program period)	Likely achieved*.* Data is not available for PACSs, but assuming that SCBs and DCCBs are representative of the entire CCS, then the recovery of loans to demand ratio, weighted by SCBs and DCCBs' total loans, increased from 75% to 84% during FY2006–FY2012. The increases were gradual and occurred in each year except FY2008, which that year's interest waiver likely affected.
(v) Improved CCS profitability (aggregate profitability improves each year during the program period)	Not achieved. Aggregate profits were lower than the preceding year in 5 out of 6 years. The only year where aggregate profits increased was FY2009, during which the banks had presumably benefited from the 2008 debt waiver.
(vi) Diminished costs of services from the CCS (average costs reduce successively during the program period)	Not achieved. The efficiency ratio (i.e., operating costs as a percentage of revenues) weakened. As of FY2006, SCBs had an efficiency ratio of 10.3% and DCCBs 24.3%. As of FY2012, they had increased to 12.7% for SCBs and 20.8% for DCCBs. Data for PACSs is unavailable.

CCS = cooperative credit structure, DCCB = district central cooperative bank, NPA = nonperforming assets, PACS = primary agricultural credit society, SCB = state cooperative bank.
Source: Reserve Bank of India, National Federation of State Cooperative Banks.

C. Efficiency in Achieving Outcome and Outputs

40. The program was *less than efficient*. There were process efficiencies—particularly NABARD's establishment of a dedicated division to coordinate program implementation—but the program represents poor value for money. Between the central government and the states, India spent Rs98.6 billion (approximately $1.6 billion). That money facilitated legal amendments, corporate governance reforms, and institutional development but did not fundamentally alter the

CCS's financial sustainability. As of the most recent data (March 2012), the CCS remains undercapitalized: 39% of the SCBs and 36% of the DCCBs do not meet the 7% capital adequacy ratio with which they must comply by March 2015, and 52% of the SCBs and 49% of the DCCBs do not meet the 9% ratio, which is the standard for commercial banks and with which they must comply by March 2017. To achieve the regulatory minimums, an estimated Rs64.9 billion ($1.1 billion) of additional funding is required for the DCCBs alone.[13] Without the banks achieving financial sustainability, the program did not have the intended socioeconomic benefits, which are premised on sustainable institutions.

41. The CCS's continuing problems prompted the Reserve Bank of India to constitute a new expert committee (the Bakshi Committee) in 2013. In its report, the Bakshi Committee endorsed many of the Vaidyanathan Committee's recommendations on governance and management. It also acknowledged the problems that PACSs face in computerizing and anticipated difficulties in implementing core banking systems. As a solution, it proposed that PACSs become business correspondents of their affiliated DCCB (footnote 13).

42. From ADB's perspective, a smaller loan could have achieved similar value addition. ADB had little role in designing the program, so its contribution effectively came from monitoring the implementation. To play this role, ADB did not need to allocate $1 billion. A smaller loan, supported with adequate funding for monitoring, would have likely been more efficient than the approved larger loan without funding for monitoring.

D. Preliminary Assessment of Sustainability

43. The program is *less than sustainable*. If the CCS is to be sustained—without periodic injections of government capital—then nonperforming loans and profitability must be further improved. On these metrics, the program results are marginal. Although nonperforming loans have fallen, they remain normatively high for SCBs and DCCBs and constitute over one-quarter of PACS loans (Table 5). Profitability is similarly challenged. In 2012, the SCBs and DCCBs were profitable, but losses from the PACSs rendered the system overall unprofitable. Furthermore, the number of unprofitable CCSs in a given year remains substantial (Table 6).

Table 5: Nonperforming Loan Ratios, FY2006–FY2012
(%)

Institutions	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
SCBs	16	14	13	12	9	9	7
DCCBs	20	19	21	18	13	12	10
PACSs	30	27	37	59	41	25	27

DCCB = district central cooperative bank, PACS = primary agricultural cooperative society, SCB = state cooperative bank.
Source: Reserve Bank of India Trend and Progress of Banking in India, various years.

Table 6: Percentage of Unprofitable Institutions, FY2006–FY2012
(%)

Institutions	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
SCBs	13	13	16	16	6	3	10
DCCBs	24	26	24	14	13	14	14
PACSs	50	50	51	48	44	41	39

DCCB = district central cooperative bank, PACS = primary agricultural cooperative society, SCB = state cooperative bank.
Source: Reserve Bank of India Trend and Progress of Banking in India, various years.

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

E. Institutional Development

44. Institutional development was *significant*. The reforms may not have achieved financial sustainability and the cooperative societies still have gaps in human resources, systems, and controls, but the program did

(i) amend the cooperative societies acts;
(ii) introduce the election of board members at all three levels of the CCS;
(iii) launch a special audit and introduce ongoing statutory audits;
(iv) establish eligibility standards for management and board members;
(v) eliminate the dysfunctional cadre system; and
(vi) provide training to CCS boards, management, and employees.

F. Impact

45. The impact is *moderate*. Although the program achieved all three of the original impact indicators (Table 7), these indicators were poorly specified. The linkage of increased rural incomes, improved social indicators, and reduced poverty to CCS reforms are tenuous.

Table 7: Impact Indicators, 2006 and 2012

Impact Indicator	Comments
Increased rural per capita incomes (by at least 5% within 7 years)	Achieved. Monthly per capita consumption expenditures increased on average 147% in the five participating states during FY2005–FY2012.
Improved social indicators in rural areas (at least 5% improvement in basic indicators within 7 years)	Achieved. The National Planning Commission of India provides data on rural infant mortality and access to hospitals. India's Ministry of Statistics and Program Implementation provides data on rural literacy rates. These metrics all show increases of at least 5% during FY2006–FY2011.
Reduced incidence of rural poverty ($1/day) (by at least 5% points within 7 years)	Achieved. The percentage of the population living below $1.25 per day fell from 41.6% to 32.3% between 2005 and 2010. The decrease in the percentage of the rural population living below the national rural poverty line is comparable.

Note: For rural per capita income, state-level data is reported. For the other two metrics, the data is aggregated at the national level.
Source: Reserve Bank of India, Planning Commission of India, Government of India Ministry of Statistics and Program Implementation, United Nations Development Programme, World Bank.

46. Even if ADB had retained these indicators, it would have been appropriate to include additional indicators on CCS financial viability. Interestingly, a near-final draft of the design and monitoring framework had included impact indicators on CCS profitability and efficiency. These metrics—in addition to an impact indicator on adequate capitalization—would have been appropriate. If assessed on these measures, the program's impact is *moderate*.

Table 8: Alternate Impact Indicators

Impact Indicator	Assessment
Profitable CCS	Not achieved. In aggregate, cooperative credit structures remained unprofitable in 2012 with aggregate return on assets slightly below breakeven. PACSs, almost 40% of which were unprofitable, drove the system losses.
More efficient CCS	Not achieved. The efficiency ratio for SCBs in 2006 was 10.3% and for DCCBs 20.0%, and had increased to 12.7% for SCBs and 24.3% for DCCBs in 2012.[a] Data for PACSs is unavailable.
Well	Not achieved. As of 2012, 48% of SCBs and 51% of DCCBs did not meet the 9% capital

Impact Indicator	Assessment
capitalized CCS	adequacy requirement that currently applies to banks and that will apply to them by March 2017. Data for PACSs is unavailable.

CCS = credit cooperative system, DCCB = district central cooperative bank, SCB = state cooperative bank.
[a] Efficiency ratio is defined as operating expenses as a percentage of revenues, with a lower score indicating greater efficiency.
Source: Reserve Bank of India.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

47. The program was *less than successful*. Although it was relevant in addressing a core development constraint in the agriculture sector, it was *less than effective* because of the high proportion of unachieved tranche release conditions and outcomes and *less than efficient* because, despite the sums spent, the CCS remains undercapitalized and likely to require additional capital injections. It was *less than sustainable* because a high proportion of rural cooperatives, and particularly PACSs, continue to struggle with nonperforming loans and profitability. The program's institutional development impact was *significant* because of the CCS's gains in governance and management. However, the impact is moderate because the CCS still must overcome material challenges to become a vibrant provider of rural finance.

B. Lessons

48. **Conduct adequate due diligence**. ADB's policy framework was based largely on the recommendations of the high-level task force. Given the task force's expertise, there is merit to using such a report as the basis for ADB's program. Yet, ADB still needs to conduct adequate due diligence—specifically, how to implement and monitor the task force's recommendations and how to mitigate the facility's risks.

49. **Include systems for data collection**. The program design could have benefited from a greater focus on data collection. Because data, particularly for DCCBs and PACSs, was minimal at inception and still deficient at close, it is difficult to measure the program's impact. Better data could have supported program modifications, cancellation, or expansion. Practical steps that would have improved data collection would have been to (i) complete the special audit before the program's start, (ii) sequence computerization of the DCCBs and eventually the PACSs (which was slotted toward the end of the program) at the beginning, (iii) fund the monitoring and data collection (that had been part of the cancelled accompanying TA) with internal staff consultancy or other resources rather than eliminate it from such a large loan program.

50. **Prove the concept before expanding**. Although India wanted to introduce the reforms across the country simultaneously, another option would have been to pilot it in one or two states. If the pilot was successful, it would motivate subsequent participants, who would also be able to learn from the lessons of the pilot state(s). Moreover, ADB can add more value by concentrating its monitoring and support in one state than by spreading itself across a larger footprint.

51. **Plan realistic time frames**. Despite 36 months of extensions, there remained unmet tranche release conditions. Even as of this project completion report 12 months after program cancellation, it is unclear when policy actions such as implementation of the action plan for ineligible PACSs and the computerization of the PACSs will be completed. Given the scope of

reforms, the different governing layers, and the number of institutions involved, 42 months was not realistic. When targeting ambitious reform programs, longer time frames are necessary. Scheduling larger disbursements toward the end of the program can replace some of the momentum that the longer time frame will struggle to maintain.

52. **Design effective risk mitigation measures***.* ADB's risk assessment anticipated much of the program's eventual problems. However, the mitigating measures were inadequate to address the risks (Table 9). More generally, given the size of the loan (which represented 58% of ADB's loan approvals for India in 2006), additional risk mitigation measures would have been appropriate and could have included piloting the program in one or two states prior to large-scale expansion, ADB participation in the NIMC, and a midterm program evaluation.

Table 9: Selection of Risks and Mitigating Measures from the Program's Report and Recommendation of the President

Risk	Mitigating Measures	Comments
Weak systems and procedures	Institute enhanced accounting and management information systems, and computerize operations to ensure transparency and on-time information to track financial and operational data	Implementation of accounting standards, management information systems, and computers were third and fourth tranche conditions and were sequenced too late (or not at all) to be effective controls.
Political backlash from closures	Develop alternative mechanisms to ensure access to rural finance services	The alternative mechanisms are unspecified and would needed to have been made operational prior to closures.
Delays in special audits	Expedite the special audits preferably before signing of MOUs between the government, participating states, and NABARD	It is unclear what expediting entailed and how it would speed the process.
Potential increase in adjustment costs	Ensure that CCS improves performance to cover accumulated losses	If the losses are even larger than originally anticipated, then the CCS was more unprofitable than originally estimated and so it is unrealistic to make up a larger-than-expected capital deficiency through higher-than-expected profits.

CCS = credit cooperative system, NABARD = National Bank for Agriculture and Rural Development, MOU = memorandum of understanding.
Source: Asian Development Bank. 2006. *Report and Recommendation of the President to the Board of Directors on the Proposed Program Loan and Technical Assistance Grant to India for the Rural Cooperative Credit Restructuring and Development Program.* Manila, and Asian Development Bank.

53. **Avoid tranche release conditions that require statutory changes***.* The program anticipated potential amendments to India's Banking Regulation Act, NABARD Act, and Deposit Insurance and Credit Guarantee Corporation Act as well as to states' cooperative societies acts. Remarkably, the participating states did all amend their cooperative societies acts. Still, ADB's programs should carefully assess relying on legislative actions, particularly at the national level, because its influence over the legislative process is likely limited. Moreover, in this particular program, the government was able to accomplish many of the intended changes through regulatory and executive actions, which suggests that additional due diligence could have *a priori* yielded alternatives to legislation.

C. Recommendations

1. Program Related

54. **Future monitoring**. The program is closed; no further monitoring is recommended.

55. **Covenants**. As part of the risk assessment for banking sector reforms, ADB should review past domestic policy actions. If there is a history of, for example, debt waivers, loan rate ceilings, nationalizations, hyperinflation, or other policy actions contrary to the purposes of the loan, then ADB should at a minimum highlight these risks at origination and potentially include loan covenants to facilitate cancellation (paras. 32–33).

56. **Further action or follow-up**. The program is closed; no further action or follow-up is recommended.

57. **Additional assistance.** No additional assistance for the rural CCS is recommended at this time. The overall rating of *less than successful* and the complexities of a multitier system that operates over a large geographical area suggest that ADB should focus on other initiatives within rural and inclusive finance.

58. **Timing of the program performance evaluation report**. ADB could prepare the project performance evaluation report in 2015 or 2016 as there are no outstanding issues that would necessitate postponement.

2. General

59. The recommendations follow from earlier observations:

(i) If there is a reasonable probability that actual costs will exceed the original estimates—as was the situation for this 2006 program where the estimates for recapitalization were based on 2004 balance sheet estimates and where rigorous accounting standards were absent—then the loan program must anticipate how to address the possible shortfall, e.g., additional counterpart funding, expansion of ADB's facility, other donor support, etc. Loan covenants or side letters can provide a contractual basis for such contingency funding (para. 14).

(ii) The larger tranches should generally come toward the end of the program so as to provide incentive for program completion and align what are often the most difficult tranche conditions with the size of the tranches (para. 24).

(iii) ADB should include systems in a facility's design that can collect ongoing data on performance and provide adequate monitoring. If ADB is relying on accompanying TA to fund this monitoring, then it should be the implementing agency for the TA (para. 28).

(iv) ADB can add value through providing external accountability. Yet, ADB's monitoring mechanisms apply to both large and small loans, so if external accountability is likely to be the main value addition, ADB should consider smaller facilities to maximize the efficiency of its development resources (para. 35).

(v) ADB departments need to maintain centralized credit files so that staff turnover does not undermine record keeping (para. 35).

(vi) National governments periodically convene task forces to analyze public policy problems. Given the expertise of task force members, ADB-funded project preparatory TA is unlikely to carry the same weight as the recommendations of the task force. In such situations, ADB's TA may be better spent on examining how to implement the task force's recommendations as opposed to duplicating the task force's work (para. 48).

(vii) When undertaking ambitious reforms, ADB should consider piloting smaller facilities to concentrate ADB resources, prove the concept, learn lessons, and motivate successive participants before originating larger programs that, by their very size, increase the costs of poor performance (para. 50).

(viii) The more ambitious and complicated the reforms, the more time ADB needs to allow for implementation (para. 51).

(ix) ADB should require membership on implementing committees, particularly for large facilities. Membership would give ADB the opportunity to anticipate problems and influence implementation. If membership is politically impractical, then observer status could be a minimal alternative (para. 52).

PROGRAM 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 percentage points within 7 years)	Government evaluations of Tenth and Eleventh 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 Programme 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/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 PSs (four MOUs signed by Nov 2006 and the fifth by Mar 2007) Government/PSs make budgetary provisions to initiate CCS reforms (starting Oct 2006)	Biannual implementation reports Independent assessments of program implementation and impacts Monitoring and fulfillment	**Assumptions** Government and participating states political and financial commitment to reforms Implementation committees are formed with stakeholder input

Design Summary	Performance Targets/ Indicators	Data/Reporting/ Mechanisms	Assumptions and Risks
	SLICs and DLICs established (Jun 2007) NABARD establishes DCRR (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)	of tranche release conditions Progress reports/BTORs from ADB review missions	**Risk** PSs waver in their commitment to CCS reforms
A conducive legal framework for autonomous CCS operations	Measures to amend the CSAs initiated by PSs (starting by Jan 2007) Amended CSAs enacted by PSs (by Jun 2008) Need for amending NABARD Act and DICGC Act reviewed (by Jun 2007) Rules and regulations for amended CSAs issued by PSs (by Nov 2008) NABARD Act and DICGC Act amended if necessary (by Nov 2008)	Official gazette Relevant government orders State legislative reports/amended acts PS 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 **Risk** Absence of political will in tabling and passing legislation
Orderly development of CCS and enhanced depositor protection	Amendments to the Banking Regulation Act finalized (Jun 2007) Amended BR Act enacted (by Jun 2008) Prudential norms issued by PSs for PACSs and nonbank CCS (by Jun 2007) Prudential norms applied to PACS (Jun 2008) Supervision and regulation done in PSs in line with amended CSA for CCS classified as banks (starting 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	**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

Design Summary	Performance Targets/ Indicators	Data/Reporting/ Mechanisms	Assumptions and Risks
	Prudential norms issued and eligibility of CEOs and boards developed in PSs in line with amended BR Act (by Sept 2008)	State legislative reports	
Democratic character of the CCS restored and governance enhanced	Election plans prepared by PSs for the CCS (by Jun 2007) Equity share in CCS reduced to maximum of 25% and converted to grant by PSs (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) PS nominees limited to one on SCB/DCCB boards and withdrawn from PACS 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** PSs waver in their commitment to CCS reforms SLICs and DLICs are ineffective in advancing the reform process
International best practices mainstreamed in the CCS	Accounting standards, MIS, HRD, and computerization plans issued by NABARD and implemented in CCS in all PSs (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)	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 HR redundancies NABARD unwilling to amend refinance policy

Design Summary	Performance Targets/ Indicators	Data/Reporting/ Mechanisms	Assumptions and Risks
	Model APRs/DAPs prepared by NABARD (by Jun 2007)		
PACSs strengthened to provide stronger foundation for the CCS	Placement of cadre-based secretaries discontinued in PSs (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 PS political and financial commitment to reforms Audit format, model APRs/DAPs, and plan for ineligible PACSs developed and implemented in a timely manner **Risks** PSs waver in their commitment to CCS reforms Absence of political will dealing with ineligible PACSs SLICs and DLICs are ineffective in advancing the reform process
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** PSs waver in their commitment to CCS reforms DCCBs staff are resistant to change SLICs and DLICs are ineffective in advancing 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	Inputs
Component 1. 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 PSs (Aug 2006) 1.3 Sign MOUs with PSs (four by Nov 2006; fifth by no later than Mar 2007) 1.4 Government and PSs 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 PSs) 1.8 Establish state task forces (no later than Jun 2007 in all PSs) **Component 2. Building a Facilitating Legal, Regulatory, and Governance Framework** 2.1 PSs enact legislation and issue rules and regulations amending the CSAs (by Jun 2008) 2.2 Enact the amended BR Act (completed by Jun 2008) 2.3 Issue guidelines on eligibility for board of directors and CEOs of SCBs and DCCBs (by Sept 2008) 2.4 PSs issue prudential norms for all nonbank CCSs (by Jun 2007) 2.5 Review need for amending other relevant acts, and amend them if necessary (by Nov 2008) 2.6 Conduct elections and install new directors and office bearers (initiate by Jan 2008) 2.7 Issue guidelines for annual audits of SCBs and DCCBs by independent chartered accountants (by Jun 2007) 2.8 Issue guidelines for independent rating of SCBs and DCCBs (by Jun 2007) 2.9 Conduct rating of SCBs and DCCBs (beginning no later than Nov 2008)	**Inputs** Total Cost ($1,428 million) ADB Loan ($1,000 million) KfW loan ($175 million equivalent) DFID Technical Assistance ($2 million) Government/PSs ($251 million) **State-wise cost ($ million)** **Gujarat** Special Audit: 0.8 Systems and Procedures: 9.4 HRD: 1.8 Implementation Costs: 6.5 Total Inst. Reform Costs: 18.5 Cleaning of Accumulated Losses: 191.5 **Madhya Pradesh** Special Audit: 0.7 Systems and Procedures: 8.4 HRD: 1.6 Implementation Costs: 5.7 Total Inst. Reform Costs: 16.4 Cleaning of Accumulated Losses: 280.6 **Maharashtra** Special Audit: 1.18 Systems and Procedures: 13.3 HRD: 2.6 Implementation Costs: 9.1 Total Inst. Reform Costs: 26.1 Cleaning of Accumulated Losses: 428.9 **Andhra Pradesh** Special Audit: 0.7 Systems and Procedures: 6.6 HRD: 1.8 Implementation Costs: 4.4

Key Activities with Milestones	Inputs
Component 3. Institutional Reforms for Sustainability 3.1 Conduct special audits of PACSs, DCCBs ,and SCBs (initiate by Nov 2006 and complete by Nov 2008) 3.2 PSs discontinue recruitment of cadre-based paid secretaries in PACSs (no later than Jun 2007) 3.3 Develop and implement accounting standards, and MIS, HRD, and computerization plans for CCS (continuous, starting Nov 2006) 3.4 SCBs and DCCBs sign agreements with SLICs/DLICs to implement CCS reforms (complete by Nov 2007) 3.5 Develop and implement plan for ineligible PACSs (no later than Jun 2007 and continuous thereafter) 3.6 Provide financial support for cleaning accumulated losses in PACSs, DCCBs, and SCBs (continuous, beginning no later than Jun 2007) 3.7 Adopt APRs/DAPs and track compliance with benchmarks (continuous, beginning no later than Jun 2007)	Total Inst. Reform Costs: 13.5 Cleaning of Accumulated Losses: 186.5 **Rajasthan** Special Audit: 0.5 Systems and Procedures: 7.0 HRD: 1.4 Implementation Costs: 4.8 Total Inst. Reform Costs: 13.7 Cleaning of Accumulated Losses: 164.3 **Total for five PSs** Special Audit: 3.9 Systems and Procedures: 44.7 HRD: 9.2 Implementation Costs: 30.5 Total Inst. Reform Costs: 88.2 Cleaning of Accumulated Losses: 1251.8

ADB = Asian Development Bank, APR = Action Plans for Revival, BR = banking regulation, 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 of the United Kingdom, DICGC = Deposit Insurance and Credit Guarantee Corporation, DLIC = district-level implementation committee, HRD = human resource development, IT = information technology, MIS = management information system, MOU = memorandum of understanding, NABARD = National Bank for Agriculture and Rural Development, NIMC = National Implementation and Monitoring Committee, NPA = nonperforming asset, PACS = primary agricultural credit society, RBI = Reserve Bank of India, SCB = state cooperative bank, SLIC = state-level implementation committee.

STATUS OF COMPLIANCE WITH TRANCHE POLICY CONDITIONS

First Tranche

Condition	Status of Compliance
1. Establishing a Policy Reform and Implementation Framework	
(a) 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.	**Fully complied with.** The Task Force on Revival of Cooperative Credit Institutions submitted its review and reform framework in February 2005.
(b) Consensus on CCS reforms between Government and the state governments based on recommendations of the Task Force.	**Fully complied with.**
(c) Government communicates the agreed CCS reform framework to state governments including financing and implementation arrangements.	**Fully complied with.**
(d) At least four states (hereinafter referred to as PSs) 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 administrative matters.	**Fully complied with.** The four states were Andhra Pradesh, Madhya Pradesh, Maharashtra, and Rajasthan; the fifth state—Bihar—was added in July 2007.
(e) NABARD constitutes State Task Forces in PSs to periodically review the performance of CCS especially on good governance and compliance with statutory requirements and suggest improvements.	**Fully complied with.**
(f) The Government makes budgetary provision to initiate CCS reforms.	**Fully complied with.**
(g) At least one PS makes budgetary provisions to initiate CCS reforms.	**Fully complied with.**
(h) Government constitutes the National Implementation and Monitoring Committee (NIMC) to oversee the CCS reform process.	**Fully complied with.**
(i) NABARD establishes Department for Cooperative Revival and Reforms at its head office to support CCS reforms.	**Fully complied with.**
2. Building a Facilitating Legal, Regulatory and Governance Framework	
(a) Government initiates action for amending the Banking Regulation Act, 1949 (BR Act).	**Fully complied with.**
3. Institutional Reforms for Sustainability	
(a) NABARD develops (i) draft accounting standards, and (ii) draft management	**Fully complied with.**

Condition	Status of Compliance
information system.	
(b) The NABARD issues guidelines linking refinance to CCS with the implementation of CCS reforms.	**Fully complied with.**
(c) NABARD develops formats for special audits (to assess the extent of accumulated losses as on 31 March 2004).	**Fully complied with.**
(d) NABARD conduct sample special audits in two PSs.	**Fully complied with.**

Second Tranche

Condition	Status of Compliance
1. Establishing a Policy Reform and Implementation Framework	
(a) PSs establish SLICs.	**Fully complied with.** SLICs, chaired by the secretary of finance of the respective state governments, have been set up in all five PS. 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).
(b) PSs establish DLICs.	**Fully complied with**. DLICs have been set up in all the PSs (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 reforms at the DCCB and district levels and address implementation aspects within the overall framework set out by the 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.
(c) All PSs make budgetary provisions to support CCS reforms.	**Fully complied with**. 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 reforms up to this stage, Bihar and Rajasthan will release their share of cost of CCS reforms on completion of precedent conditions. As needed, the PSs are committed to make further funds available for CCS reform.
(d) The Borrower makes budgetary provision to support CCS reforms.	**Fully complied with.** The government 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.
(e) NABARD constitutes State Task Forces in PSs to periodically review the performance of CCS especially on	**Fully complied with.** 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

Condition	Status of Compliance
good governance and compliance with statutory requirements and suggest improvements.	statutory requirements, and suggest improvements. The SLTFs are chaired by the head of the NABARD regional office in the PS with the 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
(f) One other PS (1) signs MOU with the Borrower and NABARD accepting 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 (2) is in compliance with Second Tranche conditions as applicable.	**Fully complied with.** Bihar is the fifth PS and has signed an 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.
2. Building a Facilitating Legal, Regulatory and Governance Framework	
(a) Establishing a Conducive Legal Framework for CCS (i) PSs under NIMC guidance take measures to amend the CSAs as per the MOUs.	**Fully complied with.** The amendment of the CSAs is the most fundamental and significant measure that underpins the entire CCS reform process. 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.
(ii) The Borrower assesses the need to amend NABARD Act, 1982 and Deposit Insurance and Credit Guarantee Corporation Act, 1961 to facilitate CCS reforms.	**Fully complied with.** Amendment of NABARD Act is necessary to render direct financing to CCS institutions (also see Action 18). While there is an existing provision in the 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 the RBI to facilitate the amendments. Only deposits of banks, including SCBs and DCCBs, in India are insured by the DICGC. Deposits mobilized by PACSs from individual members are not covered by the DICGC. Instead of amending the DICGC Act to cover the deposits of individual members of PACSs, NABARD has developed the Deposit Protection Scheme for 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 a 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 the chair of 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.
(b) Instituting Effective Regulation (i) Amendments to Banking Regulation Act, 1949 finalized by the ED.	**Fully complied with.** To bring the CCS into line 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. The BR Act amendment bill (as finalized by the RBI and Ministry of Finance) is with a select committee of the Parliament.

Condition	Status of Compliance
(ii) PSs issue prudential norms for PACSs and non-bank CCS.	**Fully complied with.** As of the second tranche release, the condition had been partially met. Subsequently, NABARD issued prudential norms for adoption by the participating states.
(c) Enhancing Good Governance (i) PSs prepare plans to hold elections for CCS where the term of office bearers and boards have expired. (ii) 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. (iii) NABARD issues a policy of annual audits of SCBs and DCCBs by independent chartered accountants commencing FY 2006-2007. (iv) NABARD issues guidelines for independent ratings of SCBs and DCCBs.	**Fully complied with.** 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. **Substantially complied with.** Assessed as partially complied with at the time of the second tranche release. Thereafter, the states further reduced their ownership. However, Madhya Pradesh still has more than 25% ownership in one DCCB and 778 PACSs and Maharashtra more than 25% ownership in one DCCB. **Fully complied with.** NABARD has issued guidelines on audit of DCCBs and SCBs by chartered accountants from FY2006. **Fully complied with**. Independent rating of SCBs and DCCBs is to be provided as part of the audit by independent chartered accountants. 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, in view of the large number of CCS institutions involved. Standardized rating scales will also facilitate easy comparison. In addition to the rating by 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.
3. Institutional Reforms for Sustainability	
(a) NABARD (i) NABARD finalizes and issues to CCS in PSs the (1) accounting standards; and (2) management information system, including internal control and audit systems. (ii) NABARD finalizes and issues to CCS in PSs; (1) computerization plan; and (2) human resources	**Fully complied with.** Guidelines on CAS and MIS for PACS developed by NABARD have been issued to all CCSs for immediate implementation. A manual on CAS and a handbook on MIS have also been issued for reference. The CAS and MIS, to be made operational in all PSs 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 by the new CAS. **Substantially complied with.** Based on the conclusions of the technical committee headed by the managing director of NABARD, a detailed information technology procurement plan has

Condition	Status of Compliance
development plan.	been finalized and issued to the PSs. The SLICs have been asked to take appropriate decisions on the requirements of computerization of the 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. The plan for PACSs is phased to cover how to do existing things better, and diversification and expansion of business. Under the first phase, two modules—one 4-day module for the staff of PACSs, and 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 trainers trained in an 11-day module by state master trainers. The plan is to complete the entire training program in all three modules by March 2009. So far, 78,442 people have been trained in the above modules. As an ongoing process, NABARD is planning further training and capacity development plans.
(iii) NABARD develops model APRs/DAPs for SCBs, DCCBs, and PACSs including financial, productivity, and operational benchmarks.	**Fully complied with.** The DAPs prepared by NABARD provide a 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 include tangible performance measures. The CCSs 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.
(iv) NABARD considers refinance to CCS either directly or through other regulated financial institutions at terms set by its Board.	**Fully complied with.** 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. Amendments to the 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 CCSs 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.
(v) Model plans for ineligible PACSs developed by NABARD.	**Fully complied with.** 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 cover 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.

Condition	Status of Compliance
(b) PACS	
(i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of PACSs completed in at least two PSs.	**Fully complied with.** Special audits have been completed in four PSs (Andhra Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, a total of 33,143 PACSs) and are near completion in one PS (Bihar).
(ii) At least fifty percent eligible PACSs, in the PSs that have completed special audits, sign agreements with DCCBs/DLICs to implement CCS reforms.	**Fully complied with.** All PACSs have signed agreements committing to implement reforms.
(iii) At least 50 percent Eligible PACSs in the PSs that have completed special audits, adopt APRs/DAPs.	**Fully complied with.** The eligible PACSs are regularly preparing their business development plans as required by DAPs for submission to DLICs which vet the same. DLICs scrutinize the plans and in some cases call for changes in line with the reform mandate.
(iv) PSs discontinue further placement of cadre based secretaries in PACSs.	**Fully complied with.** No further placement of cadre staff is taking place in any PS and is also prohibited by the amended CSAs.
(v) PSs prepare plans for phasing out of cadre based secretaries in PACSs.	**Fully complied with**. As of the second tranche release, the condition had been partially met. Subsequently, the participating states prepared and implemented plans to phase out the cadre system.
(vi) Support provided by NABARD for cleaning accumulated losses of eligible PACSs in PSs that meet the benchmark requirements of the MOU signed between the Borrower, relevant PS, and NABARD.	**Fully complied with.** The government share, released through NABARD, of the cost of cleaning accumulated losses in PACSs is as follows—Andhra Pradesh Rs15.58 billion ($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).
(vii) Plan for ineligible PACSs developed by all PSs for selected Districts (with at least one District in each PS) based on the framework developed by NABARD and implementation commenced.	**Substantially complied with.** 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 to on a par with that required for participation in the CCS reform package. Since the cut-off date for eligibility for the CCS reform package is already over, the inclusion of such PACSs in the CCS revival package is a policy matter for NIMC's consideration.
(c) DCCBs	
(i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in at least two PSs.	**Fully complied with.** 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 will be completed after special

Condition	Status of Compliance
	audits of the PACSs are completed.
(ii) DCCBs that have completed special audits, sign agreements with DLICs to implement CCS reforms.	**Fully complied with.** All DCCBs in PSs have signed agreements with DLICs to implement CCS reforms
(d) SCBs (i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) completed in at least two SCBs in PSs. (ii) SCBs that have completed special audits, sign agreements with SLICs to implement CCS reforms.	**Fully complied with.** Assessed as partially complied with at the time of the tranche release. Thereafter, all states completed the special audits. **Fully complied with.** Assessed as substantially complied with at the time of tranche release because although states had signed the agreements, not all states had completed the audit. Thereafter, the states completed the audits.

Third Tranche

Condition	Status of Compliance
1. Establishing a Policy Reform and Implementation Framework	
(a) The Borrower 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.	**Fully complied with.** Independent assessment has been undertaken by the Indian Institute of Management-Bengaluru for Maharashtra and Rajasthan, and by the Institute of Social and Economic Change, Bengaluru, for Andhra Pradesh, Bihar, and Madhya Pradesh. As per the terms of reference of the independent agency, the independent assessment will assess the efficacy of the revival package and remove shortcomings in implementation of the program and in the compliance with requirements of the various covenants contained in the MOU. The stakeholder consultation workshop was held on 26 November 2010. The assessments evaluate the overall impact in terms of autonomy and reduced state control, structure, process flows, and financial performance including recovery aspects. Further, the assessments assess the impact of the human development and capacity building initiatives under the revival package in improving the democratic character of the CCS institutions and in enhancing good governance, management, and organizational effectiveness. The assessments evaluate the acceptance of the CAS and MIS in PACSs, and internalization and consequent impact on the efficiency of the entity and its management in meeting stakeholder aspirations.
(b) The Borrower makes budgetary provision to support CCS reforms.	**Fully complied with.** Budgetary provision of Rs44.88 billion ($1.08 billion) has been made by the government and released for recapitalization assistance to PACSs. The amount was released after completion of necessary reform actions. Thus, the action has gone beyond making budgetary provisions and includes release of assistance. Under the revival package, financial restructuring will start with first bringing the PACSs to an acceptable level of financial health through cleaning their balance sheets and strengthening their capita base, and then move to the upper tiers. This will enable PACSs to clear their dues to the upper tiers and reduce the accumulated losses of the DCCBs. Under the sharing arrangement of the revival package, the government bears 100% of the losses arising out of the agricultural credit

Condition	Status of Compliance
	business of PACSs, DCCBs, and SCBs, and a portion of losses arising from nonagricultural credit business; and 50% of losses due to the PDS and input distribution as well as the cost of resources required to raise the CRAR to 7% (para 13). State governments' share in case of SCBs and DCCBs is significantly smaller than is the case with PACSs.
(c) All PSs make budgetary provisions to support CCS reforms.	**Fully complied with.** All participating states have made budgetary provisions and released Rs3.55 billion ($79 million) with respect to 30,329 eligible PACSs. In this case as well, the action taken has gone beyond the condition of making a budgetary provision to include actual release of recapitalization assistance. Also, the release of the government's share is contingent on the achievement of reform benchmarks as articulated in the MOU signed by the participating states. Under the sharing arrangement, the participating state bears the cost of losses on account of PDS and input distribution, all dues pertaining to invoked and uninvoked guarantees, and other receivables. NABARD, under the guidance of the NIMC, is monitoring compliance with benchmark conditions.
2. Building a Facilitating Legal, Regulatory and Governance Framework	
(a) Establishing a Conducive Legal Framework for CCS (i) PSs enact legislation amending the CSAs.	**Fully complied with.** The CSAs have been amended and notified and are in force in all the participating states. The root cause of the poor financial state of CCS institutions lies in poor management and governance. Accordingly, the CSAs were reformed to (i) ensure full voting membership rights of all users of financial services including depositors in cooperatives; (ii) remove state intervention in all financial and internal administrative matters in cooperatives; (iii) provide for a cap of 25% on participating states' equity in cooperatives and limiting participation in the boards of cooperative banks to one nominee; (iv) allow transition of cooperatives registered under the existing CSA to the new amended CSA; (v) withdraw restrictive orders on financial matters; (vi) allow cooperatives in all three tiers the freedom to take loans from any regulated financial institution and not necessarily from only the upper tier and, similarly, place their deposits with any regulated financial institution of their choice; (vii) limit powers of participating states to supersede boards; (viii) ensure timely elections; (ix) facilitate regulatory powers of the RBI in the case of cooperative banks; and (x) provide for prudential norms, including CRAR, for all financial cooperatives including PACSs, as per directions of the RBI. As may be seen from the required actions, several provisions of the amended CSAs form tranche release actions under the RCCRDP. Thus, participating states that have amended the CSAs will have to comply with the said actions to ensure that they are not contravening provisions of their own amended CSAs.
(ii) PSs issue rules and regulations as required under the amended CSAs.	**Fully complied with.** Assessed partially complied with at the time of the third tranche release. Thereafter, all PSs issued the rules and regulations.
(iii) Based on the assessment under earlier Tranche, if required, NABARD Act, 1982, and	**Substantially complied with.** Assessed partially complied with at the time of the third tranche release. Thereafter, it was concluded that regulatory action could achieve the same ends without statutory action.

Condition	Status of Compliance
(iv) Deposit Insurance and Credit Guarantee Corporation Act, 1961, amended.	**Fully complied with.** Based on the assessment under the second tranche, amendment to the DICGC Act was considered to be not required.
(b) Instituting Effective Regulation (i) Banking Regulation Act, 1949 amended. (ii) Supervision and regulation of CCS classified as banks, undertaken in the PSs in accordance with the amended CSAs. (iii) Prudential norms for CCS (SCBs and DCCBs) and eligibility for boards of directors and chief executive officers developed based on amended Banking Regulation Act, 1949, and applied on the CCS (SCBs and DCCBs).	**Substantially complied with.** Assessed partially complied with at the time of the third tranche release. Thereafter, it was concluded that regulatory action could achieve the same ends without statutory action. **Fully complied with.** Supervision and regulation of CCS in participating states are being undertaken in accordance with the amended CSAs. Under action 10, regulatory norms are already in force in the DCCBs and SCBs, and the RCS has been issued with detailed guidelines. In terms of the supervision guidelines adopted by NABARD, the inspectors examine bank compliance with relevant laws, regulations, and by-laws. In case of DCCBs and SCBs, their adherence to the provisions of CSA and the Banking Regulation Act is also examined and deficiencies are brought to the notice of the concerned bank for remedial action. Similarly, statutory audits examine bank compliance with CSA provisions. **Fully complied with.** Assessed as substantially complied with at the time of the third tranche release. Thereafter, chartered accountants completed their review of DCCBs' net worth and were able to assess the results with regard to RBI prudential guidelines.
(c) Enhancing Good Governance (i) PS government nominees on PACSs' boards withdrawn. (ii) PSs 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. (iii) PSs complete the reduction of equity to a maximum of 25% of the capital at any level of the CCS and convert	**Substantially complied with.** There are no government nominees on the boards of PACSs in Bihar, Madhya Pradesh, Maharashtra, and Rajasthan which all now have elected boards at the PACS level. In these states, board composition is in line with the amended CSA in the case of PACSs. In Andhra Pradesh, government nominees remain only to complete their tenures and do not have voting rights under the amended CSA. The withdrawal of state government nominees will reduce the direct or indirect interference of state governments, which has been a major cause of the deterioration of the CCS institutions. Interference occurs through directives on deposit and lending rates, lending priorities, investment decisions, etc. The withdrawal of government nominees is critical to ensuring independence of the boards and developing a sound corporate governance framework and is in accordance with CSA amendments. Independent boards will be expected to develop a business model based on prudential norms and market factors. **Fully complied with.** Assessed as partially complied with at the time of the tranche release primarily because of slow progress in one state. Thereafter, all SCBs and at least 85% of DCCBs in each state have had elections. **Substantially complied with.** At the time of tranche release, the condition was judged partially complied with. Thereafter, three states fully reduced their shareholdings and Maharashtra in all

Condition	Status of Compliance
the equity over 25% to grants to the CCS.	but one DCCB. Notwithstanding, Madhya Pradesh's shareholdings still exceeded the threshold in one DCCB and 778 PACSs.
(iv) PS government nominees on boards of SCBs and DCCBs limited to one.	**Partially complied with.** While in participating states of Andhra Pradesh and Maharashtra there is only one state government nominee on the SCB and DCCB boards, there are four state government nominees in the case of Madhya Pradesh. As per the amended CSA, the participating state is required to restrict the number of government nominees to one to comply with its own amended CSA and to represent the sub-25% government share in equity. The position is under review in Bihar and Rajasthan and is being pursued by NABARD and the SLIC.
(v) Directors on boards of all the CCS (SCBs and DCCBs) not meeting the approved criteria identified by PSs are to be identified by participating states.	**Substantially complied with.** In the participating states of Andhra Pradesh, Maharashtra, and Madhya Pradesh, about 80% or more of SCBs and DCCBs have directors and CEOs as per the approved criteria. In the remaining participating states, the process of identifying directors and CEOs who do not meet the approved criteria and appointing professionals is at an advanced stage. In the case of Rajasthan, the RCS has also issued instructions to DCCBs and the SCB for co-option of professional directors and appointment of CEOs as per the RBI's fit and proper criteria. The process is ongoing in Bihar. The revival package requires the SCBs and DCCBs to adopt the approved (fit and proper) criteria for eligibility for board membership, and for co-option of a specified number of professionals as full members with voting rights, if members with such qualifications do not get elected. Application of fit and proper criteria is expected to professionalize management and result in credible recruitment of staff.
(vi) CCS (SCBs and DCCBs) terminate the tenure of directors on CCS boards representing defaulting PACSs.	**Fully complied with.** The termination of directors on the boards of SCBs and DCCBs is an ongoing process and is executed when a PACS becomes a defaulting entity and the tenure of the director representing the said PACS on a DCCB or SCB board is terminated. Termination of such directors is a routine matter as this has already been provided for in the amended CSA and the by-laws, and is monitored by the RCS in the light of the changing recovery position from time to time. NABARD's supervision and statutory audits verify compliance with the CSAs.
(vii) Rating of SCBs conducted by approved rating agency.	**Fully complied with.** A supervisory rating has already been provided by NABARD and a statutory rating has been provided by independent chartered accountants based on rating scales covering regulatory, financial, operational, and management parameters developed by NABARD as a second tranche action. In addition to the independent ratings by chartered accountants, the ratings provided as part of the statutory inspection of SCBs and DCCBs under section 35(6) of the Banking Regulation Act would continue. Additional rating may be requested by lenders to the SCBs. Issuance of a rating will enable the SCBs to independently access the market and the issuance of a rating is in line with initiatives to amend the NABARD Act, 1982 to enable CCS institutions to have a broader access to finance. The introduction of ratings will also further provide incentives for SCB institutions to maintain the process of financial and governance reform.
3. Institutional Reforms for Sustainability	

Condition	Status of Compliance
(a) NABARD (i) NABARD implements in all PSs the (1) accounting standards; (2) management information system including internal control and audit systems; (3) computerization plan; and (4) human resources development plan for the CCS.	**Substantially complied with.** NABARD has developed and circulated a CAS and MIS for PACSs in all participating states. Registers for the CAS and MIS are printed and circulated in four participating states, and are in progress in Bihar. Manuals have also been provided for the CAS and MIS by NABARD to operationalize the systems. The CAS has introduced accounting practices in CCS institutions in line with banks and, similar to the introduction of fit and proper criteria for directors, this enables an aspect of reform even before the passage of the Banking Regulation Act amendment by Parliament. Training has also been undertaken in participating states to create trainers and to train PACSs staff and board members.
(b) PACS (i) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of PACSs completed in all PSs. (ii) PSs implement plans to phase out cadre based secretaries in PACSs. (iii) Eligible PACSs adopt APRs/DAPs in all PSs.	**Fully complied with**. All five participating states have completed the special audits of PACSs and the scale of the exercise can be gauged from that fact that almost 40,000 PACSs have been audited. The revival package envisages that support for financial restructuring must enable CCS institutions to clear accumulated losses, maintain minimum capital, and retire equity contributions by participating states. Accumulated losses in CCS institutions cover (i) nonrepayment of agricultural, business, and consumer loans; (ii) losses on account of noncredit businesses such as the PDS; (iii) nonrepayment of loans under guarantees where the state government has not yet paid the CCS institutions even though the guarantee has been invoked; (iv) nonrepayment of dues from governments on account of waivers or subsidies; and (v) losses due to fraud, etc. The revival package requires that the magnitude of the losses be assessed by special audits based on uniform accounting criteria including for nonperforming assets and release of assistance linked to the special audits under action 23. The revival package envisages that financial restructuring will start with first bringing the PACSs to an acceptable level of financial health through cleaning their balance sheets and strengthening their capital bases, and then move to the upper tiers. This will enable PACSs to clear their dues to the upper tiers and thereby reduce the accumulated losses of DCCBs. The DCCBs will then be provided assistance to clear the balance of accumulated losses, if any, and to reach minimum capital adequacy norms. The same process will apply to SCBs. **Fully complied with**. At the time of tranche release, the tranche condition was rated partially complied with. Thereafter, the cadre system was fully phased out. **Fully complied with**. To strengthen STCCS institutions, in FY1994 NABARD introduced a DAP and/or MOU mechanism aimed at strengthening institutions through specific measures related to finance, strategy, and business planning. The performance obligations arising out of DAPs formed the basis of the MOU between stakeholders and are considered as a systematic approach for business planning and include tangible performance measures. During the third phase of DAP and/or MOU covering FY2004−FY2006, PACSs were introduced to business planning process for the first time. Under the BDP concept introduced in 2007, PACSs are required to prepare viability action plans (named as BDPs) and enter into an MOU with the DCCB. The mechanism of DAP and/or MOU has helped in building appreciation and

Condition	Status of Compliance
	awareness for strategic planning facilitating sustainable viability at all levels. BDPs have been prepared by 1,930 out of 2,738 PACSs in Andhra Pradesh, 4,196 out of 4,523 PACSs in Madhya Pradesh, 9,482 out of 20,791 PACSs in Maharashtra, and 5,147 out of 5,259 PACSs in Rajasthan. The process is about to start in Bihar.
(iv) Plan for ineligible PACSs developed and implementation commenced in PSs that have ineligible PACSs.	**Partially complied with.** Andhra Pradesh, Madhya Pradesh, and Maharashtra have identified ineligible PACSs, and the process is ongoing in the remaining two states as advised by all participating states at the eighth NIMC meeting.
(v) Support provided by NABARD for cleaning accumulated losses of eligible PACSs in PSs that meet benchmark requirements of the MoUs.	**Fully complied with.** NABARD has released recapitalization assistance as per the terms of the MOUs to all five participating states. The number of PACSs assisted and amounts released are as follows: Andhra Pradesh, 2,580 PACSs, $360.0 million; Bihar, 6,633 PACSs, $58.1 million; Madhya Pradesh, 3,134 PACSs, $223.4 million; Maharashtra, 15,219 PACSs, $319.0 million; and Rajasthan, 2,763 PACSs, $54.1 million.
(c) DCCBs (i) Eligible DCCBs adopt APRs/DAPs.	**Fully complied with.** DAPs for FY2007−FY2011 have been prepared by SCBs and DCCBs that have signed MOUs with NABARD as per NABARD guidelines. The plans are refined each year to take into account recent business developments, costs of investments, and competition. The DAPs are regularly monitored and reviewed during state task force meetings.
(ii) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of DCCBs completed in all PSs.	**Fully complied with.** Assessed as substantially complied with at the time of the tranche release. Thereafter, the audits were completed.
(iii) Support provided by NABARD for cleaning accumulated losses of DCCBs in PSs that meet benchmarks requirements of the MoUs.	**Substantially complied with.** The benchmark requirements include release of committed liabilities by participating state governments to DCCBs, including invoked guarantees, and this should precede the release of financial assistance for cleaning accumulated losses as contained in the MOU. The participating states of Andhra Pradesh, Madhya Pradesh, and Maharashtra have not released committed liabilities, and as recorded in the minutes of the eighth NIMC meeting, the states are required to honor their commitments in this regard. NABARD is awaiting the release of state government commitments before the release of recapitalization assistance for which it has earmarked funds. Thus, support will be provided by NABARD during post-completion of benchmark requirements. The NIMC has also directed these states to release the committed liabilities to the DCCBs and SCBs concerned. Further, based on the task force report, while accumulated losses of DCCBs aggregated to around $1 billion (prior to the special audits) as of March 2003, the same has to be set against the accumulated losses by PACSs, estimated at around $520 million. The balance losses represent (i) residual losses on account of loans to PACSs for other purposes, (ii) DCCB lending to societies other than PACSs, and (iii) direct lending by DCCBs to individuals for agricultural and nonagricultural purposes. The precise estimate of the said losses can only be made after completion of special audits of DCCBs, which is ongoing in Bihar.
(d) SCBs (i) SCBs adopt APRs/DAPs.	**Fully complied with.** As under action 24, the DAPs have been prepared by SCBs which have

Condition	Status of Compliance
	signed MOUs with NABARD for FY2007−FY2011. The state task force, the district monitoring and review committee, and the state monitoring and review committee vet and monitor the DAPs and BDPs on an ongoing basis.
(ii) Special audits (to assess the extent of accumulated losses as on 31 March 2004) of SCBs completed in all PSs.	**Fully complied with.** Assessed as substantially complied with at the time of tranche release. Thereafter, special audits were completed.
(iii) Support provided by NABARD for cleaning accumulated losses of SCBs in PSs the meet benchmark requirement of the MoUs.	**Substantially complied with.** While NABARD has earmarked resources to be released to the SCBs, the fulfillment of benchmark activities by the SCBs is a prior requirement.

Fourth Tranche

Condition	Status of Compliance
1. Establishing a Policy Reform and Implementation Framework	
(a) 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.	**Fully complied with**.
(b) The Government makes budgetary provision to support CCS reforms.	**Partially complied with**. Support not sufficient to clear all accumulated losses.
2. Building a Facilitating Legal, Regulatory and Governance Framework	
(a) Establishing a Conducive Legal Framework for CCS Implementation status of rules and regulations corresponding to the amended CSAs in all PSs.	**Fully complied with**.
(b) Instituting Effective Regulation Prudential norms applied to the PACSs	**Fully complied with.** However, the capital requirement was set at 4%, which is low compared to national and international norms.
(c) Enhancing Good Governance (i) PSs complete elections to all DCCBs and PACSs and install new boards of directors and office bearers.	**Partially complied with**. In Madhya Pradesh, 4,458 out of 4,523 PACSs and 36 out of 38 DCCBs have held elections. In Maharashtra, 17,234 out of 20,914 PACSs and 24 out of 30 DCCBs have held elections. Completed in the other three states.
(ii) Rating of SCBs and at least 50% of DCCBs conducted by approved rating agency.	**Fully complied with**. All SCBs and DCCBs receive a regulatory rating. Wholesale lenders can also require borrowing institutions to obtain a rating from a credit rating agency,
(iii) Directors on boards of the CCS (SCBs and DCCBs) not meeting the approved criteria removed by PSs.	**Partially complied with**. SCBs comply in all five states, but only Bihar has fully implemented at DCCBs.
3. Institutional Reforms for Sustainability	
(a) NABARD	

Condition	Status of Compliance
NABARD continues implementation in all PSs of 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.	**Partially complied with.** Accounting standards implemented throughout the CCS. DCCBs expected to be fully equipped with an MIS and computerization by the end of 2014. PACSs' MIS and computerization will require significantly more time to establish. Human resource plans developed although there are still concerns about their effectiveness.
(b) PACS (i) Support provided by NABARD for cleaning accumulated losses of eligible PACSs in PSs that meet benchmarks requirements of the MOUs. (ii) PSs implement plans for phase out of cadre based secretaries in PACSs. (iii) Implementation of APRs/DAPs. (iv) Implementation of plan for ineligible PACSs by PSs.	**Partially complied with**. Support not sufficient to clear all accumulated losses. **Fully complied with**. **Partially complied with**. Implementation in Maharashtra and Bihar ongoing; largely or fully implemented in other states. **Partially complied with**. Implementation plans generally developed but implementation incomplete.
(c) DCCBs (i) Support provided by NABARD for cleaning accumulated losses of DCCBs in PSs that meet benchmark requirements of the MOUs. (ii) Progress on implementation of APRs/DAPs.	**Partially complied with**. Released funding less than accumulated losses. **Fully complied with**.
(d) SCBs (i) Support provided by NABARD for cleaning accumulated losses of SCBs in PSs that meet benchmark requirement of the MOUs. (ii) Progress on implementation of APRs/DAPs.	**Partially complied with**. As of most recent report, Bihar was the only SCB requiring assistance, but it had not been released. **Fully complied with**.

APR = Action Plans for Revival, BR = Banking Regulation, CCS = cooperative credit structure, CSA = Cooperative Societies Act, DAP = Development Action Plan, DCCB = district central cooperative bank, DICGC = Deposit Insurance and Credit Guarantee Corporation, MOU = memorandum of understanding, NABARD = National Bank for Agriculture and Rural Development, NIMC = National Implementation and Monitoring Committee, PACS = primary agricultural credit society, PS = participating state, RCCRDP = Rural Cooperative Credit Restructuring and Development Program, RCS = Registrar of Cooperative Societies, SCB = state cooperative bank, SLIC = state-level implementation committee, SLTF = state level task force, STCCS = short-term cooperative credit structure.

SUMMARY OF OUTPUTS

Output	Performance Targets/Indicators	Status
A nationwide policy framework for strengthening the short-term CCS	MOUs signed by five PSs (four MOUs signed by Nov 2006 and the fifth by Mar 2007)	Done
	Government/PSs make budgetary provisions to initiate CCS reforms (starting Oct 2006)	Done
	SLICs and DLICs established (Jun 2007)	Done
	NABARD establishes DCRR (by Oct 2006)	Done
	Government constitutes NIMC (by Oct 2006)	Done
	State task forces constituted (by Jun 2007)	Done
	Stakeholder consultations held by the government (first Nov 2008 and second by Nov 2009)	Done
A conducive legal framework for autonomous CCS operations	Measures to amend the CSAs initiated by PSs (starting by Jan 2007)	Done
	Amended CSAs enacted by PSs (by Jun 2008)	Done
	Need for amending NABARD Act and DICGC Act reviewed (by Jun 2007)	Done
	Rules and regulations for amended CSAs issued by PSs (by Nov 2008)	Done
	NABARD Act and DICGC Act amended if necessary (by Nov 2008)	Effectively done. DICGC Act did not require amending and amendment of NABARD Act eventually assessed as not necessary. The 97th amendment of India's Constitution as well as some regulatory changes broadly achieved the intended outcomes.
Orderly development of CCS and enhanced depositor protection	Amendments to the BR Act finalized (Jun 2007)	Effectively done. Eventually assessed as not necessary. The 97th amendment of India's Constitution as well as some regulatory changes broadly achieved the intended outcomes.
	Amended BR Act enacted (by Jun 2008)	Effectively done. Eventually assessed as not necessary. The 97th amendment of India's Constitution as well as some regulatory changes broadly achieved the intended outcomes.
	Prudential norms issued by PSs for PACSs and nonbank CCS (by Jun 2007)	Effectively done. Although regulatory capital requirements for PACSs are 4% and below the requirements for commercial banks, DCCBs, and SCBs
	Prudential norms applied to PACs (Jun 2008)	Effectively done. Although regulatory capital requirements for PACSs are 4% and below the requirements for commercial banks, DCCBs, and SCBs
	Supervision and regulation done in PSs in line with amended CSA for CCS classified as banks (starting by Sept 2008)	Done. Although there is still an element of regulatory forbearance in that CCSs classified as banks enjoy a lower minimum capital adequacy ratio requirement until 31 March 2017
	Prudential norms issued and eligibility of CEOs and boards developed in PSs in line with amended BR Act (by Sept 2008)	Done
Democratic character of the CCS restored and governance enhanced	Election plans prepared by PSs for the CCS (by Jun 2007)	Done

Output	Performance Targets/Indicators	Status
	Equity share in CCS reduced to maximum of 25% and converted to grant by PSs (completed by Nov 2008)	Achieved in four states but not in Madhya Pradesh where the state still owns more than 25% of equity in one CCB and 778 PACS
	Guidelines for annual audits and rating of SCBs and DCCBs issued by NABARD (by Jun 2007)	Done
	Elections held and new directors and office bearers installed in SCBs and DCCBs (beginning by January 2008)	Done
	PS nominees limited to one on SCB/DCCB boards and withdrawn from PACS boards (beginning January 2008)	Completed in two states; partially completed in Madhya Pradesh and Maharashtra; not completed in AP
	Directors on boards of SCBs/DCCBs not meeting approved criteria and of loss-making entities identified and removed (beginning by Jun 2008)	All SCB directors meet criteria but only Bihar has achieved full compliance in DCCBs. Directors removed from loss-making institutions only if the directors are the cause of the losses
	Independent ratings of SCBs/DCCBs conducted (first rating by Nov 2008)	Done
International best practices mainstreamed in the CCS	Accounting standards, MIS, HRD, and computerization plans issued by NABARD and implemented in CCS in all PSs (no later than Nov 2007)	Computerization implementation in all DCCBs planned by 2014; implementation at PACSs incomplete
	Format for special audits developed and sample audits conducted by NABARD (by Oct 2006)	Done
	Guidelines linking refinance to CCS reforms issued by NABARD (by Oct 2006)	Done
	Refinance from other financial institutions considered by NABARD (by Jun 2007)	Done
	Model plans for ineligible PACSs developed by NABARD (by Jun 2007)	Done. However, the plans remain largely unimplemented
	Model APRs/DAPs prepared by NABARD (by Jun 2007)	Done
Primary agricultural credit societies strengthened to provide stronger foundation for the CCS	Placement of cadre-based secretaries discontinued in PSs (beginning no later than Jun 2007)	Done
	Phase out of cadre-based secretaries initiated (no later than Jun 2008)	Done
	Special audits conducted (initiated by Nov 2006 and completed by Nov 2008)	Done
	Eligible PACSs sign agreements with DCCBs/DLICs (continuous, beginning Mar 2007)	Done
	Financial support provided to clean accumulated losses (continuous, beginning Jun 2007)	Not completed
	APRs/DAPs adopted and implemented (continuous, beginning no later than Jun 2007)	Ongoing in Maharashtra and Bihar; largely or fully completed in other states
	Plans for ineligible PACSs developed and initiated in PSs (beginning no later than Jun 2007)	To date, only Andhra Pradesh and Rajasthan have completed road maps for ineligible PACSs
District central cooperative banks reformed into sustainable institutions	Agreement letters signed with DLICs (completed by Nov 2007)	Done
	Special audits conducted (initiated by Mar 2007 and completed by Nov 2008)	Done
	Financial support provided to clean accumulated losses (continuous, beginning no later than Mar 2008)	Not completed

Output	Performance Targets/Indicators	Status
	APRs/DAPs adopted and implemented (continuous, beginning no later than Jan 2008)	Done
SCBs reformed to effectively perform as apex institutions supporting efficiency and sustainability of the CCS	Agreement letters signed with SLICs (completed by Mar 2007)	Done
	Special audits conducted (initiated by Mar 2007 and completed by Nov 2008)	Done
	Financial support provided to clean accumulated losses (continuous, beginning no later than Mar 2008)	Not completed. As of most recent report, only Bihar had required the assistance, but it has not been released.
	APRs/DAPs adopted and implemented (continuous, beginning no later than Jan 2008)	Done

ADB = Asian Development Bank, APR = Action Plans for Revival, BR = Banking Regulation, 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 of the United Kingdom, DICGC = Deposit Insurance and Credit Guarantee Corporation, DLIC = district-level implementation committee, HRD = human resource development, IT = information technology, MIS = management information system, MOU = memorandum of understanding, NABARD = National Bank for Agriculture and Rural Development, NIMC = National Implementation and Monitoring Committee, NPA = nonperforming asset, PACS = primary agricultural credit society, PS = participating state, RBI = Reserve Bank of India, SCB = state cooperative bank, SLIC = state-level implementation committee.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, environmental, and rural credit practices.	Section 4.01 (a)	Complied with.
In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	Section 4.01 (b)	Partly complied with. Not all participating states provided their full commitment of counterpart funds; some of the policy reforms are still in progress
The Borrower shall make available, promptly as needed, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.	Section 4.02	Partly complied with. After recognizing the larger than expected capitalization shortfall, funds were not provided to address the shortfall
The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Section 4.03	Complied with.
The Borrower 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.	Section 4.04 (a)	Complied with.
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Section 4.04 (b)	Complied with.
As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower 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.	Section 4.05 (a)	Complied with.
Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower 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.	Section 4.05 (b)	Complied with.
The Borrower's Ministry of Finance (Banking Division) shall be the ED responsible for coordination and management of overall implementation of the Program. NABARD shall be the Implementing Agency (IA) responsible for day-to-day implementation of the Program.	Schedule 5. 1. (a)	Complied with.
Towards compliance with the requirements of this Loan Agreement, the Borrower shall ensure that the ED, the IA and all PSs undertake activities and respective responsibilities as included under this Loan Agreement and related documents in a timely manner to achieve the objectives of the Program.	Schedule 5. 1. (b)	Partly complied with. Not all activities undertaken, e.g., release of counterpart funding
The Borrower through the ED, NABARD, and the PSs shall (a) maintain the policies adopted and actions taken prior to the date of this Loan Agreement and during its implementation, as described in the DPL 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 DPL and the Policy Matrix; (c) ensure that such policies and actions continue in effect for the duration of the Program and subsequently; and	Schedule 5. 2.	Partly complied with. Not all policy actions were adopted.

Covenant	Reference in Loan Agreement	Status of Compliance
(d) ensure that all agencies involved in the Program shall at all times maintain adequate staff and funds for satisfactory and timely completion of the Program.		
The Borrower 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 RRP for the CCS reforms. The Borrower shall ensure that (a) the NIMC set up under First Tranche requirements serves as the Program Steering Committee for the duration of the Program; (b) the SLICs set up by the PSs under Second Tranche requirements shall be responsible for guiding and monitoring the implementation of the CCS reforms package and the Program at PS levels; and (c) the DLICs to be set up by the PSs 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 PSs.	Schedule 5. 3.	Complied with.
Counterpart Funds 4. The Borrower through the ED shall ensure that (a) the Counterpart Funds shall be used for the costs associated with the CCS reforms 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 PSs and shall treat such counterpart funds as an additionality to its transfers allocated to the PSs; and (b) all PSs make available on a timely basis, the counterpart funds required for the Program through timely budget appropriations/allocations and in accordance with the relevant MOUs/agreements.	Schedule 5. Counterpart Funds. 4.	Partly complied with. Not all counterpart funding was made available.
5. (a) Notwithstanding the inclusion of four identified PSs under the First Tranche, in the event that any one of such identified PS 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 benefit of other identified PSs, and unless otherwise required by ADB, the Borrower may substitute such PS with another PS, subject to following principles: (i) the PS 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 and this Loan Agreement, as of the date of such substitution; (ii) the substitution shall be limited to only one PS and shall not be revocable; (iii) the substitution shall be not beyond a date six months after release of the First Tranche, or the date of Second Tranche, whichever is earlier; (iv) the substitution shall not disturb the adjustment costs already incurred towards release of First Tranche under the Program; and (v) it shall also be required that under such substitution arrangements, the Borrower shall: (1) continue to finance and support the PS that has been taken out from the Program, towards CCS reforms as reflected in the DPL; (2) provide Borrower's share of financing under the Program to the newly included PS; and 25 (3) will require all PSs (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 this Loan Agreement. (b) The Borrower shall ensure that the additional PS to be included as stipulated under Second Tranche release is included not later than six months of release of the First Tranche.	Schedule 5. Participating States. 5.	Complied with.
(a) The Borrower shall and shall cause PSs to ensure that the reforms under the Program, including institutional, legal and financial reforms and respective MoUs/agreements between various agencies	Schedule 5. CCS Policy	Partly complied with. Tranche release conditions were not fully

Covenant	Reference in Loan Agreement	Status of Compliance
under the CCS reforms are formulated, finalized and implemented to the satisfaction of ADB. (b) As part of the legal and institutional reforms and compliance of various Tranche release activities, the Borrower through the ED shall ensure that the PSs undertake necessary amendments referred in the DPL; as also adhere to agreed implementation schedule for timely compliance of Tranche conditions.	Reforms. 6.	met.
7. The Borrower shall ensure that CCS will have autonomy in all financial and internal administrative matters as outlined in the MoUs/respective agreements.	Schedule 5. CCS Policy Reforms.	Complied with.
8. In case of natural calamities and unforeseen circumstances that affect the equity and liquidity of the CCS, the Borrower shall consult with ADB immediately and prepare within a month a remedial action plan acceptable to ADB.	Schedule 5. CCS Policy Reforms.	Complied with.
(a) Without limiting the generality of paragraph 4 of Schedule 3 to this Loan Agreement, in addition to the Deposit Account, the Borrower through the 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 (6) 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 KfW.	Schedule 5. Accounts; Disbursements. 9.	Complied with.
(b) Considering the larger 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 PSs.	Schedule 5. Accounts; Disbursements. 9.	Complied with.
The Borrower through the ED shall cause NABARD and PSs to ensure that activities under the Program, if become applicable, shall be carried out in accordance with applicable safeguard policies of ADB (i.e., Involuntary Resettlement Policy, 1995, Environment Policy, 2002, and Indigenous Peoples Policy, 1998) and related laws and regulations of the Borrower/PS.	Schedule 5. Safeguards and social issues. 10.	Complied with.
Without limiting the generality of Sections 7.04 and 7.05 of the Loan Regulations (a) the Borrower shall keep ADB informed of modifications if any in the CCS reform package in so far as these may impact the Program in any manner; (b) the ED shall keep ADB and KfW informed of progress on activities relating to fulfillment of Tranche releases as also other covenants agreed with ADB and KfW. As and when CCS reforms are supported by other agencies, the ED shall facilitate coordination amongst the various agencies; and (c) the ED shall regularly exchange views and information with ADB and KfW on any problems, constraints encountered during Program implementation to address any changes to overcome or mitigate these.	Schedule 5. Information sharing, review. 11.	Complied with.
The Borrower through the ED, NABARD and PSs, respectively shall (a) 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	Schedule 5. Stakeholder Participation. 12.	Complied with.
(b) take all steps necessary to ensure that relevant enactments including amendments to existing laws under the agreements reached with the Borrower (as reflected in the DPL), are (i) undertaken with full stakeholder participation and views thus provided are incorporated as appropriate, (ii) tabled in the Parliament/State legislatures, respectively, for consideration and enactment well in time and in sync with related Tranche release requirements, and (iii) brought into force, and implemented effectively.	Schedule 5. Stakeholder Participation. 12.	Partly complied with. Statutory amendments were not enacted.
Without limiting the generality of Section 7.04 of the Loan Regulations (a) the Borrower shall through the ED, cause NABARD to set up by not later than January 2007, a	Schedule 5. Performance	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
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 PSs. Under the PPMS, the Borrower through the ED shall periodically review the Program, drawing on requirements agreed with ADB, to evaluate and assess the scope, implementation arrangements, benefit monitoring, progress, and achievements under the Program;	Monitoring, reports. 13.	
the Borrower through the ED shall require NABARD to provide bi-annual PPMS reports to the ED and ADB within two (2) months of the end of each half-year	Schedule 5. Performance Monitoring, reports. 13. (b)	Complied with.
regular review missions and a mid-term review mission around June 2008 shall be undertaken by ADB, KfW, the Borrower through the ED, NABARD, and PSs, 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.	Schedule 5. Performance Monitoring, reports. 13. (c)	Complied with.
In carrying out policy measures and activities under the Program and Policy Matrix, the Borrower through the ED shall cause NABARD and PSs to ensure that recommendations provided under the TA are duly considered for appropriate adoption in a timely manner in consultation with ADB.	Schedule 5. Technical Assistance. 14. (a)	Complied with.
As and when other agencies support the Program or the CCS Reforms, the ED shall facilitate coordination of related inputs.	Schedule 5. Technical Assistance. 14. (5)	Complied with.

ADB = Asian Development Bank, CCS = cooperative credit structure, DLIC = district-level implementation committee , DPL = development policy letter, ED = executive director, IA = implementing agency, KfW = KfW Bankengruppe, MOU = memorandum of understanding, NABARD = National Bank for Agriculture and Rural Development, NIMC = National Implementation and Monitoring Committee, PPMS = Program Performance Management System, PS = participating state, RRP = report and recommendation of the president, SLIC = state-level implementation committee.

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Public Management, Financial Sector and Trade

<table>
<tr><td colspan="3" rowspan="2">TA No., Country and Name

TA 4887-IND: Capacity Building for Rural Cooperative Credit Structure Reform</td><td colspan="2">Amount Approved: US$2,000,000</td></tr>
<tr><td colspan="2">Revised Amount: Not applicable</td></tr>
<tr><td colspan="2">Executing Agency

Ministry of Finance (Banking Division)</td><td>Source of Funding

Government of the United Kingdom[1]</td><td>Amount Undisbursed:

US$1,948,602.58</td><td>Amount Utilized:

US$51,397.42</td></tr>
<tr><td rowspan="2">TA Approval Date:

8 Dec 2006</td><td rowspan="2">TA Signing Date:

11 Dec 2006</td><td rowspan="2">Fielding of First Consultants:

Not applicable</td><td>TA Completion Date
Original: 31 Dec 2007</td><td>
Actual: 29 Mar 2011</td></tr>
<tr><td>Account Closing Date
Original: 31 Dec 2007</td><td>
Actual: 31 Dec 2009</td></tr>
</table>

Description: The purpose of the technical assistance (TA) was to strengthen implementation and monitoring of rural cooperative credit structure (CCS) reform and enhance its social and gender impacts. The TA had four components: (i) setting up and implementing the program performance monitoring system, (ii) capacity building of state institutions, (iii) outreach to poor rural women, and (iv) assessment of CCS reform implementation.

Expected Impact, Outcome, and Outputs: The impact of the program was enhanced income and employment growth for the rural poor in the participating states. The outcome was improved access by rural households to affordable financial services through a sustainable and efficient CCS in the participating states. The expected outputs were (i) a nationwide policy framework for strengthening the short-term CCS, (ii) a conducive legal framework for autonomous CCS operations, (iii) orderly development of the CCS and enhanced depositor protection, (iv) the democratic character of the CCS restored and governance enhanced, (v) international best practices mainstreamed in the CCS, (vi) primary agricultural credit societies (PACSs) strengthened to provide a stronger foundation for the CCS, (vii) district central cooperative banks (DCCBs) reformed into sustainable institutions, and (viii) state cooperative banks reformed to effectively perform as apex institutions supporting efficiency and sustainability of the CCS.

Delivery of Inputs and Conduct of Activities:
There were effectively no activities. The Asian Development Bank (ADB) did recruit a consultant and initiate the TA, to include making a mobilization payment to Grant Thornton Advisory in October 2007. Thereafter, it seems that the implementing agency, the National Bank for Agriculture and Rural Development (NABARD), raised some concerns about the TA, and ADB did not make any further milestone payments. By early June 2008, NABARD requested some amendments to the TA, but under the trust fund's procedures, any changes had to be processed by 30 June 2008 and were not considered.

Evaluation of Outputs and Achievement of Outcome Not applicable.

Overall Assessment and Rating: *Unsuccessful.* The cancellation of at least one of the TA components did have a material impact on the success of the associated project.

---

[1] Through the Memorandum of Understanding between the Government of the United Kingdom and the Asian Development Bank on the Establishment of a Cooperation Fund for Technical Assistance. Administered by the Asian Development Bank.

Component	Impact of Component Cancellation on the Program
(i) Setting up and implementation of the program performance monitoring system	*Negligible*. NABARD developed extensive systems to monitor implementation, to include the establishment of a dedicated department, so the impact in this regard was minimal.
(ii) Capacity building of state institutions	*Negligible*. Although additional assistance could have always been helpful, NABARD assumed extensive responsibility for developing and implementing training programs for the DCCBs and PACSs and mitigated the loss.
(iii) Outreach to poor rural women	*Moderate*. No alternate arrangements seem to have captured the TA's emphasis on outreach to women. Although this represents a missed opportunity to expand the reforms' inclusiveness, it does not fundamentally affect the CCS's efforts to become financially sustainable institutions.
(iv) Assessment of CCS reform implementation	*Significant*. ADB's value addition to the program was external accountability. With TA funding, ADB could have played this role much more decisively. For example, a team of consultants could have visited each of the participating states biannually to follow up on outstanding deliverables and could have reported directly to ADB. Such monitoring would have reinforced NABARD's work and would have brought increased attention and accountability to any delayed policy actions. Additionally, the TA would have helped address some of the program's data deficiencies through sampling the financial and operational performance of DCCBs and PACSs.

Major Lessons

1. The implementing agent has to fully support the technical assistance. Otherwise, the risk of cancellation or poor implementation escalates.
2. ADB's internal documentation downplayed the TA's cancellation because KfW had approved a TA package that could offset some of the impact. Although KfW's TA supported institutional development, it did not fund the activities that were to help ADB monitor implementation. More detailed analysis of the impact of cancellation might have identified this gap.

Recommendations and Follow-Up Actions If the funding to pay for monitoring is cancelled, then ADB must identify alternate arrangements—particularly for large programs where the magnitude of funding heightens the risks of poor performance.

Prepared by: Don Lambert Designation: Senior Finance Specialist