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Report No. 10752

PROJECT COMPLETION REPORT

INDIA

NABARD CREDIT PROJECT
(LOAN 2653-IN)

JUNE 12, 1992

Agriculture Operations Division
India Department
South Asia Regional Office

CURRENCY EQUIVALENTS

Currency: Rupee (Rp)

CURRENCY EXCHANGE RATES

Appraisal Year (1985)	US$1.0 = Rs. 12.00
Intervening Years (1986-87 - 1989-90)	US$1.0 = Rs. 12.79 - 16.66
Completion Year (1990-91)	US$1.0 = Rs. 18.58
March 5, 1992	US$1.0 = Rs. 29.0

ABBREVIATIONS AND ACRONYMS

ACRC	Agricultural Credit Review Committee
ARDC	Agricultural Refinance and Development Corporation
BDO	Block Development Officer
BIRD	Bankers Institute of Rural Development
FO	Field Officer
GOI	Government of India
IRDP	Integrated Rural Development Programme
ISB	Industry, Services and Business
ISEC	Institute for Social and Economic Change
LDB	Land Development Bank
MTM	Monthly Training Meet
NABARD	National Bank for Agriculture and Rural Development
OED	Operations Evaluation Department
PACS	Primary Agricultural Cooperative Society
PCR	Project Completion Report
PPAR	Project Performance Audit Report
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SAA	Service Area Approach
SAR	Staff Appraisal Report
SEG	Senior Experts Group
T&V	Training and Visit Extension System

FISCAL YEAR

April 1 - March 31

WEIGHTS AND MEASURES

Metric System

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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

June 12, 1992

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Completion Report on INDIA
NABARD Credit Project (Loan 2653-IN)

Attached, for information, is a copy of a report entitled "Project Completion Report on India: NABARD Credit Project (Loan 2653-IN)" prepared by the South Asia Regional Office. No audit of this project has been made by the Operations Evaluation Department at this time.

Attachment

PROJECT COMPLETION REPORT

INDIA

NABARD CREDIT PROJECT
(Loan 2653-IN)

Table of Contents

Page No.

PROJECT COMPLETION REPORT

INDIA

NABARD CREDIT PROJECT (Loan 2653-IN)

Preface

This is the Project Completion Report (PCR) for the NABARD Credit Project for which Loan 2653-IN of US$375 million was approved on February 25, 1986. The Loan closed on June 30, 1991, 1.5 years behind schedule; however by March 8, 1991 the Loan was fully disbursed.

This PCR was prepared by the Agriculture Operations Division of the India Department, South Asia Regional Office (Preface, Evaluation Summary, Parts I and III) based on a preliminary draft produced by that division's New Delhi-based unit. NABARD prepared Part II and provided comments on an earlier draft of Parts I and III.

Preparation of this report was begun during the Bank's final supervision of the project in 1991, and is based, inter alia, on the Staff Appraisal Report, legal documents, supervision reports, correspondence between the Bank and the Borrower, project progress reports, discussions with representatives of NABARD, and internal Bank memoranda and reports.

PROJECT COMPLETION REPORT

INDIA

NABARD CREDIT PROJECT (Loan 2653-IN)

Evaluation Summary

Objectives

1. In a departure from earlier state-based and national agricultural credit projects supported by the Bank in India, the project's main objective was to strengthen the rural financial system and improve the quality of credit delivery, and its secondary objective was to increase agricultural production, rural income and employment with emphasis on small farmers.

Implementation Experience and Results

2. The project, estimated to cost US$5.36 billion and supported by a Bank loan of US$375 million, made a promising start with implementation of an ambitious, comprehensive study of the agricultural credit system (ACRC study) with a view of establishing a firm policy and informational basis for future reforms. Both domestic and international expertise contributed to the effort, in the end producing a technically solid blueprint for beginning the overhaul of the rural credit system. The utility of the study has been diminished by GOI's reluctance to embrace and implement the recommendations. During project execution, study activities acted as important triggers for release of loan tranches funding NABARD's refinancing program. The project also supported a pilot scheme to improve credit delivery and recoveries by intensifying and fortifying the managerial input at the bank branch level. Modelled on the T&V system for agricultural extension, the scheme was carried out ultimately in only 15 out of the proposed 20 districts. While the scheme resulted in generally better borrower-banker interface, it failed to yield significantly better rates of deposits, credit outflows or recoveries than in control districts outside the scheme. This result was due to the scheme's flaw of focussing only on one input--management; important factors such as pervasive political interference, a counter-productive global loan waiver scheme, weather, low interest rates and administrative reorganizations had more impact on banking fundamentals. Nevertheless, relatively cost-free aspects of the scheme such as improved administrative procedures were accepted and are being replicated from the project; costly aspects--e.g., greater manpower--proved to be unacceptable to the banks without project, or eventually public, financial support. The project also supported a training program sponsored by NABARD which was successful and innovative, but its effectiveness was restricted by a continuing general policy environment hostile to responsible banking.

3. The largest component was NABARD's subloan refinancing activities over the FY1986-87 to 1988-89 period. The project was expected to support about Rs. 63.8 billion in investments. Actual investments made and financed with Bank funds, chiefly in irrigation, farm mechanization and livestock development, fell 11% below appraisal estimates mainly due to unrealistic targets and reduced borrowings due to natural calamities. Non-schematic lending (footnotes 21-22), however, proved 120% higher than appraisal estimates resulting in global project targets being met. IRDP lending continued to represent a major share of NABARD refinancing--18%--over the three year period. The states of Uttar Pradesh, Maharashtra and Andhra Pradesh accounted for 36% of total investments associated with project refinancing.

4. To address the chronically poor financial health of bank branches the project fostered a more robust system of eligibility criteria geared to limit the access of less viable banks to

NABARD refinancing and to pinpoint weaker lending institutions in need of rehabilitation/merger/closure. The Bank also viewed these stronger controls as a mechanism to limit the growth of NABARD's overall refinancing in lieu of specific curbs on lending targets. The project's eligibility criteria were well thought out with a view of plugging loopholes observed in criteria employed under previous projects. While agreed criteria were enacted as a condition of loan effectiveness, these did little to curtail global NABARD refinancing. Also, disagreements arose between the Bank and NABARD about elements in criteria calculation. Likewise, and importantly, severe drought experienced during project execution prompted the Borrower to request relaxation of eligibility criteria and their timebound program of strengthening. Identification of weak (cooperative) banks in need of remedial attention through criteria tests proved moot since NABARD as a national institution was unable to take action for cooperative banks without state collaboration, which in the main was not forthcoming. Under the project, however, NABARD did implement a number of noteworthy measures to enhance the management of the IRDP lending portfolio, including a NABARD task force, district review committees and procedural adjustments. These positive steps, however, did not detract from the massive and unwieldy size of the IRDP portfolio and the continuing chronic nature of overdues.

Sustainability

5. The subloan refinancing component of the project, as in previous ones, was successfully carried out and yielded healthy increments to productive investments, income and employment. However, the principal thrust of the project--institutional change--was only accomplished at the margin. The successes in this regard (e.g., the training component, improvements in IRDP portfolio management, selected aspects of the pilot scheme, and, most importantly, the study of the agricultural credit system) have been overwhelmed and countervailed by a policy environment hostile to an efficient and sustainable agricultural credit system. Nevertheless, these project successes are useful bases and precedents for when GOI decides to take the needed but difficult actions to reform the rural credit system within the context of global financial sector adjustments, which the Bank is attempting to foster in its dialogue with GOI. Based on the framework provided by the Narasimham Committee, which submitted to GOI in end-November, 1991, its findings and recommendations on needed financial sector adjustments, the thrust of the reforms advocated by the Bank would: (a) take into consideration the ACRC recommendations; (b) re-define NABARD's role; (c) address the issues of bad debts and needed recapitalization of banks; (d) promote greater autonomy for banks from political interference; (e) encourage modern internal management systems; and (f) upgrade prudential regulation and supervision.

Findings and Lessons Learned

6. The project proved unsuccessful in contributing to a significant improvement in the rural credit system of India. In certain respects, the system is worse off today than at the time of appraisal due to factors exogenous to the project. Although it was hoped that the studies financed under the project would lead to major policy reforms, and thus provide the main *ex-post* justification for the project and set the stage for further Bank assistance in this vital area, the socio-political climate of India has not encouraged such fundamental adjustments. GOI has not adopted reforms recommended in the project's credit review, agricultural interest rates were reduced in real terms during implementation, and the rural loan writeoff scheme enacted in 1990 was a major retrograde measure. Therefore, criticisms of the project's predecessor yet applies: By making large external resources available in the short-run to the Indian rural credit system without seeking remedy through loan conditionality for the serious problems existing, the Bank failed to make a long-term developmental contribution. In the future, the Bank should insist on comprehensive, concrete reforms and to complement these, it should encourage a strengthening of village-level institutions for sounder grassroots management of financial resources.

PROJECT COMPLETION REPORT

INDIA

NABARD CREDIT PROJECT
(Loan 2653-IN)

PART I - PROJECT REVIEW FROM BANK'S PERSPECTIVE

Project Identity

Name:	Nabard Credit Project
Loan Number:	2653-IN
RVP Unit:	South Asia Region
Country:	India
Sector:	Agriculture
Subsector:	Credit

Background

1.01 **Agriculture**. Agriculture is the dominant sector of the Indian economy; it contributes about one-third of the country's GDP, engages about two-thirds of the labor force and accounts for about one-fifth of merchandise exports. The introduction of high-yielding varieties for major foodgrains, expanded use of fertilizer and extensive investment in irrigation have made India largely food self-sufficient. This has been achieved despite considerable discrimination in the trade and price regimes against agriculture. Nevertheless, agricultural GDP growth--2.6% p.a. since 1965--has been modest compared to a population growth rate of 2.1%. Despite major technological breakthroughs, the all-India agricultural growth rate has not accelerated in the past two decades and remains concentrated in a few major crops (mainly rice, wheat, sugarcane and rapeseed/mustard).

1.02 **The Rural Credit System**. In addition to direct public investment in irrigation facilities and other productive infrastructure, the Government of India (GOI) has encouraged private investment in the sector. Since the 1960s, these efforts have increasingly centered on the expansion of the institutional credit system. Two objectives have underpinned GOI actions in this regard: First, institutional credit is viewed as an important tool to secure food self-sufficiency enabling the adoption of new agricultural techniques/inputs and encouraging a shift to irrigated cropping. Second, institutional credit is considered a primary means to eradicate rural poverty by freeing small cultivators from the grip of middlemen and moneylenders and providing them the assets needed to boost productivity, income and family well-being. In 1989-90, institutional credit for agriculture totalled Rs. 103.0 billion (US$6.2 billion), 62% of which was short-term lending. Over the 1977-1990 period, short-term lending grew at an average of 13.7% p.a., in contrast to 15.6% for term lending, mainly for tractor purchase, tubewell construction and livestock.

1.03 The Indian credit system comprises two main streams: (a) the commercial banking system (nationalized in 1969), including the commercial banks and the regional rural banks, which provide short-term and investment credit; and (b) the cooperative credit system, which has separate short-term and long-term institutions. An important feature of rural credit since 1978-79 has been the credit component of the Integrated Rural Development Programme (IRDP), an amalgamation of GOI's rural poverty alleviation initiatives. At the apex of the rural credit system is the National Bank for Agriculture and Rural Development (NABARD), which replaced the Agricultural Refinance and Development Corporation (ARDC) in 1982. NABARD, a financially and legally autonomous public institution, is responsible for the timely flow of capital through the refinance of agricultural/rural loans made by retail banks servicing the rural sector. The Bank is currently in discussion with GOI over the country's financial sector, which as regards agriculture centers chiefly on overall bank viabilities, viz. poor subloan recoveries, high transaction costs and inadequate interest spreads (para 1.53).

1.04 **Earlier Bank-Financed Credit Projects**. The Bank has lent for agricultural/rural credit in India since 1969. During the first five years of this involvement, it financed ten state-based agricultural credit projects covering the country's major farming regions. In 1975 the Bank embarked on a series of four nationwide projects, using ARDC and then NABARD as the apex agency. These four countrywide projects received assistance from the Bank totalling US$875 million. These were followed in 1986 by the NABARD Credit Project (NABARD I) with an associated Bank loan of US$375 million. Each nationwide project represented a time slice of about two years of ARDC's, and then NABARD's, refinancing program. In addition to credit-specific projects, ARDC/NABARD has taken an active part in the formulation and implementation of another 21 Bank projects providing financial support for investments in selected agricultural subsectors (Table 1).

1.05 OED audit reports of the state-specific and the first four countrywide projects indicate that onlending targets were met or exceeded, especially for minor irrigation. Problems cited in these reports included worsening recoveries, inadequate lending margins, financial non-viability of smaller bank branches, substandard ARDC/NABARD review and supervision, and shortage of competent staff.

1.06 **Results of ARDC IV**. The last PPAR, dated June 1989, was particularly critical in its assessment of ARDC IV. Noting the lack of progress in resolving chronic institutional difficulties, the report concluded that the general impact of the project on agricultural credit institutions and the credit system in general was largely negative. By making large external resources available in the short-run to the system, without ensuring rectification of serious problems, the report stressed that the Bank failed to contribute to the long-term development of the credit system. It also maintained that it was doubtful whether the attainment of Bank lending targets and supply of needed foreign exchange justified continuing support for a deteriorating credit system in India. The major criticisms of the design and implementation of the project included:

(a) The project was conceived without apparent concern for broader financial sector issues;

(b) The use of the IRDP "credit window" to assist India's rural poverty alleviation efforts limited the Bank's ability to engage GOI in active debate over a broad range of policy issues associated with rural poverty and procedural issues related to global IRDP (e.g., allocation of funds, identification of beneficiaries, scope and quantum of assistance, concentration on livestock, burdens placed by IRDP on the existing rural administration); and

(c) To the extent that the main institutional problem--overdues (running about 50% in late-1983)--got further out of control and the Bank was unable or unwilling to apply corrective pressures through national projects, the decision to go nationwide in 1975 was unfortunate, if not wrong. However, almost any action would have reduced the Bank's disbursement rate and delayed the programmed next phase project--NABARD I.

Project Formulation--Genesis, Objectives and Description

1.07 **Genesis**. In anticipation of the completion of ARDC IV in June 1984, GOI submitted a request to the Bank for the consideration of the NABARD Credit Project in April 1983.[1] However, in view of the unsatisfactory performance of ARDC IV (particularly

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1 NABARD, First NABARD Credit Project, Bombay, April 1983.

arrears), as highlighted above, the Bank declined at first to consider a new agricultural credit project. GOI, wishing continued flow of resources, made numerous requests to the Bank and its management to process a new NABARD-linked project. In June 1984 the Bank communicated to GOI its assessment of the major problems of the rural credit system. Based on GOI's response, the Bank decided that conditions for its support for a new credit project would be that: (a) GOI agree to a fundamental review of agricultural credit to be undertaken by local and foreign experts in parallel with Bank financial support for NABARD; and (b) any subsequent Bank lending to NABARD be linked to satisfactory progress on the formulation and implementation of a long-term strategy to reform India's agricultural credit system. Despite previous failures to achieve improvements in the rural credit system and its institutions, the Bank received assurances from the Ministry of Finance that reforms were needed and would be an integral part of a new project's design.

1.08 The Bank continued to think that strengthening of NABARD was a logical vehicle for fostering reforms within the overall credit system and was an appropriate complement to ongoing efforts to improve the extension system and nurture more efficient use of agricultural infrastructure. In addition, another large credit project with a tested implementing agency and project model would afford the Bank an opportunity to meet another major country goal--massive resource transfer to India. Recorded arguments supporting a new agricultural credit operation included: (a) a newly observed commitment on the part of NABARD and GOI to address weaknesses in credit delivery; (b) the importance of Bank support to NABARD in the latter's quest to regain lost independence; (c) an anticipated rejuvenation of NABARD management likely to lead to greater receptivity to reforms; and (d) withdrawal of Bank support could impair NABARD's prestige and effectiveness, thereby jeopardizing the use of NABARD in future Bank projects channelling credit for specific investment activities. However, disbursements of loan funds for subloan refinancing should be directly linked to progress in implementing credit studies and more rigorous eligibility criteria. Additionally, to address weaknesses previously observed in Bank supervision, much more emphasis and staff resources were proposed to track project progress, particularly in meeting development goals.

1.09 **Objectives**. The project's main objective was to strengthen the agricultural credit system and improve the quality of credit delivery. Its second objective was to increase agricultural production, rural income and employment while continuing an emphasis on assistance to small farmers. Early project documentation stressed that this project was to be a departure from earlier agricultural credit projects supported by the Bank which had placed greater weight on increasing agricultural investments and growth; in contrast, the project was to be primarily a vehicle for institutional reform in the agricultural credit system.

1.10 **Description**. The project was to include: (a) a three-year time slice[2] of NABARD's refinancing of medium- and long-term credit from participating banks; (b) a credit review to define a program for strengthening the agricultural credit system; (c) a pilot scheme in 20 districts to upgrade credit delivery and improve recoveries; and (d) NABARD-sponsored training. The project contained tighter eligibility criteria for NABARD refinancing which were chiefly meant to address automatically the chronic problem of arrears at the branch level by forcing those with low recoveries out of NABARD's refinancing system. Secondarily, more rigorous criteria were seen as an indirect constraint on rapid growth in NABARD's refinancing program resulting from

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2 A three-year time-frame was advocated to enable GOI and consultants to complete the studies, the pilot project and institutional development measures proposed and to draw meaningful lessons therefrom. This longer execution period was also meant to respond to criticisms of earlier, essentially two-year operations that results were not taken into account in follow-on project preparation.

ambitious GOI lending targets[3] and in lending of dubious quality under IRDP.[4] The project contained programs to strengthen cooperative development banks and improve IRDP lending.

1.11 Total project costs were estimated at US$5.36 billion equivalent, of which over 99% comprised NABARD's refinancing program. A Bank loan of US$375.0 million was approved by the Board on February 25, 1986 and declared effective on September 6, 1986. In a departure from earlier projects, Bank funds for NABARD's refinancing program (US$340 million) were to be disbursed in four tranches based on the introduction of revised eligibility criteria for participating banks and progress in executing the credit review. Another US$3.5 million (1%) was channeled for the credit review, US$25.0 million (7%) for the pilot scheme and US$6.5 million (2%) for training. The original closing date was set at December 31, 1989, which was later extended twice--to December 31, 1990 and then to June 30, 1991. Cofinancing was secured from the Government of the Netherlands for Dfl 45.0 million (about US$22.2 million equivalent), or 0.4% of project costs, for NABARD's refinancing activities.[5] (Tables 2 and 3)

Agricultural Credit Review

1.12 The chief objective of the Review was to define a program to strengthen the agricultural credit system with a view to improve lending quality, effectiveness and servicing of farmers while enhancing the calibre of supervision and control over such credit operations. The Review was given considerable importance: Monitorable events in its execution formed the triggers for Bank loan tranche releases, and any future Bank lending for agricultural credit was linked to satisfactory progress on a long-term strategy and program to improve India's agricultural credit system based on the Review and on the implementation of such a strategy. It was to be executed by a Senior Experts Group (SEG), later designated the Agricultural Credit Review Committee (ACRC), under the general direction of RBI. Due to the complexity of the subject, five separate studies were proposed and implemented by foreign and local consultants hired by GOI/RBI in consultation with the Bank. GOI set up a secretariat in RBI for the review and

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3 Lending pressures were seen as an important cause for loss of control over lending quality and lack of success in building greater discipline into the rural credit system under previous Bank-financed agricultural credit projects. Hence, there was a proposal at the appraisal stage to introduce conditionality directly restricting lending targets which were keeping credit outflows high. This proposal was rejected by Bank management on the grounds that agricultural development might be stunted in the process.

4 Bank memorandum of March 4, 1985. There was some concern within the Bank that more restrictive eligibility criteria might result in too few bank branches participating in the project to yield a viable project overall.

5 The Dutch grant was disbursed in its entirety in mid-December 1987 as a supplementary tranche in support of NABARD's refinancing program. This grant to cofinance directly with the Bank was preceded in 1986 by independent assistance of Dfl 100 million for NABARD refinancing. These were succeeded in 1988 by additional assistance of Dfl 60 million for similar refinancing, 58% of which is currently on hold pending favorable outcome of Bank/GOI discussions on agricultural financial reforms. Additionally, in 1987 KfW provided assistance totalling DM 70 million to NABARD to support drought relief measures.

appointed seven members to constitute the ACRC under the chairmanship of Prof. A. M. Khusro.[6] A sum of US$3.5 million was originally allocated to finance 100% of expenditures associated with the ACRC studies, US$1.2 million of which was eventually reallocated to NABARD training activities reflecting US dollar cost underruns caused by the devaluation of the rupee.

1.13 Five studies were carried out:

(a) <u>The General Agricultural Credit System</u>. This examined the role and operations of the system within the broader context of poverty alleviation and agricultural development and made recommendations to enhance credit quality, strengthen efficiency and effectiveness, and improve loan recoveries;

(b) <u>The Role and Effectiveness of Lending Institutions</u>. This study reviewed a broad sample of commercial and cooperative banks, analyzed their effectiveness in their present roles, their financial structures, operational systems and branch expansion policies, and recommended how the roles, structures and functions of these institutions should be modified;

(c) <u>The Role and Functions of the Apex Entity in Agricultural Credit</u>. It clarified and defined the roles and functions of NABARD and other apex-level institutions involved in rural credit and how such roles should be played. It made recommendations concerning NABARD's capital structure, legal underpinning, relationship with RBI, the National Cooperative Development Corporation and first-tier banks and its role in improving lending quality and the institutional performance of retail banks;

(d) <u>Lending Costs and Margins</u>. This study sought to determine whether lending margins were appropriate in comparison with the cost of lending, taking into account staffing, other operational costs of properly functioning credit operations and overdues. The study made recommendations on appropriate lending margins for NABARD and first-tier banks and on how such margins should be realized; and

(e) <u>NABARD Organization and Management</u>. The study prepared a set of recommendations with timetable for strengthening NABARD's operations. It assessed how NABARD's institutional and functional structure should be adjusted to accommodate the recommendations of the other studies in the Review, how its operational procedures should be fortified, its staffing and training upgraded, its monitoring and evaluation (M&E) and inspection system enhanced, and its overall institutional development improved.

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6 ACRC members included Messrs. A. M. Khusro (VC Aligarh University) (Chairman); M.M.K. Wali (Planning Commission, GOI), J.W. Mellor (Director, International Food Policy Research Institute), G. A. A. van der Linden (General Manager, Rabo Bank, the Netherlands), M.V. Hate (Deputy Governor, RBI), A.S.Kahlon (Dean, Agricultural Economics, Punjab University), B. Estanislao (Chairman, Land Bank, the Philippines) (Members); and C.V.Nair (Ex-Director, RBI) (Head of Secretariat). ACRC members were essentially presented with finalized study design and TORs. Members later indicated that, in their opinion, a better product could have been obtained if they had been involved at an earlier stage of the activity, including drafting of TORs. NABARD also suggested that ACRC studies contained a large overlap of responsibilities which was mitigated by sharing draft reports among consultants.

1.14 Consultant services for the studies were procured in accordance with Bank Guidelines. The studies were implemented as follows:

Study	Consultants	Completion Date Original	Actual
1. General Agricultural Credit	Voltas International Limited, Bombay	8/87	4/88
2. Role and Effectiveness of Lending Institutions	AFC Limited Bombay	8/87	4/88
3. Role and Functions of the Apex Entity in Agricultural Credit	Price Water House, Asia Pacific, Hong Kong	8/87	4/88
4. Study of Lending Costs and Margins	Administrative Staff College of India	8/87	4/88
5. Organization and Management of NABARD	Coopers & Lybrand Associates, London	8/87	9/88

1.15 The Committee considered results of the five studies and prepared a global report of findings and recommendations. The Bank reviewed this report in draft and made suggestions on needed enhancements. The ACRC submitted its draft report[7] to RBI in June 1988. RBI and NABARD studied the final report[8] and forwarded comments in April 1990.

1.16 **The ACRC Report**. The ACRC concluded that the basic building blocks for India's agricultural credit system in the future should be: (a) a market-based and not an over-administered banking system; (b) allocation of most credit by market forces--a two-category approach to credit supply, the larger category for beneficiaries should be market-oriented and the other for poorer segments of the rural population should be on concessionary terms; (c) avoidance of populistic interference; (d) a freer interest rate structure, with an administered rate for specified categories of borrowers only; and (e) governmental assumption of the costs of mandatory and directed credit programs. It advocated a move away from current administrative paternalism, with rigid rules and stipulations and a plethora of interest rates and numerous subsidies, through concrete actions over a 10-15 year period toward much freer commercial and developmental lines more consistent with supply and demand conditions in the credit market. The Committee recognized the important role played by credit in poverty alleviation but stressed the need for concessional credit programs well focussed on specific target groups; such programs should strive to graduate these poorer clients into the productive and profit-making mainstream. Apart from such directed programs related to poverty removal, banking institutions should be left relatively free to follow market interest rates, costs and prices undisturbed by political/social intercessions.

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7 Review of the Agricultural Credit System in India, June 1988. The draft final report was done in February 1989 and the final report was completed in September 1989.

8 RBI is currently selling the ACRC Report which is enjoying a high demand both domestically and internationally, particularly for credit demand projections.

1.17 The ACRC recommended a move away from the current administered system of interest rates, considered to be complicated and controversial, toward rate liberalization similar to recent freedoms being offered to commercial banks for non-agricultural lending. However, the Committee advised a ceiling rate for agriculture of 15.5% for the medium-term. Regarding the appropriate interest rate for concessionary programs, the Committee suggested that the relative rate be not less than 1.5% above the highest commercial bank deposit rate. Costs of development banking, including mobilizing, canvassing and advertising services over and above normal commercial practices (especially under mandatory and poverty-oriented programs), should be borne by the Government. The ACRC observed that freer interest rates would enhance the gross margins between lending and borrowing rates. However, it was clear that the administrative and other non-interest costs of the credit system were quite high per transaction even before taking into consideration the high risk cost of bad debts. The Report concluded that little had been done to reduce costs and improve the quality and efficiency of credit operations; inordinate emphasis had been placed on expansion of volume. The ACRC recommended many remedial steps to raise efficiencies, including greater computerization and use of NGOs and group approaches to lending.

1.18 The Report emphasized that with the significant growth in the credit system since the nationalization of commercial banks in 1969 and introduction of Regional Rural Banks (RRBs) in 1975, loan recovery remained the most seriously deficient aspect throughout the rural credit system. No type of bank had been able to obtain acceptable levels of arrears control. Overdues were a nagging problem without significant variation up or down over the last decade or more. The ACRC argued strongly for depoliticizing rural credit, eliminating politically motivated accelerated lending schemes, and identifying willful defaulters and pursuing strong remedies. The Committee proposed a number of actions to reduce overdues to demand by 20% by 1992, including the establishment of special state-level tribunals to enforce legal remedies.

1.19 Expansion of deposits took place mainly through commercial banks, and neither the cooperative banks nor the RRBs had developed a culture of deposit mobilization and resource generation.[9] Cooperatives had depended heavily on refinancing and other funds coming from higher tier institutions and had shunned self-reliance for funds. Cooperatives, subject to undue government interference, had not developed as self-reliant credit institutions complete with infrastructure, personnel and operational policies and procedures inspiring confidence. The ACRC urged particular attention to the cooperative sector, including less government meddling, election of officers, upgraded training, greater accountability, increased self-reliance in resource mobilization, vigilance in loan recoveries and establishment of a national cooperative apex institution.

1.20 The ACRC observed that the mandate to lend only to the weaker segments makes the RRBs inherently non-viable, with high transaction costs and risks while receiving an inadequate margin. Their management and staff tend to be of poor quality, usually without training and prior exposure to banking. The Report recommended that these banks be abolished as legal entities and merged into their sponsoring commercial banks, thereby giving them the benefit of cross-subsidization available through larger loans made by commercial banks. As regards the commercial banks, because of high costs of rural branches, they are generally not profitable. They need to give greater emphasis to development banking strategies and to strengthening their equity base to compensate for insufficient past profits.

1.21 The ACRC concluded that while NABARD has made significant progress in providing refinancing services to first-tier banks, it has yet to emerge as the central driving force in

9 NABARD disputes this ACRC finding, citing significant effectiveness in the cooperative sector in mobilizing deposits. According to NABARD, over the 1985/86-1989/90 period, the all-India level of annualized deposit growth in District Central Cooperative Banks was 17.5%, marginally lower than the 19.7% recorded by commercial banks.

the rural credit system. Of its three main functions--refinancing, inspection and institutional development--NABARD had given insufficient attention to institutional development, both within client banks and itself. The Report suggested that NABARD promote viable cooperatives and take steps to upgrade the capabilities of retail banks in project identification, preparation, appraisal and monitoring by forging a better link between its inspection and development functions. The ACRC acknowledged the constraints to NABARD of administered interest rates, limited clout over client banks and its own deficient organizational structure, and suggested that it should improve its own project monitoring activities and ensure proper use of credit and loan recovery. NABARD should be allowed to develop its own stature to enable it to exert increasing leverage and build up clout with first-tier banks.

1.22 In conclusion, while issue might be taken with some of the more peripheral recommendations of the ACRC Report, its overall thrusts are sound, offering GOI a technically solid blueprint for overhauling the rural credit system. While NABARD and RBI appear totally committed to the institutional reforms recommended, especially contentious issues in future debate are likely to be market-based interest rates, banking system recapitalizing and autonomy. Removing political influence from the system will be necessary, but difficult to achieve. In its dialogue with GOI both about financial sector adjustment generally and rural credit system reforms specifically, the Bank has been urging GOI to agree to a timetable for updating the ACRC report and implementing an agreed action plan. GOI has yet to take action in this regard, thereby retarding preparation of a follow-on NABARD II Project. Lack of GOI action has also alienated bilateral donors previously willing to support refinancing of rural credit.

The Pilot Scheme

1.23 **Background and Concept**. A pilot scheme for strengthening agricultural credit delivery and improve recoveries began operations in October 1984 in one district each in Gujarat, Madhya Pradesh and Maharashtra.[10] The scheme covered all institutional agricultural credit operations in participating districts, seeking to: (a) increase the volume and quality of agricultural credit operations; (b) strengthen the credit delivery system at the branch-level; and (c) ensure a timely and sufficient supply of credit and its proper use and repayment by more intensive branch staff coverage and adoption of appropriate flexibility in lending terms and conditions. These objectives were to be met by: (i) limiting the workload of field functionaries to a reasonable level, (ii) ensuring staff mobility, (iii) providing regular need-based training, (iv) introducing structured work activities for staff, (v) ensuring closer contact between bank staff and clients, (vi) reviewing and disposing of overdues, and (vii) enabling greater flexibility in lending operations. Very preliminary results from the pilot in the pre-NABARD I period showed a positive impact on lending operations at the village-level prompting a proposal to expand into 17 new districts under NABARD I (the original three district schemes were carried over). A US$25.0 million portion of the loan was provided to finance 100% of costs associated with incremental staff and operational costs and 95% of costs of motor vehicles for staff of participating banks.

1.24 **Implementation**. One of the basic inputs provided under the scheme was incremental staff in order to limit the number of borrowers supervised per person to a manageable level. Originally, this level was established at 500 clients per field officer but was later increased to 750. To improve the mobility of staff, every field officer was to be provided with a motorcycle.[11]

10 The pilot scheme was a derivative of the T&V system employed in agricultural extension. Its rationale and design were based on the assumption that loan overdues are the result of bank managerial deficiencies, especially at the branch-level. Building on the T&V model, the scheme included a fixed calendar of expected visits with borrowers and monitoring-cum-training sessions.

11 In the cases of Primary Agricultural Cooperative Societies, secretaries were supplied with bicycles.

The project envisaged that staff would receive continuous in-service training to improve professional competence and that Monthly Training Meets (MTMs) would be held to discuss operational problems, provide guidance and achieve solutions; these sessions included formal lectures by subject matter specialists on such topics as agricultural operations, finance and banking, cooperatives and marketing. Field officers (FOs) were expected to make field visits for 12-15 days/mo of which 8-10 days were expected to follow prearranged visit schedules. Field officers maintained detailed client registers for recording the operational and financial condition of the client and the health of the asset and daily diaries for logging FOs' activities.

1.25 **Results**.[12] The pilot scheme was eventually extended to only 13 additional districts, yielding a total of 16 districts covered under the project. NABARD assigned NABARD officials at its Bombay headquarters to supervise the implementation of the scheme and guide coordinators from participating banks. Pilot cells were established in NABARD regional offices and in its national office in Bombay. Delays were experienced in identifying the new districts for inclusion in NABARD I (July 1986 (12) and April 1988 (1)); hence, one district participated for less than three years, as opposed to the 4-5 year period envisaged in the scheme's design. In fact, the latter district, located in J&K never really saw its pilot activities launched because of political unrest. When the pace of execution proved slow, US$10 million was reallocated to the NABARD refinancing component in 1987, and the component's allocation was reduced further to US$12 million in 1991.

1.26 The 1991 ISEC study (footnote 12) concluded that while factors exogenous to the scheme mitigated against its effectiveness and while variability in results was observed across states and bank type, the impact of the scheme was positive. It lessened complicated procedures for borrowers and improved the timeliness and adequacy of rural credit. Loans were sanctioned more expeditiously. As a result of simplified access to credit, farmers showed greater willingness to shift from moneylenders to institutional credit. Borrower-banker interface improved, with the latter obtaining a better appreciation for client problems and circumstances. However, regrettably, the scheme had little demonstrable impact on recoveries, deposits or lending outflows. In particular, the cost effectiveness of the scheme was not clearly established to the satisfaction of senior commercial bank officials. Hence, replication of the scheme should be limited; on social grounds, backward areas should be considered for future projects if linked to a carefully implemented preparatory phase and ongoing and <u>ex-post</u> evaluation. If such replication is considered desirable public subsidy would be necessary.

1.27 Important implementation problems observed included:

(a) **Staffing**. An initial nationwide ban on recruitment meant that staff for the scheme had to be transferred from non-pilot to pilot districts. Such transfers were attractive to participating banks because portions of wage bills were shifted onto the project. However, FOs were often not willing to make such moves, and these transfers caused dislocations at offices relinquishing staff. NABARD's chairman had to seek GOI's partial waiver to the ban. Eventually, staffing delays were experienced and staffing norms (500 agricultural accounts per FO, changed to 750) had to be adjusted to reflect staffing realities. Transfers were quite common over the implementation period, and staff anticipated a withdrawal from the scheme at project completion;

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12 Useful information obtained from an <u>ex-post</u> study of the Pilot Scheme in four districts: NABARD, <u>Pilot Project for Strengthening Credit Delivery System: Terminal Evaluation Report</u>, Bombay, July 1991; and an independent, <u>ex-post</u> evaluation study in five other participating districts commissioned by NABARD: Institute for Social and Economic Change, <u>Strengthening the Credit Delivery System</u>, Bangalore, April 30, 1991. The NABARD report also incorporates findings from the ISEC study.

(b) __Paper Work__. The scheme made no provision for clerical staff. Hence, field staff had heavy record-keeping responsibilities which restricted their in-field activities. FOs emphasized that they supervised fewer borrowers but did more desk work.[13] Client registers and daily diaries were not maintained as well after mid 1989, resulting in less personalized contacts with borrowers and difficulties for new FOs filling vacancies;

(c) __MTMs__. While the monthly sessions were considered useful for collective problem-solving and enhancing the general awareness of bankers, the MTMs were judged to be too frequent and were later changed to bimonthly; and

(d) __Transport__. While overall transport improved markedly under the scheme, many FOs had none. When staff transferred out of the scheme, they usually took the vehicles they purchased on favorable terms through their branches, meaning that their replacements often lacked vehicles. Also, with higher fuel prices, allowances for vehicle fuel and maintenance proved insufficient, resulting in less vehicle use and reduced client contact.

1.28 The ISEC study was especially enlightening because control districts were used to gauge the results within five pilot scheme districts. While variation can be observed between banks, branches and states, the following generalizations can be gleaned from the ISEC review:

(a) __Deposits__. Deposits grew by 20% p.a. over the 1984/85-1988/89 period in pilot districts and by 19% in control districts within the same states. A key measure of a branch manager's success was deposit mobilization, and the period under review was considered very favorable for such mobilization nationwide. No significant difference was observed between pilot and control districts;

(b) __Credit Outflows__. In pilot districts credit advances increased by 17% p.a. over the same period, versus 15% p.a. in the control districts. No significant difference was observed;

(c) __Recoveries__. Recoveries in pilot districts declined marginally over the 1984/85-1988/89 period while no change was observed in control districts. Removal of 1988/89 data from the analysis[14] suggested that recoveries improved on average by 1% per year in both pilot and control districts. Poorer performance was observed in cooperative banks; and

(d) __Overdues__. Over the 1984/85-1987/88 period, overdues in pilot districts increased by 17% p.a. in contrast with 13% in control districts. Including 1988/89 information, overdues as a percentage of total demand rose in pilot districts from 60 to 61% but dropped from 64 to 59% in control districts.

1.29 __Conclusions__. The pilot scheme was successful in expanding contacts between bankers and borrowers and in introducing more responsiveness and agility to the rural credit system. As a result, rural clients were better served. "It should, however, be borne in mind that the project did not envisage any structural change in the existing credit delivery system but only

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13 The ISEC report suggested that much of this could have been alleviated through greater computerization.

14 By 1989 support for a loan waiver campaign was gaining momentum especially in North India (see para 1.30(b)).

provided for improved borrower-field officer relationship for better loan servicing, which in turn was expected to facilitate timely and effective recovery of loans to a larger extent."[15] Clearly, based on the scheme's results summarized in para 1.28, it made little improvement on the banking fundamentals related to the basic aspects of banking profitability. The focus of the scheme on only one aspect of the system--portfolio supervision--without concurrent reforms was a major fault.

1.30 The pilot generally failed to demonstrate to participating banks that investment in more staff and vehicles at the rural branch-level is cost-effective. Exogenous factors (in effect within the pilot districts as well as outside) such as weather, politics and changes in government policy, proved far more important to the success or failure of a rural branch, especially as regards overdues, than the activities supported by the scheme.[16] A few examples are given below:

(a) **Political Interference**. The autonomy of banks was consistently compromised by political interference. The role of the banker in the task of client selection was marginalized: Loan sanctioning was decided by a committee composed of the Block Development Officer (BDO), the local political leader and the bank representative. The BDO controlled the process and often beneficiary selection was influenced by politics and corruption. The banker, in turn, frequently wanted only to meet lending targets. As a result, misuse of power and funds was high. In addition, the selection process caused bunching of applications because the names of selected beneficiaries would be released only at month's end, causing insufficient time for pre-sanctioning visits to prospective borrowers to establish creditworthiness and investment viability;

(b) **Waiver of Rural Loans**. The 1989 election-related initiative supported by the Janata Dal Party to cancel up to Rs. 10,000 per rural borrower had devastating fiscal implications for India. The final cost to the public exchequer is still not known, but is expected to total about Rs. 80 billion (US$3.9 billion). Perhaps even more serious, however, has been its impact on the financial integrity of the rural banking system and borrower acceptance of responsibility for debt repayment. The waiver has made it difficult to convince rural clients that repayments should not be linked to the store of GOI resources. A recent RBI report describes the situation as follows:

> In the recent period, the problem [of non-profitability of the banking system] has been accentuated by the Agricultural and Rural Debt Relief Scheme which offers waiver of overdues under both production and investment credit, subject to specified criteria; this has resulted in a major setback, to the general environment of recovery of dues. While there are time-tested procedures for affording relief to borrowers affected by natural calamities, across-the-board loan and/or interest waivers have seriously impaired credit discipline. This discriminates against those who repay their obligations and also damages the health of the credit institutions. The

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15 NABARD, op. cit., pp. 9-10.

16 The parallel to T&V remains striking not just in scheme design but also in critique. A recent OED study of T&V in six Bank-funded projects noted that the underpinning philosophy of T&V is that f[illegible]s lack knowledge which if provided through an intensive extension system would foster adoption of a specific technology. In the OED review, lack of knowledge was rarely cited by farmers as the reason for non-adoption. The reasons most frequently mentioned were factors exogenous to T&V: economic considerations, climatic factors, unavailability of inputs and lack of irrigation. OED, Performance Audit Report: Agricultural Extension and Research in India, Report No. 8808, June 29, 1990.

recent experience has been one of a virtual cessation of recovery and also a consequent tendency towards cessation of lending. Such a situation cannot but inflict irretrievable damage to the financial system especially insofar as it caters to agriculture and rural credit. It is, therefore, necessary to take steps to restore normalcy in the rural credit system.[17]

(c) **Weather**. Droughts in 1986-87 and 1987-88 had very serious impact on overdues. These prompted GOI to announce in 1987 a two-year postponement of debt repayment obligations and to instruct the banks to work out the specifics of this massive rescheduling exercise. In addition, NABARD/GOI requested the Bank to agree to a temporary suspension of eligibility criteria for participating banks and the Bank to eventually postpone a scheduled percentage step-up of such criteria by six months (para 1.41(c)); [18]

(d) **Interest Rates**. Banks in India do not make profits on rural loans because of the administered structure of interest rates. Initiatives supported by the pilot scheme which contributed to timeliness and adequacy of credit should have required complementary actions to modify the fundamentals of the rural banking system, including enhancements to interest rates which offer banking institutions suitable profit margins. Otherwise, such banks will be unwilling to expend from their own funds for incremental staff, the key ingredient of the scheme. While not detracting from the need to adjust interest rates upward, an argument can be made that normal credit margins generally cannot support lending to the poor in India without government subsidies, reflecting the inherent high cost and riskiness of such transactions. Some upward (and some downward) revisions to nominal interest rates were carried out over the 1987-1991 period for certain categories of subloans, generally attempting to link interest rates to loan sizes (Table 4). However, in real terms interest rates deteriorated, as exemplified by interest rates on schematic loans for minor irrigation and land development:

Year	Nominal Rate	Inflation Rate	Real Rate
1987-88	10.0	8.2	1.8
1990-91	10.0	12.4	- 2.4

(e) **Service Area Approach (SAA)**. During project implementation, a "service area" scheme was evolved by the RBI. The rationale was to make the rural lending operations of the commercial banks more cost-effective by achieving economies of scale by allocating every village in the country to a single commercial bank to be serviced by a branch of that bank. With establishment of new SAA boundaries of responsibility, some banks had to move out of a given area, causing disruption to pilot scheme operations supported under the project. In addition, the Bank considered the SAA another retrograde step in agricultural credit more generally by further targeting and by inhibiting competition and bank autonomy.

1.31 In summary, aspects of the pilot scheme which were relatively cost-free, such as

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17 RBI, Annual Report, 1990-91, p. 138.

18 The droughts also prompted the Bank to accelerate tranche disbursements for NABARD refinancing.

improved administration procedures, were accepted and are being replicated in non-pilot districts. These may well prove the most sustainable aspect of the scheme until such time as the cost-effectiveness of the more expensive components (e.g., manpower and vehicles) can be demonstrated. This will require as preconditions major structural adjustments to the rural credit system permitting banks adequate margins, perhaps augmented by some subsidy, to cover costs. Expansion of the scheme into backward areas, as advocated by ISEC on social grounds, would doubtless require suppcrt from the public exchequer.

NABARD-Sponsored Training

1.32 During the project period, NABARD continued to accord high priority to the training needs of its own staff, participating banks and other ancillary institutions. Originally, US$6.6 million of loan funds were allocated to support project-related training. Loan amounts equivalent to US$1.2 million (from the ACRC studies) and US$3.0 million (from the pilot scheme) were reallocated to the training component, increasing its funding to US$10.7 million. Loan funds were made available by the Borrower (GOI) to NABARD on a grant basis for payments of course participants' per diem and costs, lecturers, fees, teaching materials, equipment and other administrative costs of running NABARD's training facilities. Training activities carried out under the project are listed in Table 5; these can be summarized as follows: (a) training for senior and middle-level staff in rural development including project analysis, bank inspection and personnel management; (b) short courses on technical subjects; (c) training of junior-level staff of Land Development Banks (LDBs); and (d) an experimental training program (Rural Branch Management and Credit Delivery) which aimed to enhance the quality of lending, improve recoveries and streamline branch administration. A weakness of the training component was its neglect of Primary Agricultural Cooperative Societies (PACS) to raise capability at grassroots.

1.33 NABARD's commitment to staff development is impressive.[19] Its management supports training, and the planning and implementation of training programs is carried out by an energetic and professional division based at NABARD headquarters assisted by training cells in each of NABARD's regional offices. NABARD met or exceeded all training targets set out at appraisal. Responding to criticisms that too much emphasis was being placed on quantity at the expense of quality in its training programs, NABARD selected a study group to review the training activities and management of its Bankers Institute of Rural Development (BIRD) in Lucknow. This study recommended that BIRD become an Institute of Excellence and that it be made an autonomous institution administered by a governing body headed by NABARD's chairman. A revised curriculum was advocated and case study development was recommended to enrich the quality of training. Other innovations introduced by NABARD along with these to enhance quality were: (a) greater linkage between induction training and eventual job assignments, involving on-the-job training in regional offices; (b) more attention to career development; and (c) better personnel management. In conclusion, while NABARD has done a laudable job in implementing the project's training component and in upgrading the quality of its training initiatives, the impact of better trained banking staff on the rural credit system will be limited as long as banks operate in a general policy environment hostile to responsible banking. Future training initiatives should focus more on village-level lending, i.e., PACS.

Rural Credit Refinancing

1.34 The largest component of the project was NABARD's refinancing activities over three years (FY1986-87 to 1988-89). This program was expected at appraisal to provide about US$3.8 billion equivalent to refinance investments totalling about Rs. 63.8 billion

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19 Based on assessments described in Bank memoranda of September 25, 1989 and March 19, 1990.

(US$5.3 billion).[20] This program was prepared by NABARD in consultation with the states and relevant GOI ministries to coordinate resources channelled though NABARD with the total investments under the Seventh Plan (1984-1989). A major portion of the resources needed to fund this investment program were to come from NABARD and GOI/RBI (appraisal estimate: 65%). The Bank and other cofinanciers were to finance about 7%, and sub-borrowers and participating banks were to cover 10% and 18%, respectively. Unlike in earlier credit projects financed by the Bank, this component was funded with tranche disbursements, the releases of which were linked to the introduction of revised eligibility criteria for first-tier banks and progress in implementing the agricultural credit review.

1.35 Schematic[21] investments under the project totalled Rs. 52.4 billion (US$3.7 billion). Although this was a major increase over the pre-project period, it was an 11% reduction in nominal rupees (25% in US$) compared to SAR targets,[22] reflecting unrealistic original targets and reduced borrowings due to natural calamities. Non-schematic investments, however, proved 121% above appraisal estimates thereby resulting in global project refinancing targets being met.

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20 Both schematic and non-schematic lending were included in project cost estimates, although Bank and Dutch financing covered only the former (92% of estimated ground-level investment costs). Non-schematic investments, expected to total US$413 million over the three years, includes chiefly crop storage, input stocks and rural electrification. In actuality, non-schematic investments proved to be 17% of total investments as this category witnessed a 121% increase (in rupee terms) over the three-year period.

21 Under schematic lending, a generalized plan for a specific investment (e.g., tractor) or a sanctioned area development program (e.g., tubewell installation) is prepared and NABARD, after approving the generalized scheme, refinances all bank-approved subloans submitted under that scheme. Under non-schematic lending, the sub-borrower has to submit a unique, formal proposal to a bank for review and sanction after which NABARD reviews it on an individual basis.

22 The percentage differences are due to exchange rate adjustments.

The following table presents schematic and non-schematic investment expenditures[23] (Tables 6 and 7):

Credit-Related Investments (Rs. Billion)	SAR Estimate	Actual	% Increase/Decrease (-)
Minor Irrigation and Land Development	18.9	16.1	-15
Farm Mechanization	9.4	12.0	27
IRDP	19.4	12.6	-35
Other (Dairy, Other Livestock, Plantations, Fisheries, Forestry)	11.2	11.7	4
Schematic Subtotal	58.9	52.4	-11
Non-Schematic Investments a/	5.0	11.0	121
Project Total	63.9	63.4	-1

a/ Refinanced exclusively with NABARD's resources.

1.36 Minor irrigation consumed the largest share of investment credit refinanced by NABARD (44.3%-see Table 7, Part III), with tractor purchase and dairy development representing the next most important activities at 18.5% and 10.7%, respectively (para 1.47). The pattern of investments supported under the project was broadly in conformity with appraisal estimates except for IRDP. Investments under IRDP proved 35% lower than appraisal estimates chiefly due to the exclusion of an Industry, Services and Business (ISB) component of IRDP under the project.[24] Minor irrigation and land development, expected together to account for 29% of project-related investments, actually absorbed 32%; the marginally higher share of total disbursement was partly due to the refinancing of Rs. 1.3 billion under the subsidy-linked Centrally Sponsored Massive National Program.[25] The states of Uttar Pradesh, Maharashtra and Andhra Pradesh accounted for 36% of total investments associated with NABARD refinancing (i.e., both schematic and non-schematic) while Jammu and Kashmir, Himachal Pradesh, Rajasthan, Assam and the seven Northeast States, Bihar, West Bengal and Orissa were responsible for only 17% (Table 8). Of this total investment package of Rs. 63.4 billion, NABARD refinancing covered 57%. Through the NABARD refinancing window, the Bank and Dutch assistance financed about 10% of all

23 As shown in Table 7, IRDP lending covers most of the same categories of non-IRDP lending.

24 NABARD advises that it did not submit ISB claims under the project because, inter alia, the non-farm nature of such loans were not amenable to the seasonality associated with lending and recovery observed under agricultural lending. It maintains that ISB was also outside the domain of the agricultural credit system, the thrust of the project.

25 A Centrally-sponsored program to encourage minor irrigation which NABARD refinances. This program circumvents the need for farmers to go to the Irrigation Department for very small irrigation investments.

schematic investments or about 8% of global investments, totalling about US$3.7 billion equivalent.

Eligibility Criteria--The Principal Implementation Issue

1.37 The poor financial health of bank branches was a chronic problem affecting the rural credit system. Although the Bank had fostered the adoption of eligibility criteria for ARDC/NABARD refinancing since 1975, criteria adopted proved essentially ineffective in tightening up the rural credit system.[26] The Bank had been partly to blame for this by approving arrangements to soften considerably agreed criteria and postpone their application. Certain criteria implemented under earlier projects were considered so generous that these in no way curtailed refinancing by the apex entity. In addition, quantitative adjustments in effect weakened eligibility tests.[27] Hence, the conclusion during NABARD I preparation was that past efforts at establishing financial discipline through eligibility criteria had failed and the hemorrhaging continued. Because of socio-political pressures, the second-tier bank had been generally unable to cut-off funds to financially or managerially weak primary lending institutions, forcing the apex to act merely as a disbursing agent for GOI to channel rural credit funds rather than as a capable wholesale bank engaged in refinancing based on sound banking criteria.

1.38 Despite some concerns within the Bank that rigorous eligibility criteria might constrain agricultural development, the Bank genuinely wished to use NABARD I as a vehicle to address past weaknesses in this area and such criteria were seen as useful tools:

> Eligibility criteria per se were, at best, rough measures of bank branch performance and crude means of controlling and improving lending quality, including recovery within the credit system. There was, however, no more appropriate way by which individual bank branch performance could be encapsulated in a simple, easily-understood performance/quality measure and, for this project at least, such criteria would continue to play an important role in monitoring and controlling branch performance....The introduction of "clean" (i.e., excluding short-term lending and recoveries and State Government contributions) eligibility criteria which have "teeth" but which remain realistic and achievable would be an important breakthrough in this project.[28]

1.39 More rigorous nationwide eligibility criteria took on added importance because these proved to be NABARD I's principal developmental instrument to go into effect during its implementation period. Based on these performance indicators, NABARD as implementing agency and apex was to institute measures either to rehabilitate weaker lending (cooperative) institutions or to recommend mergers/closures in the interest of strengthening the rural credit system. Little, however, was done to address such poorer performers.[29] This lack of success

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26 Some successes were achieved between 1978 and 1981.

27 Blending of short- and longer-term debt recoveries as well as crediting state government subsidies and guarantee repayments for "blocked" accounts were two calculation adjustments used which improved recovery test results.

28 Bank memorandum, March 4, 1985.

29 This was despite plans spelled out in the case of Land Development Banks to: (a) select units having overdues of 60% or more; (b) investigate overdues by district-level committees; (c) strengthen units' management and organization; (d) train at NABARD's cost; (e) streamline loan policy procedures; (f)

arose in large measure from lack of financial and other commitments of the states under whose purview the cooperative banks come. Because cooperative banks are outside the authority of national banking legislation, NABARD as a national institution was unable to act without such state collaboration.

1.40 Agreed criteria were also seen as a useful instrument for: (a) tightening NABARD's quantitative and qualitative controls over IRDP-related credit releases; and (b) limiting the growth of NABARD's refinancing in lieu of imposing specific curbs on lending targets through loan covenants. A condition of loan effectiveness was the adoption by NABARD of agreed criteria. The criteria were embodied in a timebound program in which access to NABARD refinancing became more restrictive over time if concomitant improvements in recovery performance by weaker banks were not realized.[30] These criteria also contained important clarifications to plug what were perceived to be previous loopholes: (i) state government contributions to banks would not be applied as cash recoveries for purposes of eligibility calculation; (ii) credit demand,[31] as used for purposes of defining loan recovery, was limited only to medium- and long-term loans; and (iii) criteria applied to branches, not district- or state-level operations.

1.41 Agreed eligibility criteria were enacted on July 1, 1986. The following were the principal issues which surfaced in implementation:

(a) **ISB**. NABARD continued its previous practice of excluding the Industry, Service and Business (ISB) portion of IRDP lending and other non-farm loans from the calculations of branch recoveries consistent with agreed methodologies. NABARD argued that such exclusions were adopted under ARDC IV and should be continued under NABARD I as incentives for directed lending to these areas. The Bank urged that all term lending be included, citing that their exclusion was resulting in distorted pictures of the financial health of branches and acting as a stimulant for excessive lending to non-farm activities. NABARD, however, continued to exempt ISB and non-rural lending from the criteria. The Bank and NABARD carried on this debate throughout implementation, eventually deciding to postpone to NABARD II discussions a resolution of the issue (paras 1.42, 1.45 and 1.51);

(b) **Other Refinancing**. About 90% of Land Development Banks' (LDB) resources came from NABARD refinancing and the balance from ordinary debentures. NABARD felt that lending financed with the latter should not be judged by the rigorous eligibility criteria in force under NABARD I. The Bank held that it should, in the interest of financial discipline, but concluded that it had no legal authority to require such applicability.

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contribute share capital; (g) provide technical assistance in financial management; (h) assist in the creation of rehabilitation cells at the state-level; (i) constitute district-level rehabilitation committees; and (j) establish state-level committees to review progress of rehabilitation programs. (NABARD, Progress Report as on 30 June 1986, Bombay, pp. 3-4).

30 Special eligibility criteria were adopted for NABARD refinancing of term lending by cooperative banks; these criteria were similar to those existing for NABARD's short-term lending to cooperative banks, except that the minimum eligible recovery performance was raised from 40% to 60%. At NABARD/GOI's request, these special criteria were dropped in 1987 and the cooperative sector participated under the uniform set of criteria.

31 For purposes of eligibility criteria calculation, demand was defined as the aggregate of principal and interest on medium-term and long-term loans due during the fiscal year under consideration, plus overdues from previous fiscal years. Recovery rate meant that part of demand which had been collected in cash (SAR, Schedule C, para 4).

(c) **Drought**. To ensure sufficient credit for rural borrowers during the 1987-88 drought--considered the worst in the century--NABARD requested a one-year suspension of eligibility criteria.[32] The Bank refused this proposal citing the overriding need for discipline within the credit system. However, the Bank did take a number of important steps to respond to the drought: (i) the scheduled step-up by five percentage points in the agreed eligibility criteria was postponed by six months to July 1, 1988; (ii) a waiver of a study-related disbursement condition for second tranche release (disbursed in December 1987); (iii) through a reallocation of loan funds, the amount for NABARD refinancing was increased to US$350 million; and (iv) the second tranche was increased from US$80 million to US$150 million by reducing the scheduled third and fourth tranches from US$80 million to US$50 million.

1.42 **Conclusions**. While NABARD claims to have successfully implemented the agreed criteria, despite the dispute with the Bank over the interpretation of some of the legal covenants, the stricter benchmarks did not appear to unduly constrain increases to NABARD's refinance lending, an objective mentioned during project formulation (para 1.40). For example, in 1986-87, the first year of applicability of new criteria, lending refinancing increased Rs.13.3 billion compared to Rs.11.9 billion in the previous year. Also, the record suggests that NABARD may have exerted excessive energies in seeking waivers to the criteria, particularly during the drought crisis, rather than focussing on actions to improve the financial status and recoveries of participating bank branches. This may well have resulted from overriding political and social factors impinging on the financial system which diminished chances of success in meeting the key developmental objectives of the project.

IRDP Lending

1.43 During project preparation it was concluded that the institutional performance of IRDP needed improvement to upgrade the quality of investments financed under the program. Toward this end, the project endeavored to curtail NABARD refinancing of IRDP subloans of dubious quality, improve the coordination within the banking sector, maintain closer control over planning and implementation at the district and block levels and increase monitoring and evaluation of IRDP scheme loans. Accordingly, the project encouraged the establishment of a task force to assess operational procedures, review groups at district-level and a special cell at NABARD headquarters to monitor the work of these regional bodies and to organize data collection. Additionally, NABARD was required to carry out about 15 monitoring studies focussed on IRDP operations in selected districts.

1.44 NABARD complied well with dated covenants requiring the establishment of the IRDP task forces and district committees to review procedures and problems associated with the program. Each meeting was held regularly and was preceded by field visits, down to branch-level, to check on accounting and other operational matters. IRDP planning and review groups reported to NABARD Central every six months, allowing better tracking of IRDP lending. NABARD reports a number of concrete benefits derived from its greater scrutiny of IRDP operations: (a) bankers feel that a professional financial institution is now overseeing IRDP lending; (b) NABARD has produced district-based project profiles covering technical and financial aspects of IRDP investments; (c) a number of new lending approaches has been adopted: e.g., multiple asset financing ("Family Credit Plan" implemented in four pilot districts) and women-oriented group investments centered on cottage industries, and greater disbursement in-cash within more

32 In addition to requesting a waiver of criteria, to mitigate the effects of the drought in 1987, GOI announced a two-year postponement of debt-repayment obligations and instructed the banks to work out appropriate loan reschedulings.

developed blocks; (d) the size of IRDP consumption loans have been increased (Rs. 500 to 1000) to avoid misuse of investment loans; and (e) NABARD has adopted a more active role in recommending reschedulings of IRDP loans. NABARD notes that while these measures have enhanced the quality of IRDP lending, future steps can be taken to build on progress achieved: e.g., greater stress needs to be placed on the financing of activities rather than lending to persons, newer and more modern promotional activities need to be adopted to popularize IRDP lending in both the farm and non-farm sectors and greater training of bank branch staff as well as IRDP beneficiaries in debt management. Nevertheless, these positive steps taken by NABARD do not detract from: (a) the massive and unwieldy size of the IRDP portfolio and the continuing chronic nature of overdues--the latter unlikely to improve without major reforms within the rural financial sector; and (b) the strong welfare nature of IRDP lending with inherently high risk.

Project Ratings

1.45 The project witnessed a gradual worsening in overall status rating as implementation unfolded. In the first seven of ten 590s, the project was ranked a "2" project overall; only in the seventh supervision did individual performance ratings start to fall below this "2" level as development impact fell to "3". The eighth 590 (October 1989) saw overall status drop to "3" as compliance with legal covenants fell to "4". The latter score was given because of the chronic disagreement with NABARD/GOI on the question of exclusion of ISB and non-rural loans for purposes of eligibility criteria (para 1.41(a)). The final two 590s ranked the project a "4" overall because of non-compliance with legal covenants (ISB and non-rural loans)[33] and inaction by GOI on the ACRC recommendations (Table 14). Despite this overall deterioration, project management performance and availability of funds remained relatively problem-free. Better ratings earlier in implementation doubtless reflected a sense of optimism that key developmental objectives would be met. This optimism was fueled by good progress in the ACRC studies and related tranche disbursements. When completion of the study and internal reviews dragged on, it became clear that nothing was being accomplished to enact the ACRC recommendations. Hopes for substantial and immediate improvements in the rural financial market were further thwarted with the enactment of the loan waiver scheme of 1990.

Disbursements

1.46 Actual disbursements generally outpaced appraisal estimates due to the increase in the second tranche described in para 1.41(c), (Tables 9, 10 and 11, Chart 1). The Closing Date was extended twice to December 31, 1990 and then June 30, 1991 to permit completion of Pilot Scheme activities.

Benefits

1.47 Through NABARD refinanced credit, the project benefited an estimated 6 million rural inhabitants (about 20% more than appraisal estimate), and generated permanent employment equivalent to about 525 million mandays (about 7% more than appraisal estimate) (Table 12). No overall economic rate of return was calculated for the project ex-ante or ex-post. Based on good ex-post evaluation studies conducted by NABARD, the current financial and economic rates of return for typical selected investments (e.g., minor irrigation, dairy, farm mechanization, plantations and horticulture) were comparable to appraisal estimates. Examples studied account for the major share of investments financed under the project (Table 13).

33 NABARD contends that protracted discussions were held with the Bank regarding ISB and eligibility criteria and that an agreement was reached to settle the issue in the context of NABARD II preparation. Hence, it feels that exclusion of ISB from eligibility criteria under these circumstances did not constitute a breach of loan covenant. The Bank felt otherwise.

Institutional Performance

1.48 **The Bank**. The Bank must be faulted for approving this follow-on project without a sound sector work basis and a firm commitment from GOI/NABARD to reforms essential to a healthy rural credit system, especially after notorious predecessor-projects with poor records in subloan recoveries. Once again, the Bank lent for a next phase project without even awaiting the lessons from a predecessor-project (ACRC IV)--a common concern raised in previous OED reports. Now, eight years later, the Bank is engaged in this dialogue and will hopefully derive products of a developmental, sustainable nature (para 1.53). The Bank was also guilty of fostering a cooperative bank rehabilitation scheme for NABARD to implement without a clear understanding of the state/Center lines of responsibilities as regards cooperatives. This activity was doomed to failure without prior commitment from the states to encourage and support rehabilitation efforts. This defect could have been detected through better sector work preparation. Most importantly, the Bank exhibited excessive optimism that GOI would enact reforms recommended by ACRC; such optimism should have been reinforced by loan covenants requiring concrete actions on obvious aspects in need of reform, e.g., interest rates.

1.49 Mainly through supervision the Bank contributed significantly to the project. It developed a collaborative relationship with NABARD officials and the SEG. The Bank's participation in workshops and its comprehensive field reports were particularly valuable. The Bank placed major emphasis on the ACRC studies as the keys to future structural adjustments in rural credit and pressed GOI/NABARD for reforms. Ten supervision missions reviewed project progress, with considerable continuity of staff. Project activities were also reviewed as part of supervising credit components of other projects, and later, during preliminary NABARD II discussions. The following table summarizes supervision coefficients of the project and five comparator-projects in India, showing that NABARD I, despite a relatively short implementation period, consumed a high-average amount of staff resources for supervision (Tables 14 and 15).[34] These data are considered inexact because of NABARD I's overlapping with other operational activities, as mentioned above:

Supervision Inputs a/

	Staffweeks b/
NABARD Credit Project	222.7
National Agricultural Research Project	260.9
National Agricultural Extension Project I	260.8
National Agricultural Extension Project II	240.9
National Dairy Project II	118.6
National Cooperative Dev. Corp. Project II	94.8

a/ Through December 10, 1991.

b/ Local higher level staff and consultants undiscounted. Discounted data not presented because considered spurious.

34 Project identification/preparation used 132.8 staff weeks; appraisal, 60.1; negotiations, Board approval through effectiveness, 22.9 (undiscounted).

1.50 **NABARD and GOI**. NABARD gave full support to the Bank during all stages of the project. NABARD was a conscientious implementing agency, which traversed the difficult mine field of attempting to achieve developmental objectives at the constant urging of the Bank while answering to political and social forces capable of making decisions countervailing important project initiatives meant to strengthen the rural financial system. Progress reports produced by NABARD were of good quality, but were criticized periodically by the Bank for over-emphasis on traditional lending activities at the expense of the developmental aspects of the project. GOI's unwillingness to formulate an ACRC-related reform package and the eventual decision to implement the loan waiver scheme scuttled project success and the Bank's ability to consider GOI as conscientious in promoting sustainable rural credit development.

Compliance with Legal Covenants

1.51 NABARD/GOI were in full compliance with covenants related to accounts and audits. As stated above (para 1.41(a)), the Bank and the Borrower maintained a protracted dialogue without resolution on issues regarding specific calculations of eligibility criteria, prompting the Bank toward the end of implementation to rate the project as having major problems as regards compliance with legal covenants (Table 16).

Overall Findings and Lessons Learned

1.52 The subloan refinancing component of the project, as in previous ones, was successfully carried out and yielded healthy increments to productive investments, income and employment. However, NABARD I proved unsuccessful in contributing to a significant improvement in the rural credit system of India. In certain respects, the system is worse off today than at the time of appraisal in 1984 due to factors outside the Project. Although it was hoped that the studies financed under the project would lead to major policy reforms, and thus provide the main ex-post justification of NABARD I and set the stage for further lending for rural credit by the Bank, the socio-political climate of India has not encouraged such structural adjustments. GOI has not adopted reforms recommended in the ACRC Report, agricultural interest rates were reduced in real terms during implementation, and the rural loan writeoff scheme was a major retrograde measure. As a result, the same criticism of ARDC IV applies: By making large external resources available in the short-run to the Indian rural credit system without ensuring remedy for the serious problems existing, the Bank failed to make a long-term developmental contribution (para 1.06).

1.53 The successes of the project--the training component, improvements in IRDP portfolio management, selected aspects of the Pilot Scheme and the ACRC Report and related studies--have been overwhelmed and countervailed by a policy environment hostile to an efficient and sustainable agricultural credit system. The latter successes, however, are useful bases and precedents for when GOI decides to take the needed but difficult actions to reform the rural credit system within the context of global financial sector adjustments such as the Bank is attempting to foster through its dialogue with GOI. Based on the framework provided by the report of the recent Narisimham Committee, which submitted its findings and recommendations on needed financial sector adjustments to GOI in end-November, 1991, the thrust of these reforms would: (a) take into consideration the recommendations of the ACRC report; (b) re-define NABARD's role; (c) address bad debts and include recapitalization plans for banks; (d) seek autonomy for rural banking free of political interference; (e) foster modern internal management systems; and (f) upgrade prudential regulation and supervision. In its quest for structural adjustments within the rural credit system and the wider financial system, the Bank should also encourage initiatives to yield better performance and skills in grassroots institutions to enable sounder management of financial resources.

PART II - PROJECT REVIEW FROM BORROWER'S PERSPECTIVE

1. Project Design and Organisation

1.1. Since 1975, the World Bank has been supporting agricultural investments in the country through general lines of credit to ARDC/National Bank. These projects (ARDC I to IV) have contributed to the improvement in agricultural production and productivity levels besides improving the income levels of farmers through creation of productive investments. Unlike the earlier projects which supported the credit linked programmes of agricultural development, this project was designed to focus specific attention for strengthening the credit institutions by remedying their major weaknesses, apart from supporting programmes for increasing agricultural production, rural incomes and employment.

1.2. The project was originally submitted to the World Bank in 1983 for a general line of credit from IDA for US$ 400 M. and intended to support a two year time slice (1984 and 1985) of NB's lending programme. In view of the major problems in the agricultural credit sector, especially poor recoveries, the World Bank did not consider the project for sanction at that time. After a series of discussions between the NB/ GOI and World Bank, the project was finally approved by WB only in 1986. During this intervening period a number of supervisory missions from WB held discussions with NB and GOI on various issues on agricultural credit system. Based on these discussions, the pilot project and the training programmes were developed and made components of the project. There was a gap of about 2 years between the completion of ARDC IV and approval of NB CP-I.

1.3. While the support from the World Bank continued to be by way of a general line of credit, the project design was innovative in two respects. The pilot project for improving the credit delivery system was an innovative attempt to adapt the well-known Benor system for agricultural extension. It was designed to tackle effectively the internal causes of overdues in the banks and improve recoveries. The second was the constitution of a Task Force to improve the quality of lending of a massive credit-linked poverty alleviation programme, viz. IRDP. The establishment of such a Task Force at the National level was aimed at assessing the operational procedures while the Planning & Review groups at the district level aimed at improving the coordination within the banking sector, maintaining closer control over planning and implementation at the district and block levels and tightening the monitoring and evaluation of IRDP loans.

1.4. The total assistance under the project was US$ 375 M. of which US$ 350 M was to support NB's lending programme for 3 years and US$ 25 M. by way of a grant for agricultural credit review, pilot project and training programme. The amount of US$ 350 M. formed about 9% of NB's total refinancing programmes. The main objective of the project was to strengthen the agricultural credit system and improve the quality of credit delivery. The pilot project and the training components were meant for effecting substantial improvement in these areas.

1.5. However, the coverage of 16 districts under the pilot project was insufficient considering the wide variations in economic development and banking spread over different regions of the country. Taking into account the local conditions. different approaches have to be tried in different regions for strengthening the credit delivery system. This was not built into the project. For the rehabilitation of weak banks also, a 3-year period was not long enough to bring about adequate results. A longer term programme which could be continued under subsequent projects should have been attempted.

1.6. The roles and responsibilities of institutions and agencies involved in the implementation of the project were incorporated in the agreements between GOI and WB and the NB and WB. The role of National Bank as an apex institution was well defined in terms of initiating and implementing the programmes aimed at improving quality of lending, recovery, follow-up of loans during post-sanction and other aspects of institutional development. In the pilot scheme, National Bank was responsible for initiating action for implementation, providing guidance to participating banks on field training and for overall monitoring and evaluation of the scheme. The first supervisory mission, under the project, (April 1986) had commented that NB alone cannot achieve project objectives without strong support of senior management of the participating banks, State Governments and GOI. This aspect was evident during the implementation of the project as the progress under Comp.B, which was under NB's control was quite good whereas there was delay in implementation of the pilot project and the Agricultural Credit Review Committee report.

2. Project Implementation

2.1. The implementation of the Project generally proceeded as scheduled except the pilot project component. This component was slow to take off and the project could finally be extended to only

16 districts instead of 20 districts as originally planned. The main constraint was the inability of the participating banks to position the required staff due to a general ban on recruitment of staff by the GOI. On account of delay in extending the project to more districts, it was decided that it would be better to concentrate on the implementation of the project in the already identified districts rather than making efforts in getting it extended to more districts. Consequently, the financial allocation under this component had to be reduced from the original US$ 25 M to US$ 12 M. by transferring the amount to the refinancing and training components.

2.2. It is to be recognised that project objectives can be reached in a stable external environment. Unfortunately, unprecedented drought during 1987-88 affected not only recovery but also the flow of credit for diversified purposes under schematic lending and special measures were needed to provide relief to the affected farmers because of the severity of the drought. Considering the drought situation and the need for additional funds, World Bank favourably responded and increased the amount of 2nd tranche from US$ 80 M. to US$ 150 M. by reducing the 3rd and 4th tranches. Delays in identification of experts for undertaking studies under ACR led to late submission of draft reports in two of the five studies. Subsequently, World Bank waived the condition of submission of draft reports of two studies for disbursement of the 2nd tranche.

3. Project results

3.1. The project had two main objectives, viz., (1) to strengthen the credit delivery system and improve the quality of credit delivery and (2) to increase agricultural production, rural incomes and employment with continued emphasis on assistance to small farmers. The second objective of increased production of foodgrains(2.2 M tonnes), milk (2 Billion litres), eggs (3.5 Billion)and meat (4.2 M Kgs) was achieved to a large extent. The realisation of lower production of foodgrains than that envisaged (4.3 Kg. tonnes) could possibly be due to over-estimation of benefits at the appraisal stage. As regards the first objective, viz. institutional development and strengthening of credit delivery system, it covers several aspects such as augmentation of resources of banks, diversification of lending, improving of quality of lending, improving the skills of staff of banks, improvements in credit delivery and rehabilitation of weak banks. The achievements of National Bank in all these areas except recovery and rehabilitation of weak banks have been quite satisfactory. The achievements in recovery and rehabilitation have not been satisfactory because of various external factors.

3.2. The objectives of the project did not change during the project implementation. The pattern of disbursements under the project was broadly in line with the plan. There were, however, deviations in respect of a few of the investments. The disbursements under IRDP were lower (19.8%) than that anticipated (31.5%) mainly because of exclusion of ISB component of IRDP from coverage under the project. If ISB were also reckoned, the achievement agrees with the anticipated level. The share of Minor Irrigation and Land Development together worked out at 32.2% of the total disbursements under the project as against the estimated level of 29.2%. This has resulted from implementation of a (Rs.1,333 M) Massive National Programme of Assistance to small farmers and marginal farmers for creating assured sources of irrigation. The share of refinance disbursed for

Farm Mechanisation was 13.14% of the total and the share of animal husbandry (dairy, poultry, sheep, goat, etc) at 8.3% was almost double the estimate at the time of appraisal (4.05%). This was mainly due to the diversification of the loan portfolios and investments. The share of disbursements in respect of Plantation and Horticulture, Fisheries, Storage and Market Yards, Forestry, Bio-gas and rural electrification was also higher than anticipated on account of the existence of potential and larger demand. In line with the national priorities, National Bank extended refinance support for rainfed farming, development of wasteland and drought-prone areas and Non-farm Sector but significant successes on these fronts could not be achieved because of inadequacies of infrastructure including forward and backward linkages whose availability depends upon budgetary support from State Governments.

3.3. The impact of the project on various sectors is given below:

(a) <u>Macro/Sectoral growth and Policies</u>

Continued discussions with World Bank Missions helped in evolving policies of regulating credit flow in accordance with national priorities and long term potentials. There was increased credit flow to small farmers. The National Bank supported schematic lending which ensured orderly exploitation of the available potential, creation of quality assets and adoption of improved technology by the farmers. The thrust areas supported under the project were rainfed farming, development of wasteland and drought prone areas.

(b) Human Resources Development

Credit programmes supported under the project led to recurring employment of 524 M. mandays per year and also helped self-employment and increasing the skills of the people to manage assets.

(c) Physical Environment

The project approach to lending ensured orderly exploitation of the available potential. The NB took initiative in 1987 for preparing district-wise Potential Linked Plans (PLPs) for agriculture and rural development. The basic objective of PLP is to explore the existing potential for development and evolve an appropriate mechanism through which such potential could be exploited over a specific period of time. This envisages estimation of long term potential in each sector of agriculture and rural development with reference to the natural and human resources available in a district for exploitation after detailed study of the data available, field studies and interaction with government officials and district level banks. The potential is then linked to the credit plans through a series of steps and the physical potentials are translated into credit projections taking into account the bankability and viability of the programme for development as well as the strengths and weaknesses of credit institutions.

The NB has also been supporting schemes like Social Forestry which help in rejuvenation of the environment.

(d) Technological Environment

In the matter of technology upgradation. the NB has been testing the bankability of various technologies evolved by the ICAR and other research bodies and prescribing guidelines to the banks for project formulation of new investments. From its R&D Fund, the NB has been supporting projects for adaptive research in areas relevant to rural development and also for technology transfer.

(e) Social Environment

The extent of coverage of small farmers was about 88% of the total beneficiaries financed under the project as against the project stipulation of 60% which confirmed the deliberate bias of the project in favour of weaker sections of society.

(f) Credit Institutions

The credit institutions expanded their volume of business and improved the quality of lending. The project also helped them in upgrading their skills. State Governments provided the necessary infrastructural support.

3.4. In retrospect, the project was a success on many fronts although there were weak points in some areas. The major areas of success were as follows:

National Bank could step up the credit flow for agriculture and rural development and promote capital formation in Farm and other related Sectors, thus contributing to the increase in agricultural production, rural income and employment.. The pilot project also succeeded in demonstrating the effectiveness of improved bank-borrower contact on recoveries and upgradation of skills of the bank staff in handling the loans portfolio. The setting up of an IRDP Task Force and P & R groups had contributed to substantial improvement in the quality of lending and evolving new approaches for financing under IRDP. This approach brought about better coordination among banks, Government of India, State Governments, and National Bank and a greater adoption of a project approach to such mass lending. The operational issues identified through DOM studies were sorted out and remedial measures were initiated by the concerned banks and the State Governments. The training programmes under the project were successfully carried out and the staff of National Bank and participating banks were imparted training aimed at enhancing the quality of lending and improving recoveries. Following a review of a study group of the training activities and management of BIRD, the BIRD is being made an autonomous institution to emerge as an apex institution of excellance in imparting training for rural bankers.

3.5. The areas of relatively unsatifactory results were the inability to use National Bank's clout to implement the rehabilitation programme more vigorously and to use the eligibility criteria as a tool to improve recovery. Eligibility criteria had proved to be effective to the extent of regulating the flow of refinance support. However, much could not be achieved in these areas due to the external environment which had adversely affected both the rehabilitation and recovery areas, as rightly observed by the World Bank.

4. World Bank Performance

4.1. The World Bank's performance can be assessed under two broad heads:

i) Pre-Project Period

The immense preparatory work done by the World Bank before NB CP-I was formally sanctioned, greatly helped the National Bank in understanding the perspectives of the World Bank and in equipping itself with the required data/ information for use by the successive World Bank Missions.

The review Mission on ARDC-IV had felt that improvement in the recovery position was important to ensure future World Bank lines of credit to National Bank. The World Bank also emphasised the need for paying greater attention to the training of field staff. The pilot project for strengthening credit delivery system was accordingly formulated by National Bank and launched in 3 districts in April 1984. A short reorientation course for LDB Supervisors and Field Staff with focus essentially on appraisal of individual loans, maintaining contacts and communications with borrowers, taking follow-up action on loans was designed to be conducted by the LDBs. As it was recognised that key elements of an effective credit delivery system were being addressed under the scheme and the preliminary results also indicated a positive impact on lending institutions' operations at village level. World Bank decided that the proposed credit project could finance an expansion of the pilot scheme covering 17 new districts.

The January 1986 World Bank Mission referred to the covenants of NB CP-I and in particular, those relating to the guidelines on the rehabilitation of weak PLDBs, monitoring and evaluation studies, revised eligibility criteria, training and preparation of long term manpower plan and desired that a time bound action plan should be prepared for their implementation. The Mission stressed the need for formulation of a long term manpower development in National Bank to cater to the future needs. The Mission had also drawn attention to the other important aspects of lending, rise in the level of overdues, inadequate supervision in respect of sanctioned loans, delay in completion of case-by-case analysis, etc. The World Bank made certain concrete suggestions in the light of the above observations. The Mission desired that National Bank should constantly review its investment policies and make appropriate changes.

ii) Implementation Stage

The World Bank's performance during the implementation stage of CP_I was flexible and supportive of project operations. The close interaction and free and frank exchange of views between the World Bank and National Bank and the flexible approach of the World Bank in solving problems during the implementation period helped the National Bank in achieving, to a very great extent, the project objectives and in complying with the covenants of the project, as could be seen from the following.

a) Release of Tranches

Due to the failure of monsoon during 1986-87, India faced one of the severest droughts extending over large parts of the country. Government of India, Reserve Bank of India and the National Bank announced various measures to meet the drought situation. The World Bank appreciated the gravity of the calamity which the country was facing and extended a helping hand by increasing the quantum of assistance under the second tranche from US$ 80 M to US$ 150 M and for waiving submission to the World Bank of the draft reports on two of the five studies under Agricultural Credit Review (ACR), a pre-condition for release of second tranche. Later on, based on the pace of utilisation of the various components, the World Bank also agreed for making certain reallocations under the four components of the project assistance.

b) Eligibility Criteria

In terms of Schedule II of the Project Agreement entered into under NB CP-I, the second phase of the revised eligibility criteria was to come into effect from 1.1.1988. On the basis of the requests received from some of the LDBs as also the National Cooperative Land Development Banks' Federation to the effect that the introduction of the second phase of of eligibility criteria might be postponed to 1.7.1988, a decision was taken, in consultation with the World Bank to the effect that the second tranche of the revised eligibility criteria could be advanced to 1.7.1987. However, keeping in view the acute drought conditions in 21 out of the 25 States in the country, the World Bank agreed in December 1987 for deferment of upward revision in the recovery norms by 5% for banks/branches in categories II to IV from 1.7.1987 to 1.7.1988. The World Bank also agreed for introduction of a sliding scale eligibility criteria to SCBs/DCCBs from 1.7.1988, as applicable to lending units of CBs and LDBs.

c) Pilot Project Programme

The keen interest which the World Bank evinced in the implementation of the pilot project programme as a major step in the institutional development efforts, was a source of great strength to the National Bank. Besides closely associating itself with the monitoring visits to assess the progress of the project implementation, the World Bank gave certain concrete suggestions in shaping the project concepts and tools. The studies mounted by the National Bank, through the forum of Joint Working Groups consisting of a senior representative from the National Bank and the World Bank to suggest the changes in the concepts of pilot project scheme and to introduce the needed flexibilities, helped the National Bank in reshaping the pilot project to suit the ground level requirements and felt needs and enabled the participating banks in internalising the pilot systems. The World Bank's support to the pilot related experiments particularly the one launched in Kalahandi District of Orissa State, (viz.the Gram Vikas Development Society) and the support extended for the concept of farmers clubs, etc. are note-worthy.

5. Borrower Performance

5.1. As far as NABARD Credit Project (NB CP-I) is concerned the National Bank's role has to be viewed as a financial intermediary between GOI and World Bank and as an Apex level Rural Credit Institution. The performance of the National Bank, therefore, in discharging its assigned responsibilities in general and those under the project in particular should be viewed in the light of the mandate available to the National Bank under the NABARD Act, 1981, NB CP-I agreements, its large scale operations, complexities of issues connected with the rural credit and the influences which are outside the control of the National Bank.

(i) Performance of National Bank during the evolution of the project

National Bank has been a conscientious borrower committed to discharging the assigned responsibilities and has implemented the project with utmost sincerity with a view to achieving the desired objectives. National Bank has also been responsive to the recommendations and the remedial actions suggested by the World Bank for reforming the rural credit system and the institutions operating thereunder.

National Bank had done the ground work well in advance for preparation and posing of the NABARD

Credit I project report. The various suggestions and the recommended actions contained in the Aide Memoire of the visiting Missions of the World Bank, during the evolution stage, were promptly responded to. The main objectives of the project were strengthening the agricultural credit delivery system and increasing the agricultural production. Strengthening the credit delivery system involved training of bank staff and improvement in recoveries. The pilot project and training components were built into the project with these objectives in view.

(ii) Implementation stage

The National Bank could successfully implement the project to achieve the objectives of strengthening the credit delivery system and increasing agricultural production. Only in the areas of recovery and rehabilitation of the weak cooperative banks the achievements were not satisfactory because of certain external factors. The progress made under the project was regularly reported to World Bank through periodic progress reports. The World Bank appreciated the quality of these reports and made certain suggestions for making these more analytical, which were followed up.

(a) Agricultural Credit Review

The various recommendations made by the ACRC requiring detailed examination at various levels (NABARD, RBI, GOI) were promptly examined and necessary follow-up action was initiated. National Bank was a member of the Task Force set up by RBI for studying the recommendations. Insofar as those recommendations on which National Bank could initiate follow up action, necessary guidelines were issued by it.

(b) Schematic Lending

The entire credit of US$ 350 M. (revised) under component B (Schematic Lending) was fully utilised within the project period. National Bank acknowledges the helpful attitude of the World Bank in releasing the assistance ahead of the stipulations contained in the agreements, consequent upon the severe drought situation faced by the country in 1986-87.

(c) Eligibility Criteria

National Bank followed the eligibility criteria norms stipulated in the project documents. The amendments to the eligibility criteria were effected mainly keeping in view the natural calamities that occurred in the country. The criteria, at no point of time, was relaxed/diluted by the National Bank.

(d) Enforcing of financial discipline using refinance as a lever

National Bank has always looked upon its role as a development financing institution ultimately aiming at bringing about credit discipline and upgrading the skills of the primary institutions to become viable and vibrant.

In consultation with RBI, NB advised all SCBs and SLDBs in November 1988 that refinance from National Bank would be subject to the compliance of (i) regulations and instructions laid down by RBI/National Bank relating to loans and interest rates and these should not be contravened directly or indirectly and (ii) the instructions issued by RBI/ National Bank regarding conversion, rescheduling and deferment of loans. Accordingly, in December 1988, when the NB observed that in 9 states an interest subsidy scheme was in vogue and in 2 states the State Governments had written off the dues across the board and the cooperatives were not being fully compensated, NB stopped providing refinance to cooperative banks in the above states. The refinance was resumed only after the institutions furnished an undertaking to the effect that they would comply with the instructions. Thereafter, wherever such breaches were observed, NB has effectively used its refinance clout in enforcing the credit discipline stipulated by RBI/NB.

(e) Pilot Project for strengthening
the Credit Delivery System

National Bank implemented the pilot project programme in 16 districts, 3 districts in Phase I and 13 districts in Phase II. It was not extended to 4 more districts as envisaged under the project keeping in view the need for concentrating the monitoring efforts in the on-going districts. The inability of the banks to position the required field staff, as per the project guidelines also deterred the National Bank from extending the project to 20 districts. Being an extension project, the project could not witness the expected results in the limited time frame available. However, the concepts like building up of an effective banker-borrower relationship, the borrower contact, streamlining the internal systems and procedures of lending institutions, equipping the field staff with superior skills in appraising and monitoring the loan operations, etc. helped largely in translating the non-cost project ideas into reality and enabled the banks in internalising the project systems and improving the quality of loaning. In all these matters, the World Bank's timely advice and its willingness to introduce into the project, the needed flexibilities helped the National Bank in effectively implementing the programme. World Bank also helped the National Bank in taking up certain innovative experiments like the linking of self-help groups with banking system (GVDS experiment) and extension of support to the Farmers' Clubs. The World Bank had also, on a request from National Bank. extended the project period to 31st March 1991.

(f) Rehabilitation Programme

The most important aspect of the National Bank Credit Project-I has been the institutional development efforts envisaged under the project mainly aimed at the cooperatives. While the O&M Studies conducted under NB Credit Project-IV formed the basis for initiating suitable remedial action in respect of the weak SLDBs, National Bank also attempted to devise the required packages for revitalising the weak cooperatives and to nurture them to health. The 15 Point Programme for the development of PACs and LAMPs initiated under the pilot programme, the 10 Point and 12 Point Programmes for the rehabilitation of weak PLDBs/SLDBs were some of the packages developed by the National Bank for the cooperatives. As cooperatives are under the administrative and ownership control of State Governments, any initiative to bring them back to health requires support, both financial and logistical, from the State Government side. The reluctance of the State Governments to undertake the financial commitment devolving on it because of severe budgetary constraints was one of the major factors which affected the successful implementation of the rehabilitation programme. The political interference at the state level and some of the concessions/waivers announced by the State Governments for cooperative dues, largely vitiated the recovery climate and did considerable damage to the health of the Credit Delivery System. Institutional development covers several aspects such as (i) augmentation of resources of banks to promote development and increase their business, (ii) diversification of lending, (iii) improving quality of lending, (iv) improving the skills of staff of the banks in project formulation and implementation through training and other assistance, (v) improvements in credit delivery and rehabilitation of weak cooperative banks. The achievement of National Bank has been good in most of these areas except rehabilitation and recovery where the achievements have not been satisfactory because of some external factors, as correctly evaluated by the World Bank.

(g) Compliance with Covenants

The NB complied with the various covenants of the Project Agreement. There was, however, a disagreement between the World Bank and National Bank regarding Section 2.03 of the Project Agreement governing eligibility criteria. NB had justified the exclusion of the loans extended to Non-farm Sector and ISB component of IRDP from the calculation of the eligibility criteria. The World Bank had indicated that the issue would be decided at the time of the approval of NB CP-II.

6. Project Relationship

6.1. The relationship between the World Bank and National Bank throughout the project period was cordial and characterised by mutual understanding. Both the World Bank and National Bank were conscious of the development roles they were expected to play and accordingly discharged their responsibilities. There was close interaction with World Bank on all matters and this has resulted in cross-fertilisation of ideas and agreement on strategies and approaches to achieve the objectives. The World Bank's suggestions and the remedial actions were welcomed by the National Bank and these were appreciated in the right perspective. National Bank also initiated measures to translate World Bank's recommendations into action. While some of the actions so initiated showed results and helped in achieving the project objectives. the others could not make much headway due to constraints exogenous to the National Bank. In fairness to the above position, World Bank had appreciated as reflected in its last Aide Memoire under the project as also in the draft project completion report that the components within the National Bank's control were implemented satisfactorily.

The NB continues to consider its association with World Bank as a partnership effort for fostering reforms within the overall credit system, apart from helping resource transfer to the country.

The relationship between the World Bank and the National Bank has been purposeful , development-oriented and friendly during the entire project period.

6.2 Progress Reports

The National Bank submitted periodical progress reports on the operations and activities under NB CP-I to the World Bank through GOI. The quality of progress reports was generally appreciated by the World Bank. However, it was desired that these reports should be more analytical and indicate the institutional development aspects for better appreciation of the field level situation.

7. Project sustainability

7.1. The major objective of the project was to strengthen the rural credit delivery system and improve the quality of credit delivery. Specifically, it was intended that it would initiate a series of institutional reforms in the credit system in general and in National Bank in particular. A long-term strategy was, therefore, to be evolved based on an indepth review of the rural credit system through a committee of experts commissioned during the implementation of the project. It is clear that such qualitative objectives can be achieved only over a period of time and achieved in stages measured against specific short-term objectives and time-frame. Since both the internal and external factors influence the operations of the banks and the recoveries of loans outstanding, appropriate strategies have to be worked out in each of these projects to tackle both the factors simultaneously so as to have the maximum impact. In that sense, project sustainability as the objective is a long-term one.

7.2. The second objective was to increase agricultural production, rural income and employment while continuing the emphasis on assistance to small farmers. In a country like India, Agriculture and non-farm sector in the rural areas will have to be given greatest priority in all developmental efforts in future not only to improve the productivity of agriculture for meeting the foodgrains needs of the growing population but also for absorbing the growing labour force in the rural areas. Considering the long gestation period and high cost and delays in commissioning major irrigation projects, etc., private capital formation through credit linked programmes for promoting the private investments for increasing productivity of agriculture has been one of the major strategies adopted for promoting rural development in our country. This objective also has to be pursued for considerable length of time so as to improve the economic status of the rural poor and small farmers.

7.3. The anticipated level of benefits from the investments supported under the project is expected to be realised throughout the economic life of the assets. The benefits from the implementation of the pilot project like the awareness of the banks about the efficacy of improved bank-borrower contact will be useful to the banks. Although the implementation of the ARDR scheme had an adverse effect on the recovery position of the banks during 1989-90 and 1990-91, the situation is expected to improve and the effects of the pilot project will be manifest through improved recoveries in the coming years.

8. Lessons learnt

8.1. Rural Credit Financing

Though the World Bank's and other bilateral assistance received under NB CP-I formed about 10% of the aggregate schematic investments refinanced by NB, NB was immensely benefitted in aspects other than financial matters also - by the association of World Bank in the Project. The World Bank's timely advice through its Supervisory Missions helped NB in shaping its policies and operations for rendering the rural credit as an effective instrument in the country's development process. The general lines of credit like NB CP-I with in-built flexibilities were found to be more beneficial to the large developing countries like India, as compared to state specific projects.

8.2. Pilot project for strengthening the rural credit delivery system

The Pilot project has demonstrated that for efficiently servicing the growing volume of rural credit and a larger number of small accounts the type of inputs envisaged under the project are absolutely essential. Some of the inputs in terms of additional manpower, mobility through vehicles involving definite cost will have to be met if the quality of lending portfolio and supervision over end-use of credit and adequate recovery of loans through frequent borrower contacts etc., are to be continuously maintained at a very high level.

8.3. Rehabilitation of weak Cooperatives

NB is convinced that the implementation of any institutional development programme like the rehabilitation programme for the weak coöperatives would require full commitment and consensus of all the parties concerned mainly the State Governments, under whose administrative and legal control the cooperatives function. NB alone cannot implement these programmes without the wholehearted support from the implementing agencies themselves. The ACRC has said in its report that there is an imperative need for a strong political will and a general consensus among various political parties to give up misuse of the agricultural credit system as a means for achieving political ends, restore the sanctity of credit institutions and allow them to function as autonomous banking institutions. The Government of India along with State Governments should chalk out a concrete long term policy, supportive of the efforts of the rural credit system for recovery of their dues. avoiding all extraneous consideration and taking firm and objective view in respect of wilful defaulters. GOI is well seized of this matter.

8.4. Eligibility Criteria

The basic objective of the eligibility criteria was to bring about an awareness on the part of the banks about the need for improving their recovery performance through the instrumentality of the varying access to the refinance from NB. While the criteria has successfully worked in limiting the resource of the banks to NB's refinance, by itself it could not bring about the ultimate objective. In that sense, the criteria by itself cannot tone up or tighten up the rural credit system as several other institutional development measures have to be taken simultaneously in this regard. The ACRC report has commented in this regard that while the objective of improving the recoveries is no doubt laudable, the problem needs to be attacked through more direct measures including sanctions against defaulters, especially the wilful defaulters, rather than choking the conduits of credit which is self-defeating.

3.5. ACRC

The ACRC recommendations provided long term strategy for strengthening the rural credit delivery system. However, the structural changes envisaged cannot be brought about without a strong political commitment especially for autonomy of credit institutions and their viability. These recommendations are being examined by the GOI at the highest level.

PART III - STATISTICAL TABLES

PROJECTS WITH EXTERNAL AID - POSITION OF COMPLETED/CLOSED PROJECTS

S. NO.	PROJECTS	CREDIT/ LOAN NO.	EFFECTIVE FROM	CLOSED ON	TOTAL EXTERNAL ASSIST.	OF WHICH THROUGH ARDC/ NABARD	DISB. BY PARTICIP -ATING BANKS	DISB. BY ARDC/ NABARD	COUNTERPART FUNDS RECE- IVED FROM GOI	REIMBURSE- MENT RECEIV. BY GOI AGAIN
					IN US $ MILLION					
A. GENERAL LINE OF CREDIT										
1	ARDC - I	540	AUG/75	DEC/77	75.00	75.00	1381.60	1229.50	782.50	75.00
2	ARDC - II	715	AUG/77	DEC/79	200.00	200.00	3632.90	2377.50	1630.00	200.00
3	ARDC - III	947	JAN/80	DEC/81	250.00	250.00	5.71.00	4391.90	2086.20	250.00
4	ARDC - IV	1209/ 2095	MAY/82	MAR/84	350.00	350.00	10012.00	8810.30	3436.60	350.00
SUB-TOTAL - A					875.00	875.00	20197.50	16809.20	7935.30	875.00
B. MULTI-STATE PROJECTS										
5	INTEGRATED COTTON DEV.	610	AUG/76	DEC/84	18.00	15.00	208.20	177.30	131.60	14.90
6	NATIONAL SEEDS I	1273	OCT/76	DEC/84	25.00	18.20	191.00	159.00	157.00	18.20
7	NATIONAL SEEDS II	816	OCT/79	DEC/85	16.00	14.50	158.00	137.00	137.00	15.10
8	MULTI-STATE CASHEW	1012	SEP/80	MAR/88	22.00	13.70	175.10	150.14	94.50	8.40
9	INLAND FISHERIES	963	MAY/80	SEP/88	20.00	12.00	305.60	270.10	146.20	11.70
SUB-TOTAL - B					101.00	73.40	1037.90	893.54	666.30	68.30
C. AGRI. CREDIT PROJECTS										
10	AP AGRI. CREDIT	226	MAY/71	JUN/77	24.40	24.40	315.00	253.30	192.00	24.20
11	BIHAR AGRI. CREDIT	440	MAR/74	MAR/80	32.00	32.00	56.00	434.80	260.90	32.00
12	GUJARAT AGRI. CREDIT	191	SEP/70	MAR/75	35.00	34.70	464.60	386.80	260.80	34.70
13	HARYANA AGRI. CREDIT	249	NOV/71	JUN/77	25.00	25.00	464.00	321.80	214.00	25.00
14	KARNATAKA AGRI. CREDIT	278	SEP/72	JUN/77	40.00	40.00	521.00	433.80	326.50	40.00
15	KERALA AFRI. CREDIT	680	JUN/77	SEP/86	30.00	26.70	386.20	426.00	265.00	26.70
16	MP AGRI. CREDIT	391	OCT/73	DEC/76	33.20	33.20	504.20	439.80	285.30	33.20
17	MAHARASHTRA AGRI. CREDIT	293	JAN/73	JUN/76	30.00	28.10	408.00	363.10	255.80	25.40
18	PUNJAB AGRI CREDIT	203	SEP/70	JUN/77	27.50	27.50	323.00	243.40	218.00	27.50
19	TAMILNADU AGRI. CREDIT	250	NOV/71	DEC/77	35.00	31.00	400.00	352.90	252.60	31.00
20	UP AGRI. CREDIT	392	OCT/73	DEC/77	38.00	38.00	577.00	500.10	340.60	38.00
21	WB AGRI. CREDIT	541	AUG/75	MAR/81	34.00	15.00	286.00	267.10	183.30	21.60
SUB-TOTAL - C					384.10	355.60	5115.00	4422.90	3054.80	359.30
D. IRRIGATION&CAD PROJECTS										
22	AP IRRIG. I CAD	1251	SEP/76	JUN/85	145.00	9.10	177.00	151.10	97.20	9.10
23	HARYANA IRRIG I	843	DEC/78	JUN/83	111.00	41.40	490.30	402,90	208.40	23.20
24	KARNATAKA IRRIG. I	788	APR/78	MAR/86	117.60	2.00	61.00	4.50	2.50	0.20
25	MAHARASHTRA IRRIG. I	736	APR/77	MAR/84	70.00	5.50	61.00	44.20	13.60	1.30
26	PUNJAB IRRIG I	889	JUN/79	JUN/86	129.00	58.36	1266.30	1249.40	630.40	57.10
27	RAJASTHAN (CHAMBAL) CAD	1011	DEC/74	JUN/83	12.00	8.36	82.30	67.70	29.30	5.80
28	RAJASTHAN CANAL CAD	502	DEC/74	JUN/83	22.50	22.58	194.30	238.00	229.60	22.50
29	MP (CHAMBAL) CAD	562	SEP/75	JUN/81	24.00	0.30	83.40			
SUB-TOTAL - D					631.10	145.60	2415.60	2157.80	1211.00	119.20

NO.	PROJECTS	CREDIT/ LOAN NO.	EFFECTIVE FROM	CLOSED ON	TOTAL EXTERNAL ASSIST.	OF WHICH THROUGH ARDC/ NABARD	DISB. BY PARTICIP -ATING BANKS	DISB. BY ARDC/ NABARD	COUNTERPART FUNDS RECE- IVED FROM GOI	REIMBURSE- MENT RECEIV. BY GOI AGAIN
					IN US $ MILLION					
	MARKET PROJECTS									
30	BIHAR AGRI. MARKET YARDS	294	JUL/72	DEC/79	14.80	13.80	175.30	157.70	116.60	13.80
31	KARNATAKA AGRI. MARKETS	373	SEP/73	JUN/81	8.00	7.90	82.00	65.40	64.60	7.90
	SUB-TOTAL - E				22.80	21.70	257.30	223.10	181.20	21.70
	FISHERIES									
32	AP FISHERIES	815	OCT/79	SEP/84	17.50	3.90	15.30	12.00	6.40	0.70
33	GUJARAT FISHERIES	1294/ 695	JUL/77	JUN/84	18.00	4.70	30.50	24.40	13.40	1.60
	SUB-TOTAL - F				35.50	8.60	45.80	36.40	19.80	2.30
	HORTICULTURE									
34	HP APPLE PROC.&MKTG.	456	SEP/74	DEC/81	13.00	5.40	57.40	51.90	32.00	0.20
35	J&K HORTICULTURE	806	JAN/79	JUN/86	14.00	9.60	89.50	76.10	56.50	5.20
	SUB-TOTAL - G				27.00	15.00	146.90	128.00	88.50	5.40
	STATE PROJECT - OTHERS									
36	TARAI SEEDS (UP)	614	SEP/69	DEC/77	13.00	9.00	36.50	19.50	19.50	1.10
37	KARNATAKA SERICULTURE	1034	DEC/80	JUN/88	54.00	3.10	77.00	75.44	36.90	3.10
	SUB-TOTAL - H				67.00	12.10	113.50	94.94	56.40	4.20
	GRAND TOTAL				2143.50	1507.00	29329.50	24765.88	13213.30	1456.40

Table 1
Page 2

Table 2

PROJECT TIME-TABLE

ACTIVITIES	DATE PLANNED	ACTUAL DATE
1. IDENTIFICATION/ PREPARATION		April 1983-1984
2. APPRAISAL		Dec, 1984
3. BOARD DATE		Feb 25, 1985
4. SIGNING DATE		May 28, 1986
5. EFFECTIVENESS		Sep 16, 1986
6. COMPLETION	Jun 30, 1989	Dec 31, 1990
7. CLOSING DATE	Dec 31, 1989	Jun 30, 1991

Table 3

PROJECT COST AND FINANCING
(IN Rs MILLION)

COMPONENT	APPRAISAL ESTIMATES			ACTUAL			% OF ACTUAL TO SAR ESTIMATES		
	LOCAL	FOREIGN	TOTAL	LOCAL	FOREIGN	TOTAL	LOCAL	FOREIGN	TOTAL
A - AGRICULTURE CREDIT REVIEW	19.20	22.80	42.00	18.45	14.51	32.96	-4	-36	-22
B - SCHEMATIC LENDING	53865.70	5023.20	58888.90	52368.00		52368.00	-3	-100	-11
C - PILOT PROJECT	270.00	30.00	300.00	206.81		206.81	-23	-100	-31
D - TRAINING	62.40	15.60	78.00	161.33	2.10	163.43	159	-87	110
TOTAL	54217.30	5091.60	59308.90	52754.59	16.61	52771.20	-3	-100	-11

PROJECT COST AND FINANCING
(IN US $ MILLION)

COMPONENT	APPRAISAL ESTIMATES			ACTUAL			% OF ACTUAL TO SAR ESTIMATES		
	LOCAL	FOREIGN	TOTAL	LOCAL	FOREIGN	TOTAL	LOCAL	FOREIGN	TOTAL
A - AGRICULTURE CREDIT REVIEW	1.60	1.90	3.50	1.36	0.94	2.30	-15	-51	-34
B - SCHEMATIC LENDING	4488.90	418.60	4907.50	3703.83		3703.83	-17	-100	-25
C - PILOT PROJECT	22.50	2.50	25.00	12.00		12.00	-47	-100	-52
D - TRAINING	5.20	1.30	6.50	10.57	0.13	10.70	103	-90	65
TOTAL	4518.20	424.30	4942.50	3727.76	1.07	3728.83	-17	-100	-25

NOTE: A, C AND D ARE GRANTS.

IN THE CASE OF SCHEMATIC LENDING (PART B), THE WORLD BANK'S SHARE OF DISBURSEMENT IS AROUND 9.5%.

THE DIFFERENCES IN % INCREASE/DECREASE FIGURES COMPARING RS. AND US $ ARE DUE TO VARIABLE EXCHANGE RATES.

NON-SCHEMATIC LENDING OMITTED BECAUSE SUCH LENDING WAS FINANCED EXCLUSIVELY WITH NABARD RESOURCES. SEE TABLE 6.

(C) SCHEMATIC LOANS

		Interest Rates		
		Existing	Revised	Effective date for revision
		Pre-revised		
1.	Minor Irrigation and Land Development	10.25(prior to 1.4.83)	10%	For loans sanctioned on or after 1.4.83
2.	IRDP	10.25	10%	
3.	Small Farmers	10.25	10%	
4.	Others	12.50	12.5%	
5.	Watershed-based rainfed farming			
	a) Small Farmers	10.00 (prior to 28.4.87)	10.00 for all farmers	with effect from 28.4.87
	b) Other Farmers	12.50 (prior to 28.4.87)		
6.	Wasteland Development			
	a) Individuals: Small Farmers	10.00	10.00 for all farmers	with effect from 12.2.88
	Other Farmers	12.50		
	b) Corporate borrowers	12.50	12.5%	
7.	REC/SFA Schemes			
	Bank to SEBs	10.00%	11.5%	with effect from 1.4.89
8.	a) Upto and inclusive of Rs.7500		10.00	with effect from 22.9.90
	b) Over Rs.7500 and upto Rs.15000		11.50	
	c) Over Rs.15000 and upto Rs.25000		12.00	
	d) Over Rs.25000 and upto Rs.50000		13.00	
	e) Over Rs.50000		14.00	

Table 4
Page 1

		Existing	Revised	Effective date for revision
9.	**All types of loans**			
a)	Upto and inclusive of Rs.7500/-	10 %	10.0	4th July 1991
B)	Over Rs.7,500/- and upto Rs.15,000/-	11.5 %	11.5	
c)	Over Rs.15,000/- and upto Rs.25,000/-	12 %	12.0	
d)	Over Rs.25,000/- and upto Rs.50,000/-	13 %	13.0	
e)	Over Rs.50,000/-	14.0	14.0	
10.	**All types of loans**			
1)	upto and inclusive of Rs.7,500/-	10.0	11.5	9th October 1991
2)	Over Rs.7,500/- and upto Rs.15000/-	11.5	13.0	
3)	Over Rs.15,000/- and upto Rs.25,000/-	12.0	13.5	
4)	Over Rs.25,000 and upto Rs.50,000/-	13.0	14.0	
5)	Over Rs.50,000/- and upto Rs. 2 lakhs	14.0	15.0	
6)	Over Rs.2 lakhs	14.0	15.0 (Minimum)	

Table 5

TRAINING COMPONENT - FINANCIAL PROGRESS a/

IN Rs. MILLION

PARTICULARS	SAR ESTIMATE	ACTUAL	% INCREASE/ DECREASE OVER SAR
1. SENIOR/MIDDLE LEVEL TRAINING	26.04	21.74	-13
2. JUNIOR LEVEL TRAINING	32.39	17.93	-45
3. VVV TRAINING PROGRAMS	0.00	2.44	
4. IRDP	1.21	0.00	-100
5. OVERSEAS TRAINING COSTS	0.80	1.64	105
6. TRAINING DIVISION ESTABLISHMENT& TRAINING AT HEAD/REGIONAL OFFICES	11.40	21.13	85
7. TRAINING AT BIRD	20.21	16.42	-19
8. TRAINING AT RTC, BOLPUR	5.83	9.67	66
9. TRAINING AT RTC, MANGALORE	7.86	8.47	8
10. TRAINING AT NBSC, LUCKNOW	4.04	13.96	246
11. OPENING OF NEW RTC	4.57	0.00	-100
TOTAL	113.35	113.40	0.04

a/ Loan funds available for training were increased from US$6.6 million to US$10.7 million.

Table 6

FINANCIAL PROGRESS BY PURPOSE-WISE LENDING
(IN Rs MILLION)

COMPONENT	SAR ESTIMATE	ACTUAL	% INCREASE/ DECREASE OVER SAR
1. SCHEMATIC LENDING			
MINOR IRRIGATION& LAND DEVELOPMENT	18845	16095	-15
FARM MECHANIZATION	9422	11956	27
IRDP	19433	12657	-35
OTHER DIVERSIFIED ACTIVITIES	11189	11860	4
TOTAL SCHEMATIC LENDING	58889	52368	-11
2. NON-SCHEMATIC LENDING	4958	10968	121
GRAND TOTAL	63847	63336	-1

NOTE: ONLY 9.5% OF THE TOTAL SCHEMATIC LENDING IS DISBURSED BY THE WORLD BANK. IN THE CASE OF NON-SCHEMATIC LENDING, THERE IS NO DISBURSEMENT FROM THE WORLD BANK.

Table 7

PURPOSE-WISE FINANCIAL OUTLAY BY NABARD'S
(IN Rs MILLION)

COMPONENT	IRDP	NON-IRDP	TOTAL	% SHARE OF GRAND TOTAL
I. MINOR IRRIGATION	1747	26283	28030	44.3
II. LAND DEVELOPMENT	54	770	824	1.3
III. DRYLAND FARMING		10	10	0.0
IV. FARM MECHANIZATION				
A. TRACTORS		11688	11688	18.5
B. THRESHERS		112	112	0.2
C. POWER TILLERS		156	156	0.2
SUB-TOTAL		11956	11956	18.9
V. LIVESTOCK				
A. DAIRY	4638	2167	6805	10.7
B. POULTRY-LAYERS	62	1440	1502	2.4
C. POULTRY-BROILERS	48	141	189	0.3
D. PIGGERY	248	7	255	0.4
E. SHEEP/GOAT	1676	311	1987	3.1
SUB-TOTAL	6672	4066	10738	17.0
VI. FISHERY				
A. INLAND	315	461	776	1.2
B. MARINE		451	451	0.7
C. FISHING NETS	41		41	0.1
SUB-TOTAL	356	912	1268	2.0
VII. PLANTATION&HORTICULTURE	186	3088	3273	5.2
VIII. FORESTRY		715	715	1.1
IX. BIO-GAS PLANTS		1135	1135	1.8
X. MARKET YARDS		341	341	0.5
XI. STORAGE		1134	1134	1.8
XII. ANIMAL DRIVEN CARTS	2550		2550	4.0
XIII. WORK ANIMALS	653		653	1.0
XIV. OTHERS	439	268	707	1.1
GRAND-TOTAL	12657	50679	63336	100.0

Table 8

State-wise Ground level Investment Cost
Supported with Refinance from National Bank

(Rs. in M.)

State	Ground Level Investment Cost				Refinance				
	IRDP	MI and LD*	Other Purposes#	Total	IRDP	MI and LD*	Other Purposes#	Total	%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Jammu & Kashmir	177.6		155.9	333.5	95.6		99.3	194.9	0.5
Punjab (1)	585.3	923.5	4187.9	5696.8	319.2	703.3	2192.1	3214.6	8.8
Haryana (2)	492.9	792.2	2255.9	3541.0	305.3	573.6	1118.0	1996.9	5.5
Himachal Pradesh	139.2	2.9	109.0	251.1	80.8	1.9	73.1	155.8	0.4
Rajasthan	717.7	897.7	1335.4	2950.7	431.4	625.7	640.3	1697.4	4.6
Assam/NE States	384.3	350.8	542.0	1277.1	199.6	215.7	333.2	748.5	2.1
Bihar	695.1	1503.2	483.7	2682.0	387.6	967.5	340.4	1695.5	4.6
West Bengal	492.8	304.7	977.3	1774.8	269.2	226.5	567.6	1063.3	3.0
Orissa	606.0	147.9	538.7	1292.7	357.8	120.5	324.0	802.3	2.2
Uttar Pradesh	2359.5	3092.0	3013.1	8464.6	1312.2	2282.6	1318.7	4913.5	13.5
Madhya Pradesh	523.7	1241.3	2766.2	4531.2	320.9	742.1	1348.5	2411.5	6.6
Gujarat	705.8	579.0	2349.6	3634.3	415.8	432.4	1013.8	1862.0	5.1
Maharashtra(3)	938.8	2074.9	4352.4	7366.1	525.9	1679.3	1920.9	4126.1	11.3
Andhra Pradesh	947.9	1349.1	4941.6	7238.6	550.2	1105.1	2386.2	4041.5	11.1
Karnataka	932.9	1663.7	2690.0	5286.6	525.6	1282.3	1588.7	3396.6	9.3
Tamil Nadu (4)	1570.2	626.9	2554.0	4751.2	887.9	407.6	1338.5	2634.0	7.2
Kerala	387.6	545.0	1330.7	2263.2	221.0	410.7	897.1	1528.8	4.2
All-India	12657.3	16094.8	34583.4	63335.5	7206.0	11776.8	17500.4	36483.2	100.0

* includes MNP and DLF
\# includes REC

Notes:

(1) includes Union Territory of Chandigarh.
(2) includes Union Territory of Delhi.
(3) includes Goa.
(4) includes Pondicherry

Table 9

DISBURSEMENT BY COMPONENTS
(IN US $ MILLION)

COMPONENT	SAR ESTIMATE	ACTUAL	% INCREASE/ DECREASE OVER SAR
A - AGRICULTURE CREDIT REVIEW	3.5	2.3	-34
B - SCHEMATIC LENDING	340.0	350.0	3
C - PILOT PROJECT	25.0	12.0	-52
D - TRAINING	6.5	10.7	65
TOTAL	375.0	375.0	0

NOTE: A, C AND D ARE GRANTS.

Table 10

Schedule of Cumulative Disbursements
(US$ million)

IBRD/IDA FY & Semester	SAR Estimate	Actual	% of Act to SAR Est.	Profile /a
FY 87				
1	103.5	100.0	97%	0.0
2	109.0	101.3	93%	11.3
FY 88				
1	196.0	255.9	131%	67.5
2	204.0	259.7	127%	112.5
FY 89				
1	290.0	313.4	108%	157.5
2	293.5	315.6	108%	232.5
FY 90				
1	375.0	366.7	98%	307.5
2		369.1	98%	345.0
FY 91				
1		372.7	99%	360.0
2		375.0	100%	371.3

Notes :

1. Effective date : September 16, 1986.

2. Original closing Date is December 31, 1989/
Revised closing Date is June 30, 1991.

/a For Indian IDF projects; from COD April 1990 Standard Disbursement Profiles.

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Table 11

DISBURSEMENT PROFILE - YEARWISE

US $ MILLION

REMARKS	86/87	87/88	88/89	89/90	90/91	TOTAL
APPRAISAL ESTIMATE	109.00	95.00	89.50	81.50		375.00
I REVISED ESTIMATE	105.00	162.00	58.00	50.00		375.00
II REVISED ESTIMATE	103.93	156.11	56.21	55.75	3.00	375.00
ACTUAL	101.30	158.40	55.90	53.50	5.90	375.00

Table 12

PROJECT BENEFITS

PARTICULARS	UNIT	SAR ESTIMATE	ACTUAL	% INCREASE/ DECREASE OVER SAR
1. INCREASE IN FOODGRAINS PRODUCTION	MILLION TONNES	4.35	2.21	-49
2. INCREASE IN OILSEEDS PRODUCTION	MILLION TONNES	0.45	0.51	13
3. INCREASE IN SUGARCANE PRODUCTION	MILLION TONNES	6.45	3.80	-41
4. INCREASE IN COTTON PRODUCTION	MILLION TONNES	0.30	0.33	10
5. SMALL FARMERS BENEFITTED	%	60.00	88.00	47
6. CONSTRUCTION EMPLOYMENT	MILLION MANDAYS	375.00	172.00	-54
7. PERMANENT EMPLOYMENT	MILLION MANDAYS	350.00	523.00	49
8. BENEFICIARIES	NO.	5.00	6.00	20

SOURCE: NABARD'S EX-POST EVALUATION STUDIES.

Table 13
Page 1

FINANCIAL AND ECONOMIC RATES OF RETURNS- SAR ESTIMATES AND ACTUALS
(Selected investments)

State/District	Investment	Annual Incremental Income $ (Rs)	FRR (%)	ERR (%)	Remarks
A. Estimates: Staff Appraisal Report (SAR)					
. Maharashtra/ holapur & hmednagar	Dugwell with Electric Pumpset	6,300	25/20*	8**	* without subsidy. ** investment cost includes connection charges of Rs.19,000
. Tamil Nadu/ adurai	Coffee Plantation	30,000	23*	41	$ At full development stage
. Tamil Nadu/ hanjavur	Tractor	38,300	35*	33	
4. Uttar Pradesh/ -	Dairy	6,100	42/31*	17	
B. Actual: Ex-post Evaluation Studies					
1. Karnataka/ Chitradurga & Kolar	Bore well with submersible pumpset	12,513@	27@	9@@	@ excluding family labour in cost of cultivation @@ includes pumpset energisation cost of Rs.11,818
2. Tamil Nadu/ Nilgiris	Tea # Plantation	5,190	17	32	# per acre of tea garden
3. Madhya Pradesh/ Raisen & Vidisha	Tractor	40237	32@	36@	@ Excludes family labour as cost.
4. Orissa/ Cuttack & Ganjam	Cross-bred Cows-2	2029	17@	13@	@Excludes family labour as cost.
5. Maharashtra/ Ahmednagar	Lift Irrigation	14,81,000	46@	52@	@Excludes family labour as cost. Includes energisation cost.

Table 13
Page 2

Economic Prices / Conversion Factors Used for Economic Analysis

Investment\ Item of Investment	Economic Price/ (Conversion Factor)	Remarks
1. Tea Plantation		
a) Tea leaves	(1.6)	Ratio of tea prices in international market to domestic prices during reference year of study (1988-89)
b) Fertilizers	(1.28)	Ratio of import parity prices of urea (Rs.2998 per tonne) to domestic prices (Rs. 2350 per tonne) during 1988-89.
c) Soil Conservation and land development, standard construction, etc.	(0.8)	Major component of the cost is likely to be the wages and considering limited prospects for alternative employment, the cost is adjusted by 0.8
2. Bore wells and Lift irrigation	(Rs. per Quintal)	
a)Maize	134	Economic prices for reference year of study (1986-87) as used by the World Bank for appraisal of National Seeds Project III.These refer to values at international prices for commodities traded internationally and at farm gate prices for commodities not traded internationally.
b)Jowar	132	
c)Paddy	211	
d)Groundnut	352	
e)Wheat	221	
f)Bajra	130	
g)Sugarcane	(1.6)	Actual prices of sugar in international market are usually much higher than the prices of sugar worked out on the basis of the minimum statutory prices fixed by the Govt. This rationale was used for generating the conversion factor .
h) Fertilizers and manures	(1.0)	Ratio of import parity prices of urea (Rs.2298 per tonne) to domestic prices (Rs. 2350 per tonne) during 1986-87.
h) Energy charges	(1.4)	Adjustment made to account for subsidy by Govt.
i)Pumpset and Pipes	(0.8)	Adjusted for excise duty and sales tax.

Table 13
Page 3

Jairy Development		
i) Cross-bred Cow	(1.0)	Domestic prices are assumed to reflect international prices.
ii) Milk, animal feed and fodder	(0.8)	Considering non-tradeable nature of the commodities, the market prices have been suitab adjusted.
D) Farm Mechanisation		
i)Tractor and accessories	(0.8)	Adjusted for excise duty and sales tax.
ii)Diesel	(1.4)	Adjustment made to account for subsidy.

Notes

i) Interest on short term loans, rent on leased in land, road tax.insurance premium for tractors etc., were excluded while computing the cost of cultivation to be used in ERR since th_se were in the nature of transfer payments.
ii) Wages for unskilled labour and bullock labour charges were adjusted by a factor of 0.8 since prospects for their employment elsewhere are of limited nature.
iii) Value of manures and pesticides adjusted by using conversion coefficient for fertilizers.
iv) Farm gate prices used for commodities like pulses and oilseeds.

Table 14

Mission Data

Type of Mission	Date (Mo./Yr.)	By	No. of Persons	Mandays in Field	Special-ization a/	Performance Rating	Trend	Type of Problems b/
Preparation		NABARD						
Appraisal	12/84	BRD						
Supervision								
1	4/86		1	27	F	2	n.a.	M(staffing)
2	8/86		1	19	F	2	n.a.	-
3	11/86		1	20	F	2	n.a.	T
4	3/87		1	2	F	2	n.a.	T
5	10/87		1	15	F	2	n.a.	T
6	2/88		1	3	F	2	n.a.	T
7	7/88		1	8	F	2	n.a.	T
8	8/89		3	5	E,E,F	3	n.a.	T
9	4/90		4	5	E,E,I,F	4	n.a.	T
10	12/90		2	5	E,E	4	n.a.	T
Completion	1/92	BRD	2	5	E,E			

a/ F = Financial Analyst, E = Economist, I = Irrigation Engineer
b/ M = Managerial, T = Technical
n.a. = not available

Table 15

Staff Inputs

Staff Inputs Undiscounted (SWS)

Stage of Project Cycle	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	Totals
Identification/Preparation	18.1	21.1	36.5	30.9								106.6
Appraisal				60.1								60.1
Negotiations				2.2	20.7							22.9
Lending Operations			1.6	19.0	5.6							26.2
Supervision					19.4	54.6	90.9	21.6	29.6	6.6		222.7
Project Completion											8.9	8.9
Project Administration		1.4				0.8						2.2
Totals	18.1	22.5	38.1	112.2	45.7	55.4	90.9	21.6	29.6	6.6	8.9	449.6

As of 4/8/92

Table 16
Page 1 of 5

Status of Covenants

Section	Summary Description	Type	Original Compliance Date	Revised Compliance Date	Level of Compliance	Remarks
LA.3.02	Borrower shall relend $340 M to NABARD under SLA satisfactory to Bank and include terms and conditions as per SCH.3 of Loan Agreement.	FIN	/ /	/ /	1	
LA.3.04	Borrower shall establish a Senior Experts Group (SEG)	ORG	/ /	/ /	1	
LA.3.05	Borrower shall employ consultants to carry out studies related to Agr. Credit System.	STD	/ /	/ /	1	
LA.3.08	Borrower shall maintain a Secretariat for SEG and consultants.	ORG	/ /	/ /	1	
LA.4.01-4.03	Borrower shall maintain separate accounts for Part A of project (SEG & Consultant Studies) & furnish not later than 6 months after each FY, audited accounts, including separate audit opinion on Bank disbursement made on basis of SOEs.	ADT	/ /	/ /	1	Received for Fiscal Year ending 3/31/89.
LA.SCH.1.3(a)	Disbursement of 1st Tranche (US$100 M) was subject to (1) employment of 4 of the 7 SEG members, and (2) adoption of eligibility criteria by NABARD as per SCH.2 of Project Agreement.	FIN	/ /	/ /	1	First tranche for US$100 disbursed in December 1986.
LA.SCH.1.3(b)	Disbursement of 2nd Tranche (US$80M),12 months after disbursement of 1st Tranche, was subject to (1) employment of remaining 3 SEG members, and (2) receipt of draft reports of 2 of 5 consult studies.	FIN	/ /	12/01/87	1	Second tranche increased to US$ 150 M and disbursed in December 1987.
LA.SCH.1.3(c)	Disbursement of 3rd Tranche (US$ 80 M), 24 months after disbursement of 1st Tranche, was subject to receipt of the final version of 4 consultant studies.	FIN	/ /	12/01/88	1	Third tranche reduced to US$ 50 million and disbursed in February 1989.
LA.SCH.1.3(d)	Disbursement of 4th Tranche (US$ 80 M), 36 months after disbursement of 1st Tranche, is subject to receipt of the final version of all 5 consultant studies and the SEG report.	FIN	/ /	12/01/89	1	Fourth tranche reduced to US$ 50 million and disbursed in December 1989.

Section	Summary Description	Type	Original Compliance Date	Revised Compliance Date	Level of Compliance	Remarks
PA.2.03	Loans made to participating banks shall be refinanced by NABARD only where such a bank shall have satisfied eligibility criteria as per SCH.2, Project Agreement.	FIN	07/01/86	/ /	3	In a dispute with the World Bank. NABARD procedures exempt refinance for non-farm sector & ISB portion of IRDP from the calculation of eligibility criteria. Such loans account for 22% of the total refinance program.
PA.2.09(a)	For purpose of monitoring & reviewing IRDP lending, NABARD shall establish & maintain a Task Force, chaired by NABARD & comprising representatives from selected banks.	ORG	06/30/86	/ /	2	Though complied with in a formal sense, NABARD has limited ability to overcome political & other pressures which affect IRDP lending. Therefore, despite some reported improvements, the implementation of these covenants is having only a partial (cont d)
PA.2.09(a)contd.			/ /	/ /		impact on quality of IRDP lending.
PA.2.09(b)	For purpose of monitoring & reviewing IRDP lending, NABARD shall establish & maintain an IRDP Planning & Review Group with adequate officers at each of its regional offices.	ORG	06/30/86	/ /	2	As above.
PA.2.09(c)	For purpose of monitoring & reviewing IRDP lending, NABARD shall establish & maintain a Cell at its HQ responsible to coordinate IRDP monitoring.	MAN	06/30/86	/ /	2	As above.
PA.2.09(d)	Each Fiscal Year carry out (district oriented monitoring) studies on IRDP operations and furnish the results of such studies to the Bank.	STD	/ /	/ /	2	As above.
PA.2.10	NABARD to prepare and furnish to the Bank evaluation reports on carrying out of Part C of the project - first evaluation report by Oct.1'86 & second evaluation report by Oct.1'88.	RPT	/ /	/ /	2	Both reports submitted, but late; the first in 1988 and the second in 1990.

Table 16
Page 3 of 5

Section	Summary Description	Type	Original Compliance Date	Revised Compliance Date	Level of Compliance	Remarks
FA.2.11	NABARD shall furnish annually up-to-date assessments of lending potential for irrigation schemes from State groundwater organizations.	ORG	06/30/86	/ /	2	NABARD has generally provided inadequate data on this, although according to NABARD a full assessment of ground-water potential is undertaken on a case-by-case basis at the time of approval of each scheme. Better (and acceptable) data were (cont d)
FA.2.11 (Contd.)			/ /	/ /		provided to 1990 supervision mission.
FA.2.12(a)	Employ qualified staff for implementation of rehabilitation programs for LDBs in Bihar, Gujarat, J&K, Karnataka, MP, Maharashtra, Rajasthan, Tripura, Tamil Nadu and West Bengal.	MAN	06/30/86	/ /	2	NABARD has assigned staff & procedures. However, NABARD s impact on overall improvement of LDBs will be substantially less than SAR expectations.A long term sustainable solution for LDBs is needed as part of overall reform of agricultural credit.
FA.2.12(b)	Furnish Bank rehabilitation programs for each of LDBs referred to above.	ORG	08/31/86	/ /	2	As above.
FA.2.13(b)	Apply guidelines satisfactory to Bank for strengthening financial position of LDB branches & PLDBs which fall in fourth category of eligibility criteria.	ORG	/ /	/ /	2	As above.
FA.2.14(a)	Apply guidelines satisfactory to Bank for providing temporary staff assistance to aid recovery & rehabilitation of LDB branches & PLDBs which fall in Category IV of eligibility criteria.	MAN	/ /	/ /	2	As above.
FA.2.15	NABARD shall furnish the Bank quarterly progress reports within 3 months of the end of each reporting period.	RPT	09/30/86	/ /	2	As agreed with previous supervision missions, NABARD is submitting reports on a half-yearly basis.
FA.2.16	NABARD shall apply guidelines satisfactory to Bank for M&E of credit operations under refinancing program.	ORG	/ /	/ /	2	While formally complied with, the implementation of this covenant is not having the intended impact on the quality of ag. credit.

Table 16
Page 4 of 5

Section	Summary Description	Type	Original Compliance Date	Revised Compliance Date	Level of Compliance	Remarks
PA.2.17(a)	NABARD shall implement an agreed training program for: selected Branch Managers of about 10 LDBs, about 20 RBs and about 5 CBs.	MAN	07/01/86	/ /	1	
PA.2.17(b)	NABARD shall implement an agreed training program for: NABARD's staff and participating Bank's staff in rural banking.	MAN	07/01/86	/ /	1	
PA.3.04	[To improve LDB/PLDBs] implement a plan satisfactory to the Bank to staff its regional offices & its IDD Department with qualified specialists in adequate numbers.	MAN	/ /	/ /	2	NABARD has assigned staff & procedures. However, NABARD's impact on overall improvement of LDB/PLDBs will be substantially less than SAR expectations. A long term sustainable solution for LDBs is needed as part of overall reform of agriculture credit.
PA.4.01(b)	NABARD shall furnish to the Bank, not later than 4 months after end of each FY certified copies of its annual audited financial statements.	ADT	/ /	/ /	1	Received for FY ending 3/31/90.
PA.4.01(c)	Annual Audit Report containing separate opinion by Auditors as to whether withdrawals made on basis of SOEs were utilized for purposes for which they were provided.	ADT	/ /	/ /	1	Received for FY ending 3/31/90.
PA.4.02	NABARD shall furnish to the bank, at the beginning of each fiscal year, its detailed refinancing program for the FY.	FIN	/ /	/ /	1	
PA.4.03	NABARD shall take all actions incl. suspension of financing operation to enforce its major recommendation on those participating banks (except CBs) which after 1 year have not satisfactorily complied with NABARD's major recommendations.	ORG	/ /	/ /	2	Apart from exercising the leverage of withholding refinance through eligibility criteria, NABARD has limited ability to withhold its finance to banks which do not comply with its recommendations resulting from inspections, rehabilitation (contd.)
PA.4.03 Contd.			/ /	/ /		studies, etc. However, during 1989 NABARD did temporarily withhold its finance to some state coop banks because of disputes over the banks' compliance with NABARD directives.

Table 16
Page 5 of 5

Section	Summary Description	Type	Original Compliance Date	Revised Compliance Date	Level of Compliance	Remarks
FA.SCH.1	This schedule describes terms and conditions for the NABARD Refinance Program.	ORG	/ /	/ /	2	Items in this Schedule were designed to insure that the NABARD Refinance Program promoted goals of effective credit delivery & recovery based on a sound financial analysis of proposed investments. (Contd.)
FA.SCH.1 (Cont'd)			/ /	/ /		While generally the conditions have been complied with in a formal sense, the objective of the Schedule has not been achieved.

Codes for Level of Compliance
1 - Fully complied
2 - Partially complied - not affecting implementation
3 - Non Compliance
4 - Not yet due
5 - Covenant no longer applicable - should be deleted/modified
6 - Compliance date requires revision
A1 - Audit 1 year over due
A2 - Audit 2 or more years over due

Codes for Type of Covenant
ADT - Audit
FIN - Financial
RPT - Reporting
TCH - Technical
STD - Studies
CRY - Cost Recovery
ORG - Organisational
MAN - Management & Staffing

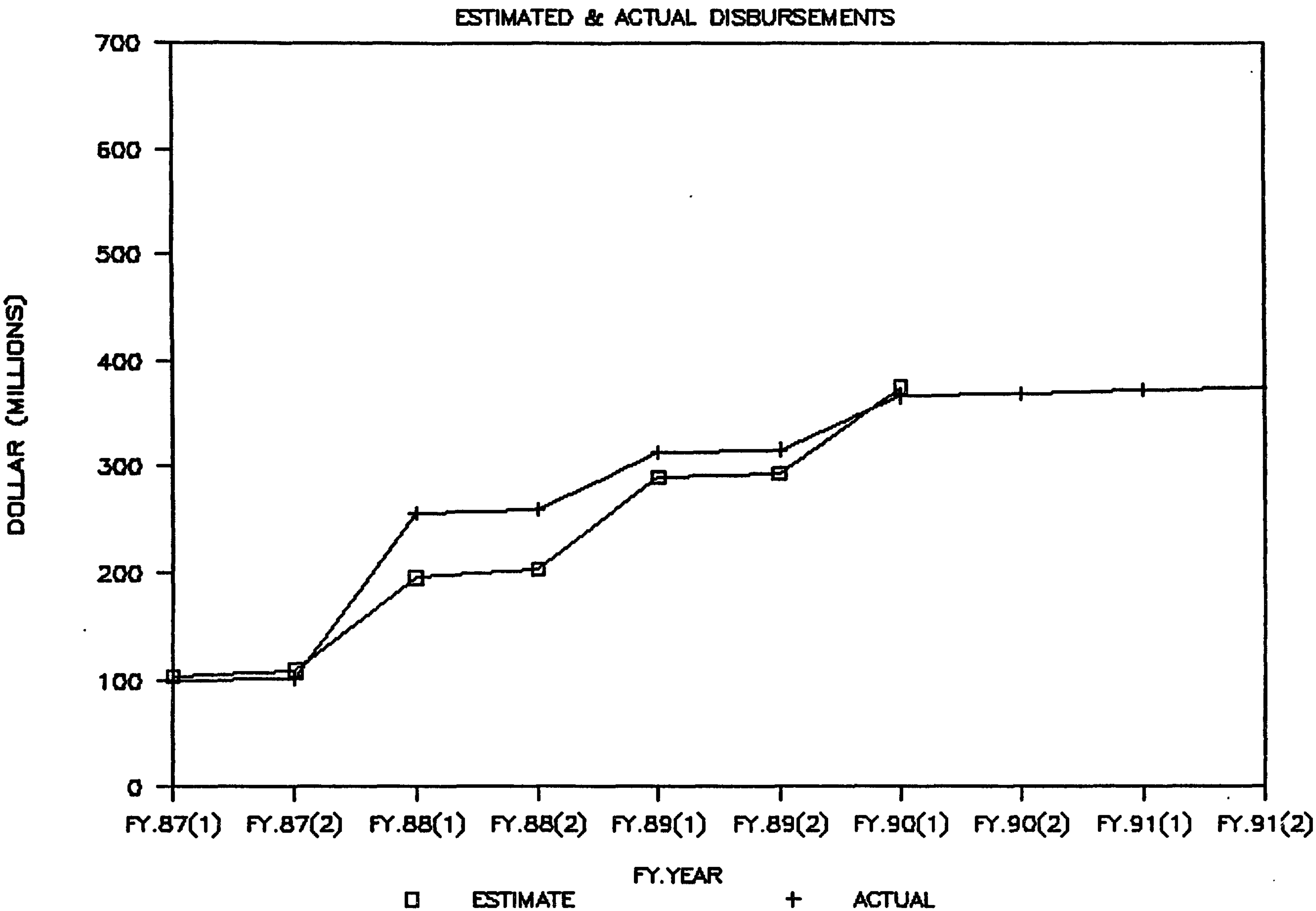
ESTIMATED & ACTUAL DISBURSEMENTS
DOLLAR (MILLIONS)
700
600
500
400
300
200
100
0
FY.87(1)
FY.87(2)
FY.88(1)
FY.88(2)
FY.89(1)
FY.89(2)
FY.90(1)
FY.90(2)
FY.91(1)
FY.91(2)
FY.YEAR
ESTIMATE
ACTUAL

CHART 1