Document of
The World Bank

Report No: ICR No 00002981

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(Loan No 48620 / Credit No 43380)

ON A

LOAN

IN THE AMOUNT OF USD 300 MILLION

AND A

CREDIT

IN THE AMOUNT OF SDR 196.8 MILLION
(USD 300 MILLION EQUIVALENT)

TO THE REPUBLIC OF INDIA

FOR A

STRENGTHENING INDIA'S RURAL CREDIT COOPERATIVES PROJECT

December 27, 2013

Finance and Private Sector Development Unit
India Country Management Unit
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate at Closing on June 30, 2013)

Currency Unit = Rupees (Rs)
Rs 59.7 = USD 1.00
USD 1.00 = SDR 1.503960

FISCAL YEAR

April 1 – March 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
APL	Adaptable Program Loan
BIRD	Bankers Institute of Rural Development
BS	Business Correspondent
CAS	Common Accounting System
CBS	Core Banking Solution
CCB	Credit Cooperative Bank
CDF	Cooperative Development Fund
C-PEC	Center for Professional Excellence in Cooperatives
CPS	Country Partnership Strategy
CRAR	Capital to Risk Assets Ratio
CSA	Cooperative Societies Act
DCCB	District Central Cooperative Bank
DLIC	District Level Implementation and Monitoring Committee
DPL	Development Policy Loan
ESW	Economic Sector Work
FRR	Financial Internal Rate of Return
FRS	Financial Restructuring Support
FM	Financial Management
GoI	Government of India
GTZ/GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HR	Human Resource
ICA	International Cooperative Alliance
ICM	Institutes of Cooperative Management
ISR	Implementation Support and Results Report
ISDS	Integrated Safeguards Data Sheet
IUFR	Interim Unaudited Financial Report
KPI	Key Performance Indicator
M&E	Monitoring and Evaluation
MFI	Micro Finance Institution
MIS	Management Information System
MOU	Memorandum of Understanding
MTR	Mid-Term Review

NABARD	National Bank for Agriculture and Rural Development
NAFSCOB	National Federation of State Cooperative Banks Ltd.
NIMC	National-level Implementation and Monitoring Committee
NPV	Net Present Value
OCR	Operations Committee Review
PACS	Primary Agricultural Credit Society
PAD	Project Appraisal Document
PDO	Project Development Objectives
POS	Point of Sale
PS	Participating State/s
QER	Quality Enhancement Review
RBI	Reserve Bank of India
RCS	Registrar of Cooperative Societies
RICM	Regional Institutes of Cooperative Management
ROA	Return on Asset
RRB	Regional Rural Bank
RFI	Rural Finance Institution
SCB	State Cooperative Bank
SIL	Specific Investment Loan
SLIC	State Level Implementation and Monitoring Committee
SOE	Statement of Expenditure
ST CCS	Short-Term rural Cooperative Credit System
SWAp	Sector-Wide Approach
TA	Technical Assistance
TOR	Terms of Reference
UP	Uttar Pradesh
UT	Union Territory

Vice President:	Philippe Le Houerou
Country Director:	Onno Ruhl
Sector Director/Manager:	Sujata Nitin Lamba/Henry K. Bagazonzya
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ICR Team Leader:	Niraj Verma/Shiori Onishi

INDIA

STRENGTHENING INDIA'S RURAL CREDIT COOPERATIVES PROJECT

CONTENTS

A. Basic Information			
Country:	India	Project Name:	Strengthening India's Rural Credit Cooperatives
Project ID:	P102768	L/C/TF Number(s):	IBRD-48620,IDA-43380
ICR Date:	11/11/2013	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	GOVERNMENT OF INDIA
Original Total Commitment:	USD 600.00M	Disbursed Amount:	USD 417.28M
Revised Amount:	USD 416.06M		
Environmental Category: F			
Implementing Agencies: The National Bank for Agriculture and Rural Development (NABARD)			
Cofinanciers and Other External Partners: Asian Development Bank (ADB), KFW, GIZ			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	11/02/2006	Effectiveness:	12/31/2007	12/31/2007
Appraisal:	03/29/2007	Restructuring(s):		05/18/2011 06/21/2012 06/25/2013
Approval:	06/26/2007	Mid-term Review:	01/11/2010	01/22/2010
		Closing:	06/30/2012	06/30/2013

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Banking	60	60
General finance sector	20	20
Microfinance	20	20
Theme Code (as % of total Bank financing)		
Corporate governance	14	14
Financial Consumer Protection and Financial Literacy	29	29
International financial standards and systems	14	14
Rural non-farm income generation	14	14
Rural policies and institutions	29	29

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Praful C. Patel
Country Director:	Onno Ruhl	Sadiq Ahmed
Sector Manager:	Henry K Bagazonzya	Simon C. Bell
Project Team Leader:	Niraj Verma	Priya Basu
ICR Team Leaders:	Niraj Verma/Shiori Onishi	
ICR Primary Author:	Shiori Onishi	
	Ilka Funke	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document**)**
The PDO was to assist in providing CCBs' members, including small and marginal farmers, with significantly enhanced access to formal finance (credit, savings, etc.), by ensuring that the potentially viable CCBs in the participating states are transformed into efficient and commercially sustainable institutions.

Revised Project Development Objectives (as approved by original approving authority)
The PDO was not revised.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Annual percent increase in recovery rates of ST CCS in Participating States (PS)			
Value quantitative or Qualitative)	64% for PACS, 71.2% for DCCBs, 83.5% for SCBs	5-10% per year	NA	(A) SCB: Gujarat 100%, Haryana 100%, Odisha 96%, UP 96%, West Bengal (WB) 75.4%; (B) DCCB: Gujarat 87.6%, Haryana 71.1%, Odisha 68.4%, UP 60.2%, WB 84.5%; (C)PACS: Gujarat 72.0%, Haryana 67.6%, Odisha 66.7%, Uttar Pradesh (UP) N.A., WB 64.5%
Date achieved	03/31/2005	06/30/2007		06/30/2012
Comments (incl. % achievement)	Baseline set at appraisal was a country-wide average, as PS for the project had not been identified. Figures of each PS are detailed in the ICR annexes. SCBs achieved close to 100% recovery rates except West Bengal. DCCBs on average improved recovery rates except Haryana. Results are mixed at PACS level.			
Indicator 2 :	Annual percent increase in ground-level financing (credit) extended by ST CCS			
Value quantitative or Qualitative)	USD 31 billion	Increase of at least 70 percent by the end of the project period	NA	Increase in loan issuance: Overall for PS 96%
Date achieved	03/31/2005	06/30/2007		03/31/2012
Comments (incl. % achievement)	Indicator in each state: Gujarat 70%, Haryana 63%, Odisha 203%, UP 125%, WB 109%. Overall 96% which is 137% of the targeted disbursement level. The baseline figure set at the appraisal stage was a country-wide amount, as the PS for the project had not yet been identified. Therefore, the end target shows a rate of increase in each PS compared to the baseline for the PS in March 2005. Absolute figures of each PS are presented in the ICR annexes. Just in 2011-12, USD6.7 billion of credit was disbursed in the PS.			

Indicator 3 :	Rapid upward trend in number of small and marginal farmers that receive credit from ST CCS			
Value quantitative or Qualitative)	14,808,000	Increase of 50 percent over the project life	NA	Overall for PS 66%
Date achieved	03/31/2005	06/30/2007		03/31/2012
Comments (incl. % achievement)	Indicator in each state: Gujarat 23%, Haryana 63%, Odisha 122%, UP 77%, WB 19%. The baseline figure set at the appraisal stage was a country-wide amount, as the PS for the project had not yet been identified. Therefore, the end target shows a rate of increase in each PS compared to the baseline for the PS in March 2005. Absolute figures of each PS are presented in the ICR annexes. From a base of 4.3 million, the coverage increased to 7.4 million small and marginal farmer borrowers in the PS (out of a total of 11.3 million farmer borrowers in the PS). Achievement was 132% of the targeted level.			
Indicator 4 :	Increase in the profitability (ROA) of at least 2/3 of participating ST CCS in the PS by the end of the project period			
Value quantitative or Qualitative)	DCCBs -0.01%, SCBs 0.7%	1%	DCCBs 0.5%, SCBs 0.8%	(A) SCB ROA: Gujarat 0.24%, Haryana 0.31%, Odisha 0.14%, UP 0.37%, WB -0.44%, (B) % of DCCBs with ROA>0.5%: Gujarat 28%, Haryana 0%, Odisha 29%, UP 30%, WB 18%
Date achieved	03/31/2005	06/30/2007	05/18/2011	03/31/2012
Comments (incl. % achievement)	SCBs did not meet the ROA target (0.8%). Some DCCBs achieved the ROA target (0.5%), but others still face low or declining ROA. That said most (76%) DCCBs in PS are profitable.			
Indicator 5 :	Elections held in participating ST CCS on regular basis (whenever due)			
Value quantitative or Qualitative)	Mostly no elections	100% of ST CCS	NA	100% of ST CCS
Date achieved	03/31/2005	06/30/2007		06/30/2013
Comments (incl. % achievement)	After passing of the CSAs, elections were held in all states. In Odisha, boards were temporarily superseded when the 97th constitutional amendment required that disadvantaged and women be part of the boards. Actions are being taken to resume elections.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Component 1 (i): Capacity building for the Institutes of Cooperative Management's and the Junior Training Centers' faculty to design and deliver basic training modules for the ST CCS is implemented according to the plan			
Value (quantitative or Qualitative)	0%	100%	NA	100%

Date achieved	06/30/2007	06/30/2007		06/30/2013
Comments (incl. % achievement)	Training was implemented as per plan, and about 1,800 trainers received training through BIRD and accredited regional institutes.			
Indicator 2 :	Component 1 (ii): A member education strategy for selected PACS' members is developed and implemented according to the plan			
Value (quantitative or Qualitative)	0%	100%	NA	40%
Date achieved	06/30/2007	06/30/2007		06/30/2013
Comments (incl. % achievement)	Efforts and initiatives were undertaken to prepare materials for member education in some of the PS, and the training included modules to train the Board.			
Indicator 3 :	Component 1 (iii): Training and capacity building for participating ST CCS to strengthen their ability to comply with the new regulatory framework, as well as their managerial, operational and technical capabilities is implemented according to the TA plan.			
Value (quantitative or Qualitative)	0%	100%	NA	100%
Date achieved	06/30/2007	06/30/2007		06/30/2013
Comments (incl. % achievement)	Nine core modules were developed by NABARD to strengthen ST CCS's capacity, and approximately 110,000 ST CCS functionaries received training.			
Indicator 4 :	Component 2 (i): New IT platform is installed in the PS			
Value (quantitative or Qualitative)	0%	100%	NA	325 PACS in Haryana were provided hardware in phase I, and master and data creation completed in 228 PACS
Date achieved	06/30/2007	06/30/2007		06/30/2013
Comments (incl. % achievement)	The implementation was to be done towards the end of the project so that PACS could first get familiar with the common accounting system. By then, the GoI however closed the revival package, and the procurement and further roll-out stalled.			
Indicator 5 :	Component 2 (ii): Participating ST CCS in all PS migrate to the new CAS within 3 years from the date on which the MoU was signed			
Value (quantitative or Qualitative)	0%	100%	NA	100%
Date achieved	06/30/2007	06/30/2007		06/30/2013
Comments (incl. % achievement)	The CAS has been rolled-out in all PACS, and most PACS are using the full range of manuals required under the CAS.			
Indicator 6 :	Component 2 (iii): Participating ST CCS implement the new MIS within 3 years from the date of the first flow of funds to the PS			
Value (quantitative or Qualitative)	0%	100%	NA	40%

Date achieved	06/30/2007	06/30/2007		06/30/2013
Comments (incl. % achievement)	Only a few PACS and not all DCCBs are using the full MIS. PACS are still absorbing the shift into double accounting under CAS, and only gradually comprehend the importance of MIS.			
Indicator 7 :	Component 3 (i): All ST CCS deemed eligible for FRS as per the pre-determined criteria receive recapitalization support upon the achievement of pre-agreed benchmarks			
Value (quantitative or Qualitative)	0%	100%	NA	65%
Date achieved	03/31/2005	06/30/2007		06/30/2013
Comments (incl. % achievement)	About 65% of the total actual accumulated losses were disbursed to 5 states.			
Indicator 8 :	Component 3 (ii): Increase in CRARs for at least 2/3 of the participating ST CCS in the PS			
Value (quantitative or Qualitative)	PACS negative, DCCBs -2.0%, SCBs 2.1%	PACS 9%, DCCBs/SCBs regulators' target rate	NA	(A) SCB CRAR: Gujarat 8.33%, Haryana 9.37%, Odisha 8.12%, UP 14.69%, WB 3.00% (4.54% in March 2013), (B) % of DCCBs with CRAR>4.0%: Gujarat 100%, Haryana 95%, Odisha 65%, UP 55%, WB 76%
Date achieved	03/31/2005	06/30/2007		03/31/2012
Comments (incl. % achievement)	The regulators' target rate was 7% at appraisal, but then changed to 4%, with a phased strengthening approach. SCBs met 4% of CRAR by March 2012 (March 2013 in West Bengal). More than 2/3rd of PS DCCBs met the target of 4% (UP performance was lower at 55% of DCCBs). More than 60% of PS' DCCBs also surpassed 7% CRAR.			
Indicator 9 :	Component 4 (i): Implementation capacity of NABARD and of the SLICs, DLICs, and RCS in PS is strengthened, as necessary			
Value (quantitative or Qualitative)	0%	100%	NA	100%
Date achieved	03/31/2005	06/30/2007		06/30/2013
Comments (incl. % achievement)	Capacity has been strengthened for the expected role/activities during project implementation.			
Indicator 10 :	Component 4 (ii): Agreed M&E framework is developed and implemented			
Value (quantitative or Qualitative)	0%	100%	NA	70%
Date achieved	03/31/2005	06/30/2007		06/30/2013
Comments (incl. % achievement)	Key Project Indicators were captured throughout the project period, while the approved output indicators were only partially tracked. Impact studies were conducted, though they did not fully cover what the PAD stipulated (i.e. long-term impacts on livelihoods at household level, using control and treatment group, and periodical surveys).			

Indicator 11 :	Component 4 (iii): A communications and dissemination strategy is prepared and implemented			
Value (quantitative or Qualitative)	0%	100%	NA	80%
Date achieved	03/31/2005	06/30/2007		06/30/2013
Comments (incl. % achievement)	Continuous efforts were made to disseminate the achievements of the program through exposure visits to ST CCS, as well as webpage and publications by NABARD. A holistic strategy could have been developed to reach out to all stakeholders, including PACS members.			

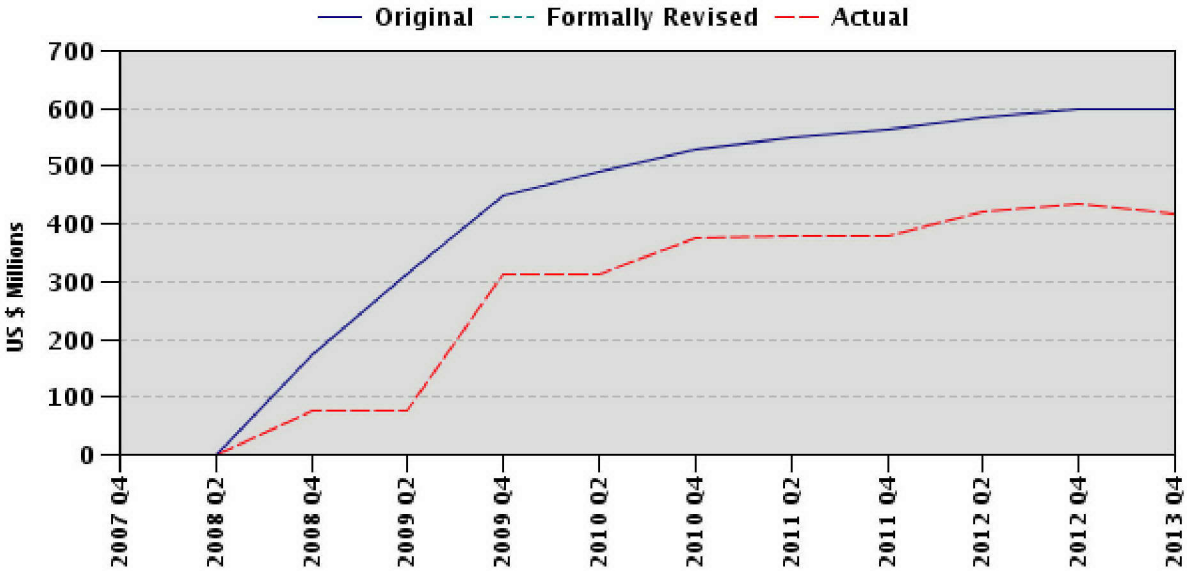
G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/18/2007	Satisfactory	Satisfactory	0.00
2	06/25/2008	Satisfactory	Satisfactory	75.00
3	12/22/2008	Satisfactory	Satisfactory	75.00
4	06/19/2009	Moderately Satisfactory	Satisfactory	314.75
5	01/03/2010	Moderately Satisfactory	Satisfactory	314.75
6	04/19/2010	Moderately Satisfactory	Satisfactory	376.50
7	12/01/2010	Moderately Satisfactory	Satisfactory	376.50
8	07/06/2011	Moderately Satisfactory	Satisfactory	380.29
9	03/24/2012	Moderately Satisfactory	Satisfactory	422.18
10	10/16/2012	Moderately Satisfactory	Moderately Satisfactory	436.69
11	02/05/2013	Moderately Unsatisfactory	Moderately Unsatisfactory	436.69
12	06/22/2013	Moderately Satisfactory	Moderately Satisfactory	436.69

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
05/18/2011	N	MS	S	380.29	1. The target rates for the PDO indicator on returns on assets were formally revised from 1% to 0.5% for DCCBs, and to 0.8% for SCBs. 2. USD60 million were formally transferred from component 2 (implementation of IT) to component 3 (capitalization support)
06/21/2012		MS	S	436.69	The project closing date was formally extended for one year, from June 30, 2012 to June 30, 2013
06/25/2013		MS	MS	416.53	A balance of IDA credit (USD20m) was cancelled.

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. **Country and sector background.** The project was prepared at a time when India recorded unprecedented economic growth, yet ending poverty remained a central challenge. India's economic growth had averaged above eight percent a year since 2003 with inflation rate at 3-4 percent, but about 270 million Indians still lived on less than a dollar a day, particularly in rural areas. The Government of India (GoI) viewed a well-functioning financial sector as a primary pillar of sustaining growth and alleviating rural poverty, and had introduced a range of financial sector reforms since the early 1990s.

2. While financial sector reforms improved financial services for the middle-class, rural areas still had limited access to formal finance. The Bank's Economic Sector Work (ESW) in 2004 indicated that rural households – particularly small and marginal farmers – often had low access to deposit accounts and to credit from formal sources.[1] Lack of formal finance meant that small and marginal farmers had to rely heavily on high cost credit from moneylenders, often with adverse consequences. Such informal financiers were spread very widely across the country, and improving access to finance for India's rural poor through flexible products presented a formidable challenge in a country as vast and varied as India.

3. **Government response.** Reforms of rural finance sector had emerged as a key development priority for GoI. The country's strategy for the sector had three major pillars: (i) increasing competition amongst commercial banks, Regional Rural Banks (RRBs), cooperative credit institutions, and microfinance institutions (MFIs); (ii) developing products for the better management and mitigation of risks in rural finance; and (iii) reforming Rural Finance Institutions (RFIs). Under the third pillar, the focus was on short-term rural Cooperative Credit System (ST CCS), which has the largest network among all types of RFIs in India. The ST CCS, with its three-tier structure, had 108,779 Primary Agricultural Credit Societies (PACS), 367 District Central Cooperative Banks (DCCB), and 31 State Cooperative Banks (SCBs) as of March 2005.[2] With its strong presence in rural areas, the system played an important role in providing credit to marginalized farmers. However, it suffered from poor governance, inadequate management, and weak regulation and supervision arising from dual control by both state governments and financial sector regulators/supervisors.

4. Recognizing the strong potential role of the ST CCS to serve the financial needs of small and marginal farmers, the GoI set up a Task Force on the Revival of Rural Cooperative Credit Institutions in August 2004.[3] While the scale of problems varied across states and tiers, the Task Force identified as the most pressing issue the impairment in governance, management and lending of ST CCS. Problems identified included non-conduct of elections over long periods, supersession of boards, and interference by state governments in administrative and financial decisions, including lending rates.

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[1] "India: Scaling-up access to finance for India's rural poor" (2004), Report No. 30740-IN, Washington D.C., World Bank. Marginal farmers refer to those with less than 1 acre of landholding, and small farmers with 1 to 4 acres.

[2] In the PAD, a term "Credit Cooperative Banks (CCBs)" is also used to refer three-tier institutions: SCB, DCCB, and PACS. PACS constitute the base at the village level; DCCBs the intermediate tier; and SCBs, the apex.

[3] The Task Force was appointed under the chairmanship of Professor A. Vaidyanathan to formulate a practical reform plan to strengthen rural ST CCS. The final report was submitted to the GoI in 2005.

5. Based on the recommendations of the Task Force, the GoI, state governments, and core stakeholders agreed on far-reaching reforms of the ST CCS, particularly on governance. This was especially relevant as the national and state governments had joint responsibility for the supervision and regulation of the sector, and the state governments had deep interests in the sector. As an incentive for reform, the GoI developed a comprehensive assistance package, including a recapitalization grant to transform potentially viable ST CCS into financially and operationally sound institutions with strong governance processes in place. The provision of this package was contingent on a major revision of the state-level legal and regulatory framework, which was detailed in a memorandum of understanding (MOU) between the states, the GoI, and the National Bank for Agriculture and Rural Development (NABARD), and mandated the full adherence to the prudential norms and governance standards set by the Reserve Bank of India (RBI, India's central bank). NABARD was the key implementation agency.

6. The GoI's package covered assistance for: (i) capacity building to strengthen the managerial and technical capabilities of ST CCS; (ii) computerization; (iii) financial restructuring support to bring potentially viable ST CCS to an acceptable level of financial health; and (iv) implementation support. The total cost of the reform package was estimated at Rs13,596 crores (~USD3 billion). Participation by the states was on a voluntary basis to ensure commitment to the reform.

7. **Rationale for Bank involvement.** The GoI requested financial and technical assistance from the Bank and other development partners to support the implementation of its revival package. The Bank was expected to contribute to the program through, among others: (i) bringing best practices and technical expertise, drawing on experience in the reform of credit cooperatives worldwide and on lessons learned from projects in India; and (ii) enhancing the impact of the reforms during the project implementation period; (iii) insulating reforms during implementation; and (iv) be part of a platform of funders supporting the program. The Bank contributed to the program through a Specific Investment Loan (SIL), while some elements of the program, in particular recapitalization and associated conditions, had a nature of Development Policy Loan (DPL). The project's objective was closely aligned with the Bank's India Country Strategy 2004, which included accelerating rural growth under the priority of promoting private sector-led growth.

8. **Engagement by other funders.** The government's revival package also benefited from financing and technical assistance (TA) support from other funders, including the Asian Development Bank (ADB) and KfW Entwicklungsbank (KfW) and TA from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GTZ/GIZ). In December 2006, ADB's board approved a policy based programmatic loan of USD1 billion to five states under the package (distinct from the five participating states, PS, in the Bank project). KfW also approved a policy loan of EUR130 million to be disbursed in parallel with the ADB loan. In addition, GTZ provided TA through NABARD, including the development of a ST CCS training and certification system through establishment of the Center for Professional Excellence in Cooperatives (C-PEC), support to the common accounting system (CAS) for PACS and Management Information System (MIS) for ST CCS, and improvement of ST CCS audit and rating systems.

1.2 Original Project Development Objective (PDO) and Key Indicators (as approved)

9. The PDO was to assist in providing Credit Cooperative Banks (CCBs)' members, including small and marginal farmers, with significantly enhanced access to formal finance (credit, savings, etc.),

by ensuring that the potentially viable CCBs in the participating states are transformed into efficient and commercially sustainable institutions.[4]

10. The Project Appraisal Document (PAD) identified five Key Performance Indicators (KPIs) to measure the expected outcome:

i. At least three-fourths of the participating ST CCS improve recovery rates by 5 to 10 percent a year, over the project period (relative to the baseline);[5]
ii. A rapid and upward trend (increase of 70 percent over the project life) in ground-level financing (credit) extended to farmers through the ST CCS;
iii. A rapid and upward trend in the number of marginal and small farmers who receive credit from the ST CCS (increase of at least 50 percent by the end of the project period, relative to the baseline);
iv. At least two-thirds of the participating ST CCS report increased profitability by the end of the project period (relative to the baseline); and
v. Participating ST CCS publish elections schedules and hold elections on a regular basis (whenever due), over the project period.

1.3 Revised PDO and Key Indicators, and reasons/justification

11. The PDO was not revised.

12. In May 2011, the target rates for the KPI on Return on Assets (ROA) (4th KPI in Section 1.2) were formally revised from 1 percent to 0.5 percent for DCCBs, and to 0.8 percent for SCBs (Level 2 restructuring). This was done to reflect the inherent lower profitability levels which resulted from relatively lower margins available in agricultural finance, together with the higher volatility in agricultural output and prevailing political economy factors (such as the debt waiver scheme in 2008). The new target rates were deemed sufficient for long-term sustainability of the entities.

1.4 Main Beneficiaries

13. The ST CCS comprising SCBs, DCCBs, and PACS, were the institutional forms targeted. The project directly aimed at improving the outreach, viability and governance of the sector over time.
As the ultimate beneficiaries, the project aimed at helping the members of rural cooperative financial institutions to benefit from enhanced access to formal financial services. The focus was particularly on small and marginalized farmers, which rely on the ST CCS for accessing crop loans.

1.5 Original Components (as approved)

14. The project had four components (Estimated Project Costs/Bank Financing at appraisal are

[4] While the PAD's main section (B.2) and Financing Agreement had the same PDO, the datasheet of the PAD included an additional sentence to the PDO: *"The project aimed to support the Government of India's (GoI) program to reform and revitalize the country's rural credit cooperative banks (CCBs), which include State Cooperative Banks (SCBs), District Central Cooperative Banks (DCCBs) and Primary Agricultural Credit Societies (PACS)."*

[5] Recovery rates refer to a percentage of loan recovery (collection) to a total amount due (see also Section 3 for further discussion). These are measured in differing ways – sometimes cumulatively, and sometimes, for the current period.

shown in parentheses; project cost is provided in Annex 1, and detailed component descriptions are provided in Annex 2):

- Component 1. Technical Assistance for Capacity Building (USD25 million/USD20 million): This aimed to build the capabilities of ST CCS in all three tiers to strengthen their ability to comply with the new legal, regulatory and supervisory framework, and improve performance and sustainability.
- Component 2. Support for Implementation of Information Technology (USD100 million/USD80 million): This supported computerization of ST CCS to enhance their efficiency and transparency through enabling the efficient implementation of the new CAS and MIS, and fostering cost efficiencies through facilitating the pooling of costs related to back office transactions.
- Component 3. Support for Financial Restructuring (USD618 million/USD495 million): This supported the financial restructuring of potentially viable ST CCS through recapitalization (grant, not equity) so as to restore the value of members' capital in the ST CCS (that had been eroded through losses), and enhance these institutions' capital to risk weighted assets ratio (CRAR) to 7 percent. Provision of funds under the Financial Restructuring Support (FRS) was linked to the implementation of a set of far-reaching and time-bound legal, regulatory and institutional reforms (benchmark activities) to address the governance and operational weaknesses affecting ST CCS.
- Component 4. Support for Project Implementation (USD7million/USD5million): This provided support for: (i) capacity building for project implementation; (ii) special audits; and (iii) ensuring effective project monitoring and information flows during implementation (including improved disclosure/accountability mechanisms at all levels (central, state, district and village levels).

1.6 Revised Components:

15. The components were not revised.

1.7 Other significant changes

16. **The project foresaw financing of reforms in five states.** Initially, GoI identified the following PS for the Bank project: Gujarat, Haryana, Odisha, Uttar Pradesh (UP) and Uttarakhand. Together they accounted for 21,762 PACS (23% of total PACS in India).[6] However, by 2010 it became apparent that Uttarakhand was not making sufficient progress towards meeting the benchmark reforms, in particular legal reforms, and thus would not be eligible for receiving recapitalization support. In December 2010, illustrative of the 'no-compromise on reforms approach' adopted and experience-based-adjustment to implementation, the GoI formally proposed the state of West Bengal as the substitution for Uttarakhand to be funded by the Bank. Given this motivation, the Bank agreed and accepted West Bengal instead, which increased the number of PACS under this project to 29,511 PACS (31% of total PACS).[7]

17. **In May 2011, USD60 million was formally transferred from component 2 (implementation of IT) to component 3 (FRS package).**[8] The special audits done for each ST CCS after project

[6] As of March 2007; Performance of Primary Agricultural Credit Societies (April 1, 2006 to March 31, 2007), National Federation of State Cooperative Banks Ltd. (NAFSCOB).
[7] As of March 2010; Performance of Primary Agricultural Credit Societies (April 1, 2009 to March 31, 2010), NAFSCOB.
[8] The reallocation was equally divided between the IBRD loan and IDA credit.

appraisal revealed a broader financing gap to be covered under component 3 (see Table 1). The Task Force had already highlighted that data quality issues could mean that estimates could vary, and had suggested carrying out special audits to determine the most accurate financial gap.[9] On the other hand, the amount required under component 2 turned out to be smaller, due to: (i) IT cost estimates during project preparation being revised downwards based on implementation experience in states (non-Bank funded) where IT roll out had already progressed; (ii) fewer PACS being computerized relative to original projections (17,000 revised down to 10,000); and (iii) lower costs of software development after states agreed to adopt national level software that was designed and tested in the state of Tamil Nadu. An amount of USD60 million was reallocated from component 2 to 3 through a Level 2 restructuring.

18. **The GoI contributed a larger share of the recapitalization funding than initially expected.** As specified in the PAD[10], the share of recapitalization was to be based on a pre-determined formula, in which losses were to be divided between the GoI, the state governments and the ST CCS itself by type of underlying cause of losses. The Task Force report in 2004 had estimated that this formula would result in around 68 percent of total recapitalization costs being borne by GoI, and 28 percent by state governments and 4 percent by the sector itself. However, special audits of each entity revealed that a larger share of the losses actually arose from the agricultural loan portfolio that was to be covered by the GoI. Therefore at project closing, in the PS, GoI had assumed a larger share (77 percent).

Table 1: Expected and actual recapitalization assistance provided (Rs Crore)

	GoI	State Gov.	CCS	TOTAL
Estimated costs at appraisal	6,506 (68%)	2,689 (28%)	401 (4%)	9,596
Actual costs determined by the Special Audits	15,902 (79%)	1,778 (13%)	4,058 (13%)	21,739
Actual costs determined in the 5 states supported by the World Bank project	4,048 (77%)	470 (9%)	770 (15%)	5,288
Amount released in the 5 states supported by the World Bank project	2,507 (74%)	222 (7%)	680 (20%)	3,409

Source: PAD, p.35 for estimate costs, NABARD for actual costs and amount released

19. **In March 2012, GoI requested a closing date extension by one year to allow for full implementation of the individual components.** The request stemmed mainly from two remaining activities: (i) the completion of the FRS component which was, while already largely disbursed, pending finalization of a few benchmark actions; and (ii) slower than expected progress of the IT rollout component. The Bank concurred with this request (June 2012, Level 2 restructuring), since progress on development outcomes across states had been positive overall, most key reform activities were achieved (though a few outstanding benchmarks remained) and as the costs of extension were limited.

20. **The GoI later requested a cancellation of the undisbursed project amount.** Following the initial request in March 2012, during the year, it had become clear that the total cost for carrying out the final round of recapitalization was much larger than initially anticipated (around 33 percent more than the initial program size). Being in the backdrop of the 2008-09 global financial crisis – the response to which had included expansionary fiscal policies that were then being tapered – and in view of broader

[9] As data quality issues are not uncommon in cooperatives, many other countries worldwide, such as Mexico, Bolivia, and Paraguay, have also used a similar approach to assessing the correct financial position of the cooperative sector.
[10] As detailed in the PAD on page 35, the GoI would assume all losses related to all credit businesses of PACS and agricultural credit businesses of SCBs/DCCBs.

concerns on fiscal imbalances, the GoI ultimately deemed it not feasible to allocate the additional resources for the program. As a result, a partial cancellation in the amount of USD163.7 million from IBRD loan (mostly towards FRS) and SDR13.3 million (approx. USD20.1 million) from the IDA credit took place. ADB and KfW, who supported the government in rolling out the revival package in another five states, were also affected similarly, and could not complete full disbursements. Though the activities that were behind the reasons for requesting the extension were not fully completed, at the time the extension request was made, the intention and objectives seemed worthwhile pursuing, and the incremental costs to the Bank of this extension were negligible. As discussed below, data at project closure on ST CCS capitalization levels indicated stronger than expected performance. Hence in retrospect, as it turned out, GoI's action had only a small impact.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design, and Quality at Entry

21. **Strong country ownership with a careful assessment of needed reforms and extensive stakeholder consultation contributed to a comprehensive reform package and good readiness for implementation.** Studies commissioned by the GoI's Task Force resulted in a very comprehensive and holistic reform package, which included reforms on the macro, meso and micro-level, and provided a clear set of reform incentives. The government broadly consulted with the relevant stakeholders on the package, and prior to project effectiveness, a total of 13 states[11] had already signed the MOU with the GoI and NABARD and six states had completed the upfront legal amendments, and special audits, and recapitalization of PACS were initiated. This confirmed the overall good ownership for the GoI reform package and readiness for implementation, which was later also reflected in the strong initial disbursements and achievement of reform actions and capacity building activities under the project.

22. **The revival program included a strong institutional set-up to implement, guide and monitor the project.** NABARD, with its strong national and state presence, was the main implementing agency. NABARD set up a dedicated department fully responsible for program implementation. In addition, implementation committees were established at national, state and district level with clear Terms of Reference (TOR) to provide policy guidance and monitoring of the program at various levels.[12] This ensured an effective and coherent implementation arrangement across the country.

23. **The project preparation benefitted from a strong Bank team and ESW.**[13] The project followed the design of the country-wide revival package for rural ST CCS prepared by the GoI. As key features of the program were already determined by the GoI at the time of the project inception, the project preparation focused on: (i) clarifications on the program outcomes, objectives, design and

[11] Representing two thirds of the ST CCS in India

[12] The structure comprised (i) National-level Implementation and Monitoring Committee (NIMC), which was responsible for the overall policy and strategic direction of the reforms; (b) State Level Implementation and Monitoring Committees (SLICs); and (c) District Level Implementation and Monitoring Committees (DLICs).

[13] The project inception mission took place in September 2006, pre-appraisal mission in November 2006, Quality Enhancement Review (QER) in December 2006, Operations Committee Review (OCR) meeting in March 2007, appraisal in March/April 2007, negotiations in May 2007, board approval in June 2007, and effectiveness in December 2007.

implementation arrangements; and (ii) discussions on principles, terms and contents of the Bank's engagement in the program. The Bank team included members who were familiar with the country context, as well as global experts in cooperatives, bank restructuring, institutional development, and technology and innovation. In addition, ESW helped a better and comprehensive understanding of the sector and its challenges.

24. **The Bank team coordinated well with other funders to ensure harmonization and alignment under the program.** Since project inception, the Bank team had emphasized to the GoI, NABARD and other funders the importance of achieving a satisfactory alignment of the policy framework and implementation arrangements among all funders supporting the program. The Bank team closely worked with ADB and KfW during preparation, particularly on: (i) alignment between the tranche release conditions of ADB and KfW, and the disbursement conditions of the Bank's funding[14]; (ii) coherent approach to the program and geographical coverage; (iii) an aligned and consistent M&E, reporting, and supervision framework; and (iv) coordination on TA activities.[15]

25. **Given the nature of the program, the selection of the Bank lending instrument posed a challenge, yet was carefully analyzed**. Lessons from previous Bank operations indicated that policy reforms as well as recapitalization programs are generally more amenable to support with fast-disbursing products (DPLs), while the institutional development contemplated under the project may be supported more effectively through disbursements against specific expenditures (SILs). ADB and KfW, other funders of the program, decided to support the GoI's program through a multi-tranche policy loan with specific disbursement conditions. However, the Bank project had a larger focus on provision of TA for the ST CCS. After careful assessments and discussions with the GoI, the decision was to use a SIL through a sector-wide approach (SWAp), as the project's success crucially depended on the deployment of project funds towards investments in the various areas for which they were earmarked. It was also agreed that the project would not be appropriately supported through an Adaptable Program Loan (APL), as the project was designed to support the country-wide reform over a well-defined time frame in states that were willing to participate.

26. **The PDO targets were ambitious in a few dimensions.** While the supported governance reforms can be expected to lead to a substantially enhanced financial and operational performance of the participating entities over time, and are essential requirements for a commercially sustainable financial sector, it was optimistic to expect the *extent* of turnaround targeted on financial viability of the sector within only five years. Also, as will be discussed below, a number of other exogenous factors affected the viability of the ST CCS.

27. **In line with good practices, strong emphasis was placed on front-loading governance reforms, and making recapitalization contingent on reform implementation.** Such an approach was in line with lessons learnt from other financial sector reform projects: (i) that financial capitalization

[14] While the Bank team did not see conflicting arrangements between the ADB's policy loan and the Bank's SIL, 1st and 2nd tranche of the ADB's policy loan (a total of USD500 million) was aimed to finance the ground work for key governance reforms under the package (i.e. front-loading of a part of recapitalization).

[15] The Bank organized a two day workshop in January 2007, which brought together representatives from GoI, NABARD, and state governments, as well as sector experts and other agencies (ADB, KfW, GTZ and DFID) supporting the GoI's program, to discuss and agree on key technical aspects related to the program's design and implementation arrangements.

should be accompanied by necessary reforms in the overall legal, regulatory and governance framework, and provided together with TA to improve the performance of the recapitalized entities; and (ii) key reforms, that involve upfront commitments to good governance, competition and market discipline, should be front-loaded to ensure the institutions' commitment to the restructuring effort.[16]

28. **Clear eligibility criteria for the FRS package were defined.** The project followed the categorization and thresholds under the GoI package. PACS with a recovery rate of over 50 percent (as of June 30, 2004) were deemed to be sufficiently sound in their financial and operational management and instantly recapitalized (category A). On the other hand, PACS with a recovery rate of between 30-50 percent received their recapitalization support in tranches, with the pay-out contingent upon progress in their financial soundness indicators (category B). The state governments were to determine the future set up of PACS with recovery levels of less than 30 percent (category C).

29. **The approach towards recapitalization or liquidation of category C PACS could have been clarified further.** The PAD details the project's support toward category A and B PACS, but further clarity on the approach for category C could have been provided. In fact, the 1st meeting of the NIMC in May 2006 had agreed that: (i) if a category C PACS improves its recovery to 50 percent by 30 June 2007, it could be considered for inclusion in the package; and (ii) in case a PACS remains ineligible, the FRS due to such PACS would be directly adjusted with the DCCB concerned.[17] This does not mean that the project supported category C PACS. However, such PACS were given a period to improve their recovery rate to the same levels as for eligible PACS, and had a chance to receive FRS if they met the threshold. While the project did not provide the FRS to those that remained category C by the deadline (ineligible PACS), these details were not reflected in the PAD.[18]

30. **In retrospect, risks affecting profitability of the sector could have been highlighted further in the project design.** The pre-appraisal mission had in-depth discussions with the GoI and NABARD on key risks. Based on this, risks and mitigation measures were assessed and reflected in the PAD. The project design could have reflected more strongly the risks due to credit management capacity of ST CCS, as well as risks arising from crop loan programs with concessional interest rates and occasional loan waivers applied by governments to agriculture credit.[19]

2.2 Implementation

31. **Periodic Bank's supervision mission ensured a deep and continuous dialogue with GoI, NABARD and other funders.** During the 5.5 year implementation period, the project benefited from a total of eight supervision missions, including an intensive Mid-term Review (MTR) mission in January 2010. Supervision benefitted from having a task team leader and core team members located in country. The team comprised of members with significant country/sector knowledge, crucial for overseeing implementation of this complex project. Every mission had in-depth discussions with the GoI, state governments, NABARD Head Office and Regional Offices, other funders, and included field visits to SCBs, DCCBs, and PACS. The missions involved comprehensive review and guidance on key aspects

[16] Page 11, PAD.
[17] Minutes of NIMC first meeting on May 30, 2006.
[18] The FRS only aimed to cover DCCBs' exposure to such ineligible PACS.
[19] Covering not just ST CCS credit, but also that from banks and RRBs.

of the implementation progress, including: benchmark activities, component tracking, and quality assurance over the special audits for the FRS component and fiduciary aspects. Findings were captured in detail in Aide-Memoires and clear action plans and recommendations listed (and followed up on).

32. **Strong commitment was given by the state governments and NABARD toward the governance reform.** In all the five Bank-funded states, substantial efforts were made toward the legal and regulatory reform under the revival package. Regular and periodic meetings of the NIMC, SLIC and DLIC ensured the coordination among the stakeholders and holistic approach toward the program.[20] NABARD and its Regional Offices and GoI maintained a consistent and strong position on the irreversibility of reforms and did not compromise on these at any stage. They coordinated closely with the state government and ST CCS, and monitored progress. In the last year of the project, Gujarat and UP completed all reform benchmark activities and became eligible for receiving the full FRS.

33. **In early 2008, the GoI announced a loan waiver scheme.**[21] Against the backdrop of inadequate risk mitigation and a spate of crop failures, millions of farmers, particularly small and marginal farmers, had non-willfully failed to repay loans and had thereby lost access to formal finance and had to rely on more expensive informal sources only. In extreme cases this had led to farmer suicides. GoI took the difficult decision to support a one-time waiver to bring farmers back into the fold of formal finance. While understanding the broader development dimension behind GoI's decision, Bank highlighted the potentially adverse impact debt waivers could have on credit culture, as well as the risk they posed to financial markets/institutions. While the waiver was implemented, Bank suggestions to communicate to the farmers on the benefits of repaying and incentivizing farmers to repay were also implemented by the GoI. Still the impact of the debt waiver led to a dip in recovery rates and this exogenous event impacted the indicators on ST CCS' viability as measured by the ROA and recovery rate. After a significant dip post-waiver, the recovery rate improved slowly and recovered back to normal levels.

34. **PACS own contributions to the FRS component were delayed and insufficient relative to initially targeted levels.** The GoI reform program required losses incurred due to fraud and corruption to be borne by the cooperatives themselves. However, given the magnitude of contribution required as well as contained margins on lending, a majority of PACS could not find adequate resources through their own business surpluses. This could have eroded the impact of the recapitalization and contributed to the lower than expected changes in their viability.[22] That said the capitalization at PACS level from

[20] Overall, 9 NIMC meetings (until January 2011), 84 SLIC meetings and 1,760 DLIC meetings were held (the numbers of SLIC and DLIC meetings are in the Bank supported states).

[21] The waiver was a one-time scheme (the last such national waiver was in 1989), waiving Rs71,000 crore (USD14 billion) and affecting approximately 45 million households across the country. The key elements of the scheme included: (a) all agricultural loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 were covered under the scheme; (b) for marginal and small farmers, there was a complete waiver of all loans that was overdue on December 31, 2007 and which remained unpaid until February 29, 2008; (c) agricultural loans were restructured and rescheduled by banks in 2004 and 2006 through special packages; and (d) the implementation of the debt waiver and debt relief scheme was to be completed by June 30, 2008 (Aide-memoire of 1st supervision mission). The number of members receiving benefits of waiver of defaulted loans from the ST CCS was 12.9 million. Clear eligibility criteria were defined and implementation was cash-less (through accounting entries).

[22] According to the Gujarat impact assessment, though a small sample size, only 4 out of 82 assessed PACS actually contributed their share, while the others (62 PACS) used the funds from the recapitalization package to do so. The assessment also indicates that the additional funds from the recapitalization were only visible in the accounts in 75 percent of the PACS.

government resources was typically sufficient to achieve a healthy level of net worth, which mitigated the adverse impact of low PACS' own contributions to the recapitalization.[23]

35. **Members Education of PACS was highlighted during the implementation, but the attention paid under the project was lower than expected.** The Bank team emphasized the importance of enhancing member awareness about the program. NABARD agreed on the need for initiating a member education initiative and some states initiated the activities such as preparation of member education materials (Figure shows a poster developed in Odisha for example) and financial literacy workshops. However, a lesser focus was given to take a holistic and strategic approach toward members' education.

36. **A partial cancellation affected the full completion of FRS and IT components, but extension and cancellation were carefully assessed and adverse effects were mitigated.** As discussed in Section 1.7, when the GoI made the extension request, the Bank team thoroughly analyzed the incremental costs and benefits of the project extension. When broader fiscal concerns came up during the last year of the project, the Bank team engaged in intensive discussions with the GoI and NABARD, and also explored possibilities to obtain a counterpart funding only for IT component. While the disbursement of remaining amount for FRS was not completed, it turned out that capitalization levels were satisfactory (and higher than expected) with 73 percent of the component amount disbursed. In part this was on account of the (exogenous) waiver program, which benefited banks' through recoveries of past bad loans.[24] The IT component also lacked funding; while manual roll-out for the CAS was completed and the bidding process was initiated the project could not complete computerization of PACS. This component therefore lagged expectations and only Haryana completed partial procurement of hardware and software. However, post-program initiatives have provided alternate avenues.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

37. **The M&E indicators were directly linked to the expected outcome.** Since the project inception, the Bank team emphasized the importance of tracking inputs, outputs and outcomes in a systematic and timely manner. The five KPIs included well-targeted indicators and benchmarks to track outreach (two KPIs), financial performance (two KPIs), and governance enhancements (1 KPI) in the sector, all of which was directly linked to the overall expected outcome of increased access to financial services by the ultimate beneficiaries (the farmers), and improved efficiency and sustainability of the primary target group (the cooperative sector itself). In addition, outputs indicators were well designed to cover timely and satisfactory component-wise delivery and expected outputs.[25] The baseline, mid-term and end targets were carefully analyzed based on the sector data obtained from NABARD and

[23] Except UP, where the PACS share was significant (27%).
[24] So the waiver reduced recovery rates temporarily, but also helped banks recover past loans – so had a two sided, effect.
[25] From the 7th ISR (November, 2010), the five core financial sector indicators were added to the Intermediate Results Indicators as part of a corporate mandate to capture data. These indicators were: (i) volume of Bank support: lines of credit – microfinance; (ii) volume of Bank support: institutional development – microfinance; (iii) outstanding microfinance loan portfolio; (iv) no. of active loan accounts – microfinance; and (v) percentage of project supported institutions that are reporting on this indicator (supplemental indicator).

NAFSCOB. An additional indicator on other financial services besides credit could have been useful to focus ST CCS's activities beyond credit.

38. **Overall there were significant improvements in data quality at all levels, though *consolidated* data especially for PACS faced challenges on timeliness and quality.** Sector data quality has clearly improved at all levels. The KPIs were tracked and updated in every semi-annual mission. The Bank team also helped NABARD develop one page matrix to track progress of benchmark activities in all PS. Still, the data collected had some weaknesses, particularly at PACS level. A table format was prepared to collect consistent and unified indicators from each state, but the actual data was sometimes not provided in a consistent or timely manner.[26] The issues with data for the PACS was mostly in terms of consolidating data from the large number of PACS (more than 100,000 country-wide), even though data quality and availability at the individual PACS level, improved dramatically.

39. **Impact studies were undertaken both by NABARD and the Bank.** The PAD M&E framework included reference to carrying out a long term impact assessment in three states. Impact assessments were carried out at the end of 2011 by NABARD and the Bank's economics and research unit conducted impact studies at PACS level in Odisha and Andhra Pradesh (a non-PS). While providing useful information, NABARD's studies focused on outputs delivered by the program and the Bank study, while focused on outcomes, faced difficulties in maintaining the 'control groups'.

2.4 Safeguard and Fiduciary Compliance

Safeguards

40. **The project had no specific social or environmental safeguards issues and concerns, but the safeguards category was not consistent in the appraisal documents and ISR.** While the PAD designated the project to category "C", the appraisal stage Integrated Safeguards Data Sheet (ISDS) categorized the project as "F (Financial Intermediary Assessment)". ISR also had category "F". From what is stipulated in the ISDS and PAD, the project was meant to be "category "C", as the project did not involve line of credit and was not likely to cause any significant adverse safeguards impacts.

Financial Management (FM)

41. **The FM performance of the project was rated *"Moderately Satisfactory"* for most part of the project implementation, but downgraded to *"Moderately Unsatisfactory"* towards project close.** The auditors issued unqualified opinion throughout the project implementation period except for the period October 2008 - March 2009 for which a qualified opinion was issued; this was resolved subsequently on production of information by NABARD. However, delays in submission of Interim Unaudited Financial Reports (IUFRs), audit reports and claims remained an issue. The FM performance rating was downgraded to *"Moderately Unsatisfactory"* (see Annex 3 for detailed assessment).

[26] The key issues included: (i) some of the data did not include the baseline as of 2005; (ii) only net annual increase was available for the number of borrowers, and not the absolute figures (2nd KPI); (iii) some states provided a range of ST CCS's recovery rates in the state, while others gave average (3rd KPI); (iv) individual DCCB's data was not provided or available to track the number of DCCBs that achieved target ROA (4th KPI) and CRAR (Output Indicator for component 3); and (v) the collection and delivery of data were delayed.

Procurement

42. **The procurement has been rated *"Moderately Satisfactory"*.** Although the IT component could not be completed, each state progressed with the procurement preparation (see Annex 3). More recently, NABARD has submitted a list of 10 post review contract awarded during the 24 month period from July 2011 to June 2013. The Procurement Post Review (PPR) is being conducted by a PPR consultant engaged by the Bank at the time of preparing this ICR.

2.5 Post-completion Operation/Next Phase

43. **Computerization for ST CCS has been initiated and continued by NABARD, state governments and the sector.** Although the project could not support the IT component as envisaged, the impact of this is mitigated by other initiatives. In a substantive engagement, NABARD is facilitating a Core Banking Solution (CBS) platform with 205 SCBs/DCCBs in 16 states and three Union Territories (UTs). The migration has been ongoing, and once completed, will help customers with more efficient access to financial services. In addition, some states like Gujarat and Odisha, are financing the automation of CAS and MIS for PACS with funding resources from the state, the SCBs and DCCBs.

44. **RBI set up an expert committee chaired by the then-chairman of NABARD to study the three-tiered structure of ST CCS.** The committee's final report (January 2013) recommended a change in business model for PACS, in particular suggesting PACS could become "Business Correspondents (BCs)" for DCCBs. Subsequently, based on RBI's acceptance of the recommendation, NABARD issued a circular to SCBs and DCCBs in July 2013, to provide guidance on decisions and arrangements to be made in case that PACS were to become BCs.

45. **Capacity building efforts for ST CCS continues with support from NABARD and the sector itself.** The Bankers Institute of Rural Development (BIRD) continues to be a center for providing training of trainers programs to cooperative training institutes, such as Regional Institutes of Cooperative Management (RICMs) and Institutes of Cooperative Management (ICMs). These institutes remain proactively engaged in capacity building of the ST CCS.[27] The Cooperative Development Fund (CDF), which has been operated with annual surplus funds of NABARD, continues to support institutional development efforts at PACS level, including resource mobilization, human resource development, operational streamlining, and establishment of PACS Development Cells in DCCBs. These initiatives bode well for the continued strengthening and future sustainability of the ST CCS.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

46. **The project's objective continues to be part of the GoI's overall strategy to promote rural development and alleviate poverty.** As discussed in Section 1, the project was highly relevant to development priorities to reform the rural finance sector at inception. Its relevance continues. The

[27] They have funding from their own and other independent sources, outside of the project/reform program.

Bank's impact evaluation found that lack of adequate access to finance is the biggest constraint to improving crop yields. In its latest Five-Year plan for 2012-2017, the GoI continues to place a strong focus on increasing agricultural growth rates and promoting rural development to further reduce the number of rural poor. Cooperatives, which in many instances are the only link to financial services for the otherwise unbanked segment of the population (also echoed in the Bank's impact evaluation that found that PACS were the most preferred, and most utilized, source of credit for small and marginal farmers), continue to play an important role for providing the target beneficiaries with access to affordable and reliable funding, and the government reiterated the important role of the cooperative sector in providing financial services to the rural poor.[28] A number of reforms such as improving the crop insurance program, building technology and capacity of institutions, developing stronger regulations, etc. are ongoing.

47. **The project also remains relevant with regard to the World Bank's new country partnership strategy (CPS) for 2013-2017**. The CPS includes measures to foster rural development and agricultural productivity, and supports the government of India in developing and rolling out integrated approaches to financial inclusion, with a particular focus on rural areas. A project to help scale up sustainable and responsible microfinance and another to foster housing finance are under implementation and a project on agricultural insurance is being considered. The IFC supports measures to deepen financial inclusion, focusing on the development and adoption of new technologies, and responsible financial intermediation in the sector.

3.2 Achievement of Project Development Objectives

Brief discussion of causal linkages and outputs provided under the project

48. **The project delivered most of the expected outputs, despite lower than anticipated disbursements.**[29] The project supported significantly higher outreach of financial services amongst tens of millions of farmers, enhanced governance and supported improvements in the performance of the ST CCS in the five PS. As discussed above, the GoI revival package included a number of far-reaching governance reforms as benchmarks for recapitalization. It also included a massive roll-out of training which was directly linked to build institutional capacity. The four project components, which were fully aligned with the GoI revival package (see Annex 2 for a discussion of linkage), formed a holistic and interconnected approach to enhancing governance, and through this enhance performance and outreach of the sector as stipulated in the PDO. As Annex 2 details, the project delivered most of the expected activities.

Assessment of outcomes supported under the government's revival package and the project

49. **There is agreement in the literature and the international donor community that poor governance is one of the root causes of weaknesses and lack of sustainability of financial and**

[28] See Government of India (2012), Twelfths five year plan (2012-2017), "Faster, more inclusive and sustainable growth", p. 19, paragraph 1.93.

[29] As discussed in Sections 1 and 2 above, the adverse impact of the cancelation, lower disbursement was significantly mitigated.

producer cooperatives worldwide.[30] As discussed in Section 1, governance problems were widespread in the Indian ST CCS, management and Board members had limited capacity and knowledge of their respective roles, and government interference in day-to-day management was substantial. These issues were identified in the Task Force report of 2004 as the core problems affecting the viability of the sector, and constraining the provision of affordable financial services in rural areas.

50. The following paragraphs will assess progress in the PS' made under the GoI's revival package towards the stated project development objective. The assessment of achievements towards the stated PDO are broken down into three dimensions: (i) impact of the revival package on the governance and institutional set-up of the sector (main focus of the project towards building potentially viable and sustainable ST CCS – *5th KPI*); (ii) impact of the reforms on the viability of the sector *(1st and 4th KPI*); and (iii) progress made towards providing members with enhanced access to financial and other support services *(2nd and 3rd KPI*). The latter two were the longer term expected outcomes to be achieved by the supported governance reforms.

(i) *Impact of the revival package on the governance of the sector (Highly Satisfactory)- 5th KPI:*

51. **The revival package paved the way for the much-needed revisions of the legal framework.** Since the launch of the revival package by the GoI in 2006, the Cooperative Societies Acts (CSAs) were amended in 23 states, including the five states supported under this project. By incorporating the agreed benchmark reforms, the revised CSAs introduced far-reaching reforms to improve the sector's autonomy and shield it from political influence (see Box 1). This has been a considerable achievement, given the status that existed pre-project, and given that earlier attempts to revise the legal frameworks and enhance governance failed in the absence of strong financial incentives.[31] Model by-laws were developed in each PS and the majority of entities in all three tiers amended their rules and by-laws in line with the revised CSAs. The achieved governance reforms have since been further cemented by the 97th constitutional amendment, which mandates the participation of women, scheduled tribes and scheduled castes in the board of cooperatives.[32] The 97th constitutional amendment highlights how much the need for improved

[30] In 1995, the International Cooperative Alliance (ICA) defined cooperatives as "*autonomous* associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a *jointly-owned and democratically-controlled enterprise*", and included amongst the seven core principles for cooperatives: (i) democratic member control; (ii) member economic participation; (iii) *autonomy and independence*; and (iv) education, training and information. See for example Shaw (2006), "Overview of Corporate Governance Issues for Co-operatives", Discussion paper of the Co-operative College of Manchester, commissioned by the Global Corporate Governance Forum. Manchester, UK, or Cuevas, Fischer (2006), "Cooperative Financial Institutions – Governance, Regulation and Supervision", World Bank Working Paper No 82, Washington, DC.

[31] The Task Force Report (2004), paragraph 2.17 onward, describes earlier attempts made to revamp the existing legal framework by introducing a new model law, concluding that "Progress in implementing these suggestions has been very tardy because of the States' unwillingness to share in costs and their reluctance to dilute their powers and to cede regulatory powers to the RBI."

[32] The 97th Constitutional Amendment now also covers cooperative societies, and highlights that the cooperative principles of voluntary formation, democratic member-control, participation and autonomous functioning are to be adhered. It also incorporates most of the provisions introduced on the state level CSAs with regard to boards, annual meetings, voting rights, as well as mandates annual external audits. However, the Bank team noted already in the MTR in 2010, that the legal reforms in the states of Haryana, UP and Odisha had proactively ensured participation from the marginalized social groups (particularly scheduled castes, scheduled tribes and women) through reservation of specific numbers of directors on the boards of the PACS and the DCCBs, even though this was not mandated under the program.

governance is now understood and accepted within the country. This is a significant achievement and relative to the widespread governance concerns (including un-elected boards, no fit and proper criteria, government appointed boards, lack of standards and understanding of roles and responsibilities, lack of representativeness of smaller farmers, etc) prior to the reform program, and today, there is a major improvement in governance frameworks and practice.

Box 1: Reforming the Cooperative Societies Act – the example of Gujarat

The state of Gujarat signed a MOU with the GoI at the end of 2006, and revised its CSA in early 2008. The revised CSA incorporated a number of important and far-reaching changes:

- Members of the sector, who are in arrears on loans, are excluded from voting until arrears are settled.
- For DCCBs and SCBs, the management committee should have at least two professionals on board which are in line with 'fit and proper' requirements of RBI.
- The number of state government representatives in committees is limited to one where the state government has a share in capital, and none in cooperatives where the state government is not holding shares. The share in capital held by the state government is limited to 25 percent, and no society is to be directed by the state government.

With regard to the operational autonomy of a cooperative, the revised CSA clarifies that the society shall have power to freely determine its financial and internal administrative matters, including: (i) their respective area of operation; (ii) interest rates on deposits and loans, subject to directives issued by the RBI; (iii) borrowing, investment, depositing of surplus, loaning and business policies; (iv) personnel policies, including issues relating to recruitment, promotion, staffing, training, postings and compensation of staff; (v) internal checks and controls systems, appointment of auditors, their compensation and other internal administrative issues; (vi) borrowing from any financial institutions regulated by the RBI, keeping in mind the interest of the society and its members; and (vi) freedom to affiliate or disaffiliate with any federal society.

The revised CSA also enhances the role of the RBI and NABARD in the regulation and oversight of the sector. For example, it: (i) mandates that CEOs and Directors of SCBs and DCCBs adhere to regulations on fit and proper issued by the RBI; (ii) determines that boards and management cannot be superseded without prior approval of the RBI unless in the case of a lack of quorum, fraud and/or three consecutive years of loss; (iii) mandates DCCBs and SCBs to have their accounts audited by an auditor approved by RBI; and (iv) assigns the regulatory and supervisory power to RBI and NABARD.

Since then, the CSA was further amended to clarify the timing of the annual meetings and the minimum participation rules, mandate the representation of women, scheduled castes and scheduled tribes on the board of societies as stipulated by the 97th Constitutional Amendment, and mandate audits carried out by a list of chartered accountants or the registrar within a determined period of time.

Source: Amendments to the CSA of Gujarat as provided on the registrar's webpage

52. **Under the revised CSAs, the regulatory and supervisory authority over the ST CCS was moved from the state to the national level, which greatly enhanced the regulatory framework.** Prior to the revision of the CSAs, considerable powers were vested in the role of the state registrar, who not only registered and liquidated the entities, but also set the legal and regulatory framework and carried out audits. Under the revised CSAs, RBI is now fully in charge of determining the legal and regulatory framework for the system. NABARD is the delegated supervisor[33] and identifies corrective actions. The corrective actions are then to be carried out by the registrar on the state level. This has introduced a much-improved system of checks and balances between the state and national level, and reduced the potential for interference. Further, a number of prudential norms and guidelines were issued

[33] With segregated roles and internal governance arrangements to manage its various roles as lender and delegated supervisor.

to gradually transition the sector towards full prudential supervision. For the PACS, a first set of guidelines concerning asset classification, provisioning and income recognition were issued in 2009.[34]

53. **Also, staged capital adequacy norms for DCCBs and SCBs were introduced, which greatly enhance the sustainability of the sector by clearly defining the regulations/standards required for survival.** This required the two tiers to eventually reach a CRAR of 9 percent by 2017. Institutions unable to meet these standards would not be licensed. By defining these rules, the RBI/NABARD have mitigated moral hazard risks, lowered the chance of inadequately capitalized cooperatives undertaking banking activities and set the phased, 'rules of the game'. NABARD carries out statutory on-site inspections on a regular basis (last financial year covered 31 SCBs and 214 DCCBs). Sanctions imposed on individual entities for non-compliance are posted on its website.[35] Finally, fit and proper regulations for management and boards were issued for SCBs and DCCBs in 2007, though given the challenges in finding the thousands of staff needed to meet the needs of the very vast cooperative network, these were eased somewhat to factor in the actual availability of the large number of qualified candidates required in rural areas.[36]

54. **As a result of the changes in the legal and regulatory framework, important improvements were made in the governance and quality of management of the ST CCS.** In line with the requirements of the revised CSAs, regular Board elections were carried out in the vast majority of entities (close to 100 percent, see Table 4, Annex 2 for details). This was one of the core outcome indicators for the project, and was fully met as regularly reported on during supervision. The presence of the government on the Board was reduced in line with the stipulations of the CSAs, and the government share of capital of total capital was brought below 25 percent in most entities.[37] While this has helped reduce the direct influence of the state in the management of the sector and has set in motion an important shift in culture, as with all efforts at improving governance, more time is however needed to fully reap the fruits of this change. Progress was also made in enhancing the quality of management in SCBs and DCCBs, both through capacity building and fresh external recruitment. Improvement in the quality of top management has been more gradual, given the challenge of attracting large numbers of professional managers especially in remote locations. Efforts on this front are ongoing. All the visited PACS confirmed that they held Board elections, and that Boards were active.[38] They reported that on

[34] See Circular 112 issued by the Registrars of 25 States on July 23, 2009, in which guidelines from NABARD for the classification and provisioning of overdue loans, the treatment of investments, as well as rules for the treatment and accounting of income are provided.

[35] In 2011, NABARD issued fines to three DCCBs for non-compliance with know-your customer regulations, Anti-Money Laundering (AML) provisions and investment classifications.

[36] Since the first circular on the RBI's Fit and Proper criteria in February 2007, 6 revisions had been made on the criteria. This was to reflect the availability of the professionals who have willingness to work in cooperatives sector, while ensuring the acceptable level of capacity and quality of the board members. The key changes included: (a) decreasing a minimum number of professional directors to three; (b) allowing the Board to co-opt the Board to attain the number of professional directors; and (c) specifying the period of professional experience (8 years) and area of academic qualifications. This is a reflection of the challenges of finding adequate numbers of professionals required for the vast network of cooperatives.

[37] The ICR mission learned during the visits to the states that in most of the remaining cases the necessary steps were introduced to convert the excess government capital into a grant.

[38] The ICR team visited and interviewed six PACS in three PS. With the exception of the PACS in Odisha, where the boards were superseded to ensure proportional representation of women and weaker sections (and subsequently the requirements of the 97th Constitutional Amendment).

average they held monthly to review current financial situation, overdue loans, and in some cases also assess Board support in recovery of overdue loans.

55. **Apart from legal amendments, enabling measures to facilitate ST CCS exercise their freedom to link with any financial institution of their choice to save or borrow were put in place.** NABARD introduced direct borrowing facilities for DCCBs, without having to approach through the SCBs. At PACS level savings mobilization was facilitated through provision of infrastructure and systems support.

56. **Important achievements were made in the area of auditing and accounting.** Having strong accounting and auditing mechanisms in place is of particular importance for cooperatives, as it increases the transparency and availability of information for members and thus facilitates "democratic control" as stipulated by the ICA principles for cooperatives. In addition, the external audits introduce an element of external oversight and revision into a sector where high frequently in depth supervision is not feasible due to the sheer number of entities existing. In particular:

- With project support, the CAS was rolled out in all PS and is being adhered to in most entities. The system was well received by the sector, and led to a considerably enhanced quality and uniformity of information at the individual PACS level. All PACS visited for the preparation of the completion report confirmed that the CSA helped them get a much more reliable picture of their incomes and expenses, capital adequacy, profitability, liquidity as well as asset quality.[39]
- In the area of audits, the CSAs mandate that all cooperatives be audited annually, and a common audit manual was developed. This goes far beyond regulations in many other countries with a vibrant cooperative sector, where small cooperatives are exempt from external audits.[40] The audit manual has also reduced the arbitrariness of the audits and led to improvements in quality. The external audits of SCBs and DCCBs are conducted annually in all five PS, but audits for PACS are in many instances still backlogged due to capacity constraints of the office of the registrar, lack of available Chartered Accountants, as well as delays from within the sector in preparing their financial statements.[41] Innovative solutions have however emerged. In Gujarat, the CSA foresees the use of Chartered Accountants – they were trained to do the assessments, a common format rolled out, and a uniform price for the audits determined. Around 90 percent of the external audits are now done from auditors on a pre-approved list. Also, NABARD recently introduced an incentive scheme for audit completion, which elicited a very positive response in improving timeliness of audits.

57. **Finally, considerable progress was made under the revival package in harmonizing capacity building measures, and in developing a strong institutional infrastructure for ongoing training.** Prior to the revival package, training institutions provided training to the sector, but there was limited coordination and quality control. Under the revival package, standardized modules were

[39] A number of PACS secretaries and board members reported that the improved quality and timeliness of the information facilitated the recovery of loans. Nevertheless, the usage of the new system for the preparation of financial statements and the assessment of core performance and soundness indicators is uneven and will need more capacity building and handholding.
[40] In Mexico, for example, annual audits are not mandatory for the financial cooperatives that are below the threshold for prudential supervision.
[41] The last supervision report for the project shows that, in September 2012, only 15% of PACS in Odisha had their financial statements for 2011 audited, and for the year 2010, 54 percent of the audits were still pending.

developed and rolled out throughout the country, involving the existing training institutions of the sector. This not only enhanced the quality of training, but also paved the way for the creation of the C-PEC within NABARD's own training center BIRD.[42] C-PEC currently collaborates with 27 training institutions in 26 Indian states, and provides certification services for training institutions, assessment of training needs and development of new modules, as well as quality control. This directly benefits an estimated 25,000 participants annually. Many of the visited SCBs and DCCBs also confirmed using modules developed under the revival package and from C-PEC for their training measures.[43] There seems to be general agreement in the sector and involved donor community that this coordinated and institutionalized approach – that involved a 'cascading strategy to enhance outreach'[44] – has been a great success in reaching large numbers and the ongoing training provided through it will further contribute to enhanced governance and managerial capacity in the sector. Such initiatives continue to receive funding from various sources and are therefore, expected to continue to play an important role in the future.

Box 2: Impact of Capacity Building Efforts in Gujarat

It was observed that out of 99 responses, obtained in respect of "awareness about autonomous character of the PACS", two-third reported that they have internalized this element. With regard to "recapitalization about need for business development" nearly 80 percent of the sample PACS reported in affirmative.

In respect of the element "awareness about need for reduction of government interference", 53 out of 70 responses (75 percent) received indicate that they have realized the need for reduction in government interference in the affairs of society. In respect of the element "awareness that a cooperative society has to be member driven", 94 sample PACS out of 99 (94 percent) reported that this element of the revival process has been internalized.

With regard to "sense of accountability", nearly 80 percent of sample PACS reported positively. Further during the discussion, it emerged that the new CAS introduced under the revival package has helped in improvement in management. With this it is concluded that the HR development initiatives taken up under the revival package have made fairly good impact. It is however suggested that training in these aspects should be a continuous process.

Source: Gujarat Impact Assessment, NABARD

(ii) Impact of the reforms on the viability of the sector (Moderately Unsatisfactory)- 1st and 4th KPI

58. **The results achieved towards viability of the sector have remained behind targeted levels.** While many good achievements were made in individual entities and in some states, in others performance remained subdued. A majority of the DCCBs and SCB now report net profits; at the PACS level, NAFSCOB data is unclear.[45] What is clear is that on average even for many profitable ST CCS, the level of profitability remains thin and this suggests a need for a broader look at lending margins,

[42] C-PEC was created with support of the GIZ (former GTZ, see Section 1.1), who provided start-up assistance and on an on-going basis technical assistance to the center. C-PEC certifies the training institutions, and also assumes the task of assessing training needs, developing training modules, and doing quality control of trainings provided.

[43] Gujarat SCB is providing Rs5 crore funding for its own training institution each year.

[44] This entailed centralized content development and training of master trainers who in turn, trained others in delivering the trainings (cascading strategy to develop a base of local trainers), use of decentralized training institutes and quality control.

[45] Consolidated data from NAFSCOB has variable quality at best, but remains the main source of information for now for the PACS level. Analysis of eligible versus ineligible PACS (many of which are dormant) was not possible on account of data limitations and therefore, some of the analysis can be 'weighed down' on account of the weak performance of the ineligible PACS.

costs, etc.[46] This section analyzes the main underlying reasons for the observed achievements. At the PACS level, the discussion excludes the state of UP, for which no updated information is available with NAFSCOB. For the DCCBs and SCBs, data for all five PS' were assessed.

59. **The revival package boosted the capital base of PACS.** The PACS in the PS increased their share capital by 30 percent since 2007 and also increased their reserves by 26 percent. The latter is likely the direct reflection of the recapitalization that took place and helped boost the capital base of the sector. In Haryana and Odisha, the reported capital to working capital ratio[47] of the PACS has now increased from 7 and 9 percent in 2007 to 10 and 12 percent respectively in 2012. The leverage ratio dropped in Gujarat and West Bengal from 18 and 31 percent to a still strong 12 and 25 percent.

60. **The recapitalization of PACS also contributed to increased levels of CRAR at the DCCB and SCB level** (intermediate indicator 8, see **Annex 4, Chart 1**). While only 13 DCCBs were directly recapitalized with project funds, most DCCBs gained from making recoveries on dues from adjustments made from the recapitalization amounts received by PACS. The DCCBs increased their share capital by 46 percent since 2007[48] (in monetary terms by around USD 96 million), and their reserves grew by another USD 220 million (increase of 31 percent). The increase in reserve was to some extent due to subsidies provided by state governments in recognition of losses incurred from the crop loan portfolio, but also the indirect effect of the increased recovery of earlier non-performing loans from PACS.[49] Overall, the un-weighted capital adequacy ratio of DCCBs for the four PS, for which a consistent database is available, increased from an average of 5.77 percent in 2005 to 9.22 percent in 2012. Four out of the five SCBs were in 2012 meeting the required CRAR of 7 percent for 2014. Thus, overall performance on capital adequacy met project intermediate indicator target levels (that two thirds of the SCB and DCCBs would meet the regulatory minimum levels), though the performance varied across

[46] With the imperative to improve financial performance being cast in stone on account of prudential regulations, and the freedom to now operate independently, together with initiatives to control costs – most critically asset quality – it is expected that business prerogatives will lead to a better balancing of financial and developmental objectives.
[47] The CRAR is not calculated on the PACS level, so the substitute of capital to working capital (assets) ratio is being used.
[48] Most of the increase stems from additional contributions from members. However, in Odisha for example, the capital increase in 2012 also reflects grants that individual entities received from the government to meet the capital adequacy requirements of RBI and become / remain licensed.
[49] This indirect increase in capital and also in ROA was already factored in for the results framework. The recapitalization of the PACS was channeled through the DCCBs. The recapitalization mechanism foresaw that the recapitalization would be used to pay back the outstanding loans from PACS to DCCBs (as on March 31, 2004), so the DCCBs were allowed to deduct the overdue loan portfolio from the amount of recapitalization funds that the PACS were to receive.

states.[50] [51] Of course, with growth in balance sheet size, as would be expected, such DCCBs would need to continue to operate profitably and mobilize additional capital.[52]

61. **A number of reforms were initiated to help improve and facilitate the recovery of overdue loans.** In Gujarat, for example, ST CCS were allowed to incorporate a clause in their lending documents to directly enforce overdue loans without proceeding to the legal system. This eliminated a lengthy judicial process that according to interviewed entities could take up to 10 years for enforcing a claim. Many of the visited PACS reported that they improved efforts to recover loans, and started involving their boards in this process (see Box 3). Staff of entities from all three tiers also benefited from training on risk management and loan appraisal/recovery. The GoI and state governments are also increasingly providing interest rate subsidies contingent on farmers repaying their loans on time. The latter has, according to sector representatives, greatly facilitates the repayment of loans. Finally, some of the SCBs and DCCBs are now supporting their PACS in loan recovery efforts.

Box 3: Recovery efforts undertaken by the 6 PACS visited during the ICR mission

- Two PACS included information on the largest defaulters in material presented at annual meetings.
- One PACS displayed a board with names of the largest defaulters.
- One PACS mentioned that the Board is very helpful for recovering loans. The Board regularly discussed the outstanding loan portfolio, and was actively involved in recovery efforts.
- Finally, some PACS highlighted the support received from "their" DCCB in recovering loans. The DCCB was not only helpful in stressing the importance of recovering loans in general, but at times went along with the PACS staff to talk to major defaulters in the system and convince them to repay.

Source: Interviews conducted during the mission

62. **These measures, together with the above described governance reforms, helped improve the recovery rates[53] over time, but not up to targeted levels (1st KPI, see Table 2, Annex 4).** Four of the five SCBs improved their recovery rates to 96-100 percent (up from 71-99 percent in 2005), while it deteriorated in one. At the DCCB level, recovery rates improved annually by 0.78 percent since the 2005 baseline and against an ambitious annual target of 5-10 percent), but the performance was better if

[50] Though project target levels on capital adequacy were met, the original government's revival package's targets were not met on this indicator. The package optimistically expected that all ST CCS would achieve the minimum required CRAR of 7 percent within 3 years of implementation (in part due to improved recovery of loans from PACS), and eventually reach 9 percent through own retained earnings. This did not materialize partly as the recapitalization was not fully carried out, ROAs continue to be low and some entities are still not showing improvements in their overall performance and will likely have to be liquidated over time – an aspect that is not unusual for the banking system and one that the Bank project had forecast and projected in its target levels (only 2/3rd were expected to be viable). Such entities are expected to be phased out of the financial system in line with the gradual strengthening of the prudential norms that RBI has introduced (requiring a minimum CRAR of 4 percent by 2013, and 9 percent by 2017, though there is talk of timelines being hastened), an aspect that was built into project expectations and target indicators.

[51] By end March 2012, 35 DCCBs in the PS – mostly in UP – did not have the required capital level (see Table 1 in Annex 4).

[52] The Expert Committee estimated that 209 DCCBs of the 370 DCCBs in the country will have to mobilize, as an aggregate, Rs4,024 crore by 2014/15 and Rs6,498 crore by 2016/17 to achieve CRAR of 7 percent and 9 percent respectively.

[53] Given that the recovery rate is relatively unique in the extent of its usage in the ST CCS, and is not a conventional asset quality indicator in the banking system, it needs to be noted that this is partly a cash flow indicator and only partly an asset quality indicator. A level of say 80% recovery rate, does not imply 20% NPLs or 20% write offs, which will typically be lower. Drawing firm conclusions on how recovery rates translate into losses and NPLs is not available or possible. Going forward, the CAS and MIS recognize this limitation with the indicator and have introduced more traditional asset quality indicators that are now being used (extensively at the upper tiers, and more gradually at the PACS level).

measured since loan effectiveness in 2007 (4.2 annually). Yet, the reported average recovery rate of 78 percent continues to be on the low side. The PACS level of the cooperative system shows even lower levels of loan recovery. PACS in Gujarat now report recovery rates of over 70 percent (plus 2 percent annually), and Haryana and Odisha had a drop in their recovery rates to now below 70 percent (minus 1.5 and 1.8 percent respectively).

63. Some of the underlying problems in the area of loan recovery are:

- **Shortcomings in the lending products and loan evaluation schemes:** Loans from PACS tend to offer lower interest rates (10 percent compared to 30 percent for informal lenders), but are restricted in the amounts they offer. This leads to some borrowers accessing funds from moneylenders or other informal sources, which then get repaid first due to higher interest rates. In addition, most PACS provide loans based on the government's crop loan model, and do not use cash flow based assessments of the credit repayment capacity of the borrower. This is partly mitigated by the strong incentive to repay to be eligible for a next round of finance, but delayed recoveries (as distinct from defaults) are a consequence. The issue of product design is being addressed through the business plans that were supported under the project, and through other efforts at evolving the product mix for the ST CCS institutions.
- **Impact of the debt waiver on repayment culture:** As discussed above, the GoI launched in 2008 a debt waiver scheme to help distressed farmers, particularly small and marginal farmers who had often unwillingly become delinquent on account of crop production losses (mostly on account of the vagaries of nature and inadequate insurance to cover such risks) and had lost access to fresh credit from the formal financial sector. The scheme's reimbursement for cooperative banks was around 2.5 times the amount the ST CCS received through the revival package. Loans that were overdue between December 31, 2007 and February 29, 2009 were reimbursed for small farmers (less than 2 hectares) and for large farmers a supplement of 25% was provided in case of repayment. As the majority of the borrowers in PACS were small, many saw their loans fully paid off by the scheme, while those farmers that had faithfully repaid on time felt punished. This negatively impacted the repayment culture in the following years, as people preferred to keep the balance open in case of another waiver, although recoveries gradually improved.
- **Vagaries of weather and lack of irrigation:** The PACS business model in lending is highly concentrated in agriculture, and is vulnerable to the monsoon rains. While the government offers insurance products, the uptake of the products needs to be increased from the current coverage of around 20 percent of the farmers being insured. This effort is being pursued in parallel and the current five year plan aims to double outreach of crop insurance.
- **Some of the DCCBs also reported that they face restrictions in recovering loans from PACS**, as the registrar approves and sends out the letter to enforce the loans from the respective PACS. This is not only cumbersome, but also reduces the timeliness of loan enforcement.

64. **While a majority of the DCCBs and SCBs are profitable, the target ROA was not fully met (4th KPI).** As evident from the PDO indicator discussion (see Table 3 in Annex 4), though more than 2/3rd of the DCCBs reported a profit, none of the states met the targeted level of ROA of more than 0.5 percent. While over 76 percent of DCCBs in the PS were profitable in the financial year ended March 2012, the un-weighted average ROAs remain low, and targeted levels of viability were not met. As with other indicators, state level variations exist; the state of UP lags behind others, although 28 of the 50 DCCBs improved their profitability since 2008, and 21 of them moved from loss making to reporting a

profit (see Table 4 in Annex 4). Similar results were achieved in selected DCCBs in other states. For the SCBs, while four of the five SCBs are profitable (80 percent above the targeted expectation of 66 percent), no SCB achieved the target ROA of 0.8 percent.

65. **The evolution of the profitability of the PACS appears to have been mixed.**[54] Around 59 percent of the entities in the five PS now report a profit, compared to 49 percent in 2005 (see Table 5 in Annex 4). The data on the PACS is not sufficient to assess where the improvement in income stems from, as separate data on profitability of the recapitalized PACS is not available. However, the visited PACS suggest that most of the increased profitability stems from a diversification of business. As will be discussed below, many PACS have increased their income sources through offering additional non-financial services like storage facilities, paddy procurement, etc. which have helped compensate for modest returns made through the lending business. Deposit taking PACS usually are able to earn a spread of 4 percent on their deposits.[55] This is risk free and compares well to the spread on loans funded through refinancing from NABARD.

66. **A clearer and for the project more directly linked trend in the achieved improvements is visible in the audit classifications provided by NABARD.** The audits assess a range of financial and operational performance indicators, which are then reflected in the overall rating assigned for each entity. This indicator also covers the operational improvements through enhanced governance, and as such is the most suited indicator to reflect the improvements made in the sector via the introduced governance reforms. Audit data, which is available for four states for both 2005 and 2012, shows a significant improvement. Around 47 percent of the DCCBs are now rated as A (compared to 25.5 percent in 2005), and another 22 percent are rated as B (compared to 26.5 percent in 2005).

(iii) *Impact on members' financial access and other support services (Satisfactory)-2nd and 3rd KPI*

67. **The GoI has made a strong push towards increasing access to credit for the agricultural sector over the period under review.** To foster the uptake of formal credit, the GoI has standardized lending and refinancing packages, it provides direct interest subsidies, and also rolls out agricultural insurance schemes. Direct support for technology upgrades and investment in storage and processing facilities are provided both on the national and state level. Supported by the above measures, agricultural output accelerated to an annual growth of 3.7 percent during the last government plan period, compared to 2.4 and 2.5 percent in earlier periods. The increased output helped spur consumption in rural areas and supported the recorded decline in poverty rates by rural poverty.[56] A research paper by the RBI in 2009 confirms that there is a statistically significant direct and positive link between the provision of credit to farmers and the agricultural output.[57] In the absence of savings many farmers rely on credit to finance the needed inputs and smooth consumption during the growth cycle. The provision of formal credit at affordable rates helps the farmers reduce their dependence on moneylenders that charge higher interest rates, and makes farming "affordable".

[54] Data are drawn from NAFSCOB; data limitations are noted, but NAFSCOB remains the only source for consolidated PACS data for now.
[55] The client for example receives 4 percent interest on the deposits from PACS, while the PACS get 8 percent on the deposit from the DCCB.
[56] The new government Five-Year plan for 2012 – 2017 highlights that rural consumption quadrupled under the last government plan, and that rural poverty declined by an estimated 2 percent between 2004/5 and 2011.
[57] See RBI Occasional Paper, Vol 30, No. 2, Monsoon 2009.

68. **Data from the Department of Agriculture and Cooperation show that the ST CCS continue to play an important role in the provision of credit to the agricultural sector, particularly for the smaller farmers.** Support from the package and other schemes has contributed to, according to latest data available[58], agricultural credit doubling between 2008 and 2012, and the number of loans increasing by 50 percent over the same period of time (see Chart 3 in Annex 4). The ST CCS, which prior to the revival package had lost market shares to commercial and rural banks due to their erstwhile dire financial situation were able to again increase their share in total lending from a low of 15 percent in 2008 to 17 percent in 2012. What is particularly significant that in terms of number of loans, the ST CCS accounts for over half of all loans. This implies that they have particularly benefited the small and marginal farmer, as 66 percent of the portfolio of ST CCS goes to this client segment. The data also confirm the still prevalent differences in market niches of the individual players. With their focus on small borrowers, the average loan size in the ST CCS sector was Rs28,467 (approx. USD450) in 2012. Commercial banks continue to cater predominantly to larger borrowers, and their average loan size was Rs144,525 (~USD2,300) in 2012.

69. **Supported by the reform package and the project, the PSs reported impressive performance on outreach.** About 11.2 million borrowers, of which 7.2 million were small and marginal farmers, were reached in FY2012. Loan disbursements in the PSs just in FY2012 stood at USD6.7 billion (2nd and 3rd KPIs). The target performance indicator of a 70 percent increase in ground level financing provided by CCS was surpassed. Loans issued in the PS increased by 96 percent (to USD6.7 billion in FY2012 in the PS') and loan outstanding grew by 82 percent, compared to 2005 baseline (see Table 6 in Annex 4).[59] Recapitalization helped the PACS pay their overdues to the DCCBs and receive new loans for on-lending to members. Growth in loans was particularly prominent in Odisha and West Bengal. On the DCCB level, the share in lending for short-term agricultural lending increased again since 2008, and now accounts for 61 percent compared to 56 percent in DCCBs. It should be noted that the DCCBs did not receive the promised recapitalization in the PS, except in Odisha.[60] Without the promised capital for leveraging, the DCCBs had posted high growth rates in loans, reflecting the positive impact of other measures which rendered this possible. The target of 50 percent increase in number of marginal and small farmers was also achieved in Haryana, Odisha and UP, with an overall impressive average growth of 66 percent in the PS (132 percent of the targeted level).

70. **While the reforms have not yet lead to substantive development of new financial products, they have contributed to enhanced access to finance by rural households.** The Bank's impact evaluation showed that farmers viewed access to credit as a top constraint to improving productivity. The project clearly contributed to improvements on this financial service (see above), in the absence of linkages to an electronic payment system, payment services and where deposit products are rudimentary, and where money is often transferred by the PACS to the nearest DCCB office for processing. However, a push into new products will likely take place in the future. All DCCBs and SCBs are currently upgrading to a CBS, which will allow the introduction of electronic payments, credit and debit cards, as

[58] See information on credit to the agricultural sector as provided on the webpage of the Department for Agriculture and Cooperation under http://agricoop.nic.in/programmescheme.htm

[59] After the waiver, it took more than a year for the ST CCS to recover lost ground and expand business. In real terms, the DCCBs started growing their loan business only in 2010. Since then in the last two years, growth rates have been robust.

[60] Odisha DCCBs which had received recapitalization reported the highest growth rate in agricultural loans for the period 2008 -2012 and also the highest growth rate of 27.4% in total loans during the two year period 2011 and 2012.

well as the operation of POS devices. This will likely lead to the development of e-banking products, including the usage of the Kisan Credit Card schemes for crop lending[61], and considerably enhance the services and convenience offered to the members of the sector. Considerations are currently also being discussed in the ST CCS to convert PACS into business agents for the DCCBs. Furthermore, the increased presence and outreach of ST CCS has contributed to improving the number of rural households with access to financial services. The census in 2001 showed that 30.1 percent of rural households had access to finance, while 54 percent of rural household reported having access in 2011.

71. **Finally, many PACS increased the number of non-financial services they provide to members.** Facilitated through the project as well as ongoing government initiatives, many PACS have developed additional products. In Odisha, 1,858 PACS are now procuring paddy for the government. The service currently reaches over 630,000 farmers and helps them guarantee a minimum price for their produce. In Gujarat, around 4,000 PACS have storage facilities, and many are in the process of upgrading their facility to enhance the quality of storage. This will not only help the farmer move away from distress sales, but eventually may also allow the PACS to do warehouse lending with other financial institutions. Others are offering services such as milk collection centers. In Gujarat, 326 PACS are now moving into offering a multiservice center for their members. In the tradition of Raiffeisen, almost all PACS offer fertilizer and seeds to their members.

Box 4: Access to Finance for small and marginal farmers and business diversification at PACS

Impact studies conducted by the Bank suggest that loans from PACS are the preferred source, and indeed the dominant source of formal credit for marginal and small farmers. Informal loans charge nearly three times as much as loans from PACS and they also have a shorter maturity. 60 percent of respondents (farmers) responded that they would like to borrow more from PACS at prevailing rates if they could. PACS appeared more likely to issue loans in amounts lower than requested – thus increasing liquidity for the ST CCS is important for responding to the demand of the farmers.

ICR mission found, from the 6 PACS visited and interviewed, that PACS are diversifying and expanding non-financial services. One PACS in Haryana started a bazaar (small retail shop) available for both members and non-members. One PACS in Gujarat has purchased a tractor and is leasing it to farmers. It is also renting their premises to shopkeepers, dairy cooperatives, and even to a RRB branch. One PACS in Odisha is helping marketing of agricultural products for the members.

Source: Impact studies done by the Bank and findings from ICR mission

3.3 Efficiency

72. Economic and financial analysis, including Financial Internal Rate of Return (FRR) and Net Present Value (NPV), is presented in Annex 5. Overall, one can conclude that despite the lower than expected level of recapitalization and the exogenous waiver impact, the ST CCS improved capital adequacy and achieved outreach, and also supported viability in many institutions. Some impacts, particularly governance reform, involve an incremental process of change/strengthening over a medium/long term. The FRR for the state of Odisha, in which the full recapitalization was provided, shows an FRR of 11 percent; overall project presents a FRR of 10 percent, both with positive NPV.[62]

[61] Kisan credit card scheme aims at providing credit support to the farmers for their production needs. Kisan credit cards are issued to farmers on the basis of their landholdings and allow access to banks for obtaining credit.

[62] As the PS were not yet identified at appraisal, the PAD randomly chose 10 DCCBs from about 370 DCCBs country wide, and conducted FRR/NPV analysis. The ICR used the data from all the DCCBs in the Bank funded five PS. See Annex 6.

73. In the area of training, the development of a harmonized and institutionalized approach to capacity building has greatly enhanced the efficiency and quality of the provided training. It has contributed to a sustained effort in training now financed directly through NABARD and the ST CCS. The well-coordinated way in which this training was provided also reduced the overall cost of the program, leading to considerable gains in efficiency.

3.4 Justification of Overall Outcome Rating

Rating: *Moderately Satisfactory*

74. **The overall outcome rating is rated *Moderately Satisfactory*.** Overall, highly satisfactory achievements were made in the core area of reforms, namely governance. The project contributed to a significant increase in outreach (ground-level financing and number of borrowers targets were exceeded), ultimately benefiting over 11.2 million borrowers (including 7.2 million small and marginal farmer borrowers) and 25 million ST CCS clients in the PS and contributing to a significant growth in credit with USD6.7 billion in loans issued in the PS in FY2012 – it is noteworthy, that the Bank's impact evaluation identified insufficient availability of funds from the ST CCS as being a key limitation identified by its members (pre-project). While profitability of the sector remains a challenge, a majority of institutions at SCB and DCCB level are profitable (though at low levels) and the underlying factors for the lower than expected profitability stem from factors that were outside of the scope and influence of this project. Overall, the project has laid the foundation for ongoing governance change in the sector (included the needed cultural change), which on the longer term can be expected to lead to a substantially enhanced performance of the sector.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

75. **The 97th constitutional amendment has now mandated to have at least two women on each PACS board.** Many states adopted the amendment and ensured that the changes were applied in ST CCS. Haryana PACS now have at least one woman on the board (with efforts to increase this to two).

(b) Institutional Change/Strengthening

76. As described above, the share capital of the sector increased by USD 160 million[63], which together with the provided recapitalization contributed to the sector's overall strengthening and increased resilience. The supervision of the sector improved as a direct consequence of the revised legal frameworks. NABARD now has greater supervisory control and with RBI approval issues the regulatory framework. The project also directly contributed to an efficient institutional mechanism for ongoing capacity building (including quality control), including for auditing and accounting. These are critical areas for supporting the strengthening of the sector from within on a continuous and cost efficient basis.

[63] Change in share capital in DCCBs and PACS between 2007 and 2012, as reported by NAFSCOB for 4 of the 5 PS.

(c) Other Unintended Outcomes and Impacts

77. The project had a positive impact on the productive side of agriculture. Almost all PACS in the PS developed business plans, which included plans for non-financial services. This includes for example upgraded storage space, support for procuring products with the government to secure the minimum price, and other facilities along the value chain. Given the critical importance of value chains and intermediation services in agriculture, the availability of these services (which lower reliance on middle men who typically garner most of the margins) on the local level has likely had a positive impact on the livelihood of the rural population, but no assessment has so far been carried out to measure this impact.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable.

4. Assessment of Risk to Development Outcome

Rating: Moderate

78. **The risk to the development outcome is rated *Moderate*.** The legal, regulatory, and governance reform that were achieved under the project are likely to be sustained with the strong commitment and efforts by the state governments, RBI, NABARD and the sector itself. The well-established cascading training structure and unified training modules continue to contribute to the sustained capacity enhancement of the sector. The ongoing automation of the sector at every tier can lead to the efficient service delivery and further improvements in quality of data. The recapitalization has helped strengthen the capital base of a sufficiently large portion of the ST CCS institutions, which provides a financial cushion to sustain their operations. Potential risks remain and these are largely on account of external factors, but there are several mitigating factors that alleviate the risk. For instance, in the (unlikely[64]) event of another future large waiver program, asset quality and profitability may get undermined (as it did in 2008, although the system recovered in the following years and in the unlikely event this happens again, can be expected to recoup again). In the medium to long term, insufficienct growth of crop insurance could pose risks. On this count, a mitigating factor is the steady growth of the crop insurance program in recent years and the plan is to double coverage during the current Five Year Plan period. The last (internal) risk factor relates to asset quality at the PACS level – while there have been modest improvements on this front, the small gains need to be sustained and built upon, otherwise ultimately there may be spillovers to the upper tiers. For now, the sensitization on the importance of asset quality and the better management and governance, provide a basis to counter this risk to some extent. A last mitigating factor is the improved incentive alignment supported through RBI's prudential regulation of the ST CCS. With clear – and rising – standards expected of the ST CCS, issues around complacency and moral hazard are mitigated. The message – re-emphasized through several instances of de-licensing of some ST CCS institutions that did not meet the regulatory norms – to maintain standards on financial performance has been unambiguously conveyed and is now widely understood in the ST CCS. This will require continued efforts at improving financial performance, particularly maintaining capital adequacy and asset quality, and improving profitability levels.

[64] Fiscal considerations pose a constraint. Historically, prior to the 2008 waiver, the last comparable waiver was nearly 20 years ago.

5. Assessment of Bank and Borrower Performance

5.1 Bank

(a) Bank Performance in Ensuring Quality at Entry

Rating: *Moderately Satisfactory*

79. **Quality at entry was *Moderately Satisfactory*.** The Bank team performed well in project preparation and made sure that key project readiness measures were met. The project was modeled on a government program that had just been put in place. The government program, as discussed above, was very holistic in its approach to governance and the reform package, and had been discussed with stakeholders. The Bank team had thorough discussions with the GoI and NABARD during project preparation, and coordinated well with three funders which supported the revival package. The Bank team had a good understanding of the sector issues through the ESW, and the PAD articulates the country and sector background. The team conducted a holistic assessment of the revival package, and ensured that the every aspect of the project design can contribute to the efficient delivery of the country-wide package. The PAD has a sound technical, financial and economic analysis as well as detailed implementation arrangements. The Bank team designed an M&E framework which well fitted with the project outcomes, but the framework had weaknesses due to lack of data. The PDO was over ambitious in the level of target setting on viability, and the PAD could have more prominently discussed risks and challenges affecting the viability of the sector. However, overall, good preparation was evidenced by disbursements; 13 percent within the first year, and more than 50 percent by the second year.

(b) Quality of Supervision

Rating: *Moderately Satisfactory*

80. **The Bank performance at supervision is rated *Moderately Satisfactory*.** Overall, the Bank team has been very proactive in many small details, and made positive contributions to supporting the project implementation. The team, many of whom were based in the country office, ensured a close dialogue with the GoI and NABARD, and allowed timely actions whenever necessary. The procurement and FM staff was also country-based, which helped an active involvement in monitoring and guidance on fiduciary issues. A total of eight supervision missions took place semi-annually, and Aide-Memoires captured in detail the project implementation progress and issues. Apart from the supervision missions, the Bank team was also proactive in setting up additional meetings with the counterparts. The team proactively made actions and had intensive dialogue with the GoI, NABARD and funders to address the issues, when: (i) the government announced a debt waiver scheme, and (ii) the cancellation issue came up in the last year of the project. The timing and justification of the restructuring are deemed reasonable, given the good progress before the restructuring, and careful assessments made on the incremental costs/ benefits. The Bank team could have considered additional activities on credit risk management to improve the viability of ST CCS, for example through a TA, to look into what was hindering performance improvements, and make suggestions to supplement the dialogue/build knowledge.

(c) Justification of Rating for Overall Bank Performance

Rating: *Moderately Satisfactory*

81. With a rating of moderately satisfactory for both quality at entry and supervision, overall Bank performance is rated *Moderately Satisfactory*.

5.2 Borrower Performance

(a) Government Performance

Rating: *Moderately Satisfactory*

82. **Borrower performance has been mixed, but overall positive.** On the one hand, substantial and ground making progress was made in putting in place the legal and regulatory framework for improved governance at the state level. The CSAs in 23 states were adapted (including in the five PS) to introduce enhanced governance regimes in the sector and eliminate/reduce the potential influence of the government in their management. A constitutional amendment was passed on the national level, which further strengthened the undertaken governance reform. RBI improved the prudential framework for financial cooperatives and their supervision. There was overall good ownership for the reforms by the involved parties on both national and state level, and the effort and dedication put into implementing the reforms by key stakeholders on the national and state level has been impressive.

83. As discussed above, profits of the ST CCS remain limited and the debt waiver negatively affected the viability of the financial cooperative system during the project period. However, it is also noted that the debt waiver helped small and marginal farmers obtain access to fresh loans. NIMC stopped meeting after the 9th meeting (January 2011), so no fresh input was made. A partial cancellation requested by the GoI after the one year extension affected the roll-out of computerization and FRS disbursement to the states that completed the reform benchmark activities. However, while the IT component was a missed opportunity, new initiatives outside of the reform program are supporting automation at the ST CCS. Negative impacts due to a cancellation of FRS were lesser than initially anticipated, given the sufficient capitalization level achieved at ST CCS.

(b) Implementing Agency or Agencies Performance

Rating: Moderately Satisfactory

84. **The Performance of NABARD has been *Moderately Satisfactory*.** Much of the achieved reforms in implementing the enhanced legal and regular framework are due to the dedication of NABARD staff, in particular on the regional level. The regional officers of NABARD have taken a vital interest in helping the sector move along, liaise and coordinate with state representatives and stakeholder, and make the program implementation work. At the central level, NABARD head office played a key role to ensure the country-wide implementation and uniformed approach among the states. However, there were also aspects were more could have been achieved – for instance on member education and data measurement, review and analysis – and there were gaps that existed in the M&E and

fiduciary framework (eg. delays in project audit reports) as discussed above. Therefore, overall the performance of NABARD has been moderately satisfactory.

(c) *Justification of Rating for Overall Borrower Performance*

Rating: Moderately Satisfactory

85. **Overall borrower performance is rated as *Moderately Satisfactory*.** While impressive results were achieved in introducing improved governance in the sector, some of the measures taken by the government directly impacted the viability of the sector.

6. Lessons Learned

86. **A longer project timeframe could have been considered given the complexity and effort needed for reforming the cooperative sector in India.** Evidence from other countries shows that reform of the cooperative sector involves a complex shift in governance, management and culture, and thus requires a much longer time for the sector to fully absorb such changes and start to grow sustainably. While some of the key changes are visible in India, a longer project period could have been considered. Also, impact of well-functioning reformed institutions should ideally be measured after sufficient time, as internal processes, systems and products also need to change and full outcomes are realized over a longer timeframe.

87. **Governance reforms should be supplemented from the start with a very strong focus on enhancing credit risk management and recovery of non-performing loans.** A key factor of profitable and viable institutions relies on a sound credit risk management and efforts on recovering non-performing loans. Therefore, governance reform should be complemented with a strong focus on capacity building of the cooperatives to enhance the credit management skills, and provide an effective monitoring and guidance system to ensure such skills are applied in daily credit operations. Considerations should also be given to link the cooperative financial institutions with the credit bureaus.

88. **For ongoing monitoring and fine-tuning of the program, a stronger effort to collect, monitor and evaluate PACS data at the central level is necessary.** The availability of reliable PACs level consolidated data are key to assessing the sector, designing project interventions, and capturing project outcomes and impacts. Therefore, strong efforts are required at a central level to ensure the availability of consolidated and comparable data especially at the PACS level. It is important that such collected data are used effectively to guide decisions, adjust operations, and propagate good practices.

89. **To improve governance and capacity, efforts have to be brought to the field and the cascading training approach provides a replicable model.** Many members are unable to leave their work for one day or longer, or afford the travel to a larger city. Therefore capacity building measures for the lowest level have to be brought as close to the doorstep as possible. Train the trainer modules and the decentralized 'cascading model' can be a model for other large scale training initiatives (across sectors).

90. **Early involvement of the Bank in program design is important.** Even when the Bank finances a part of the country-wide program, it is critical for the Bank team to be involved in the

program design at early stage for better understanding of the program, contributing to a better program design, and introducing a solid M&E mechanism and risk mitigation measures.

91. **Since members' (mostly farmers') demands are diverse, a project should consider different types of financial/non-financial services.** Financial services involve not only credit, but also different products, such as savings and insurance. Also, rural cooperatives could play a role in meeting farmers' demand through providing various agricultural related services, using their vast networks. Attention on supporting appropriately designed products that take the diverse demand of farmers is critical.

92. **Close dialogue and strong coordination between the central and state governments are necessary.** When a country-wide program is implemented on a large scale financed by the central government, it is critical to set up a solid mechanism in which the progress, achievements, issues and concerns of each state are regularly tracked and communicated to the national level. Such mechanism needs to be ensured through regular and continuous meetings, with clear and detailed role of monitoring and guidance committees at each national, state and district level.

93. **Members' education needs adequate attention to communicate program benefits to the ultimate beneficiary group.** It is important that members understand the reform program and what the reform means to them. The program needs to include a robust communication strategy for reaching out to the members. In addition, financial literacy programs could also help enhance impact.

94. **For a front-loaded governance reform program, a clear reporting framework on reform benchmark activities is critical.** When a recapitalization component is based on achievement of certain pre-agreed reforms and benchmarks, it is useful to track updates on progress toward achieving these benchmarks in or along with the IUFRs, with a clear pre-agreed format.

95. **Country-based staff play a key role in close monitoring, guidance and support during the project implementation.** A country-based team, including procurement and financial management, can ensure constant dialogue with the counterparts and enable to make quick actions. This is particularly important when the project is complex with different stakeholders involved, which requires close monitoring and follow-up, in addition to regular supervision missions.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower and implementing agency

96. NABARD's completion report and comments and the response to those are provided in Annex 9.

(b) Co-financiers

Not applicable.

(c) Other partners and stakeholders

Not applicable.

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD million equivalent)

Components	Appraisal Estimate (USD million)	Revised Estimate - Restructuring[65] (USD million)	Actual (USD million)	Percentage of Revised Estimate
1. Technical Assistance for Capacity Building	25.0	25.0	5.6	22%
2. Information Technology	100.0	25.0	2.1	8%
3. CCS Financial Restructuring Support	618.0	693.0	505.5	73%
4. Implementation	7.0	7.0	7.5	107%
Total Project Costs	750.0	750.0	520.7	

(b) Financing

Source of Funds	Appraisal Estimate (USD million)	Actual (USD million)	Percentage of Revised Estimate
Government	150.0	104.2	69%
IBRD/IDA	600.0	416.5	69%
Total	750.0	520.7	69%

[65] May, 2011.

Annex 2. Outputs by Component

Component 1: Technical Assistance for Capacity Building

1. Objective and activities

Component 1 focused on building the needed human capacity within the sector to: (i) help members and the boards understand their roles in oversight; (ii) enhance staff's capacity to run the cooperative in an efficient, financially and operationally sound way; and (iii) improve the capacity for oversight through second tier institutions and external auditors. This complemented the legal and regulatory reforms under component 3. Experience in other countries shows that the provision of capacity building is particularly critical for enhancing governance of cooperatives in rural areas, as the required level of human capacity is usually not available in these areas and thus has to be built up through existing staff.[66]

Output indicators

- Capacity building for the Institutes of Cooperative Management's and the Junior Training Centers' faculty to design and deliver basic training modules for the ST CCS is implemented according to the plan
- A member education strategy for selected PACS' members is developed and implemented according to the plan
- Training and capacity building for participating ST CCS to strengthen their ability to comply with the new regulatory framework, as well as their managerial, operational and technical capabilities is implemented according to the TA plan

2. Outputs of the Component

Under Component 1, the project funded train the trainer programs for 1,768 participants on the state and district level, and directly supported the roll-out of training and capacity building programs to 109,348 sector participants. This translates to an average of five trainings provided per entity, which highlights the massive scale of training provided.[67] The participants included Board and general sector members, as well as staff and management of PACS, DCCBs and SCBs in the five PS (see Table 1). The trainings encompassed nine core training modules, which were developed under the revival package nationwide and covered training to support the implementation of the common accounting and management information systems, improve financial management, risk and credit assessment, conduct business development planning, and inform boards and general members on their respective roles and rights (see Table 2). Around 80 percent of the participants of an impact assessment carried out by NABARD in 2011 confirmed that the training had a positive impact on their performance.

[66] See for example capacity building reforms supported under the Madagascar Microfinance Project.
[67] NABARD and its training center BIRD confirmed that this was the second largest training effort undertaken within NABARD.

Table 1: Training provided under Component 1

State	Train the trainer programs			Training of PACS functionaries				Training of CCB/SCB functionaries			TOTAL
	Master trainers trained	District level trainers trained	Resource per. CAS / MIS	PACS staff	Board members	CAS / MIS	BDP*	Board of DCCB/ SCB	CEOs of DCCB/ SCB	Branch Mgrs/ Sr. Officers	
Gujarat	21	319	335	7,238	13,431	5,651	6,510	81	20	954	34,560
Haryana	24	109	124	1,205	1,256	1,309	668	110	30	567	5,402
Odisha	29	104	102	4,150	4,025	3,909	3,254	150	17	288	16,028
Up	30	86	282	7,404	6,348	8,162	3,475	284	55	603	26,729
West Bengal	8	74	121	7,893	7,764	5,578	6,345	168	17	429	28,397
Total	**112**	**692**	**964**	**27,890**	**32,824**	**24,609**	**20,252**	**793**	**139**	**2,841**	**111,116**
India-wide	**410**	**2,725**	**6,019**	**86,276**	**129,775**	**76,457**	**39,387**	**4,165**	**374**	**8,188**	**353,776**
Share WB states	*27.32%*	*25.39%*	*16.02%*	*32.33%*	*25.29%*	*32.19%*	*51.42%*	*19.04%*	*37.17%*	*34.70%*	*31.41%*

Source: NABARD
**BDP: Business Development Plans*

Table 2: Nine core modules

Module 1: Four-day training module for PACS secretaries on "How to do the existing business better in the post reform scenario" with specific thrust on resource mobilization, loan products, housekeeping and accounting
Module 2: Two-day training module for board members of PACS focusing on self-sustenance through improved governance & management of resources
Module 3: Two-day module for PACS secretaries focusing on CAS and MIS
Module 4: Two-day module on CAS and MIS for departmental auditors and supervisors of cooperative banks to enable them to provide handholding support to the PACS functionaries
Module 5: Three-day training module for the elected board of directors of CCBs and SCBs with focus on the need for change and issues in governance in the post reform scenario
Module 6: Orientation programs for CEOs of CCBs. Five days to enable them to recognize the increased business opportunities in the changed scenario
Module 7: Three-day training module on Business Development Plans for PACS Secretaries
Module 8: Five-day in-campus Orientation program for Branch Managers and Senior Officers of CCBs/SCB for business development/diversification
Module 9: Three-day Orientation program for Supervisors/ Inspectors of PACS

Source: NABARD

3. **Disbursements** (Bank Funding Estimate USD20 million/Actual Disbursement USD4.5 million)

The component achieved most of the expected outputs with much lower costs than estimated at appraisal, given that the activities were implemented through efficient delivery methods (using the unified training modules and cascading model of training dissemination).

Component 2: Information Technology

1. Objective and activities

Component 2 supported computerization of the sector to improve the timeliness, availability and quality of accounting information in PS. It was to build upon the introduction of a common accounting and management information system supported under Component 1. While it is not critical for achieving enhanced transparency, computerization is another tool for facilitating timely and efficient decision-making and management within the financial intermediary. It can also positively affect the quality and ease of data collection, off-site supervision and external audits of the sector.

Output indicators

- New IT platform is installed in the PS
- Participating ST CCS in all PS migrate to the new CAS within 3 years from the date on which the MoU was signed
- Participating ST CCS implement the new MIS within 3 years from the date of the first flow of funds to the PS

2. Outputs of the Component

Limited project support was provided under component 2 for the computerization of the sector. Under the program, it was determined that staff of PACS should first gather experience with manually implementing the new CAS (financed under Component 1) to familiarize themselves with double accounting, and help them move away from the single or informal accounting still prevalent at that time in many PACS. The ICR team concurs that this step-by-step approach was needed to build the necessary capacity and understanding for such a radical shift in accounting (see Box below). In parallel, a common-national software was developed based on a software used in Tamil Nadu, and pilots to test and adapt it to the specific state level requirements were carried in four PS. However, the ensuing procurement and roll-out of the hardware and software was eventually stalled due to the aforementioned closing of the government's revival package. Thus, the project only financed the hardware and software as well as support and training for the transition to the new platform for 325 PACS in nine districts of Haryana. In West Bengal, 3,141 PACS were computerized, but this was initiated prior to becoming a member state and thus no project funds were used (See Annex 3, procurement). It should however be noted that considerations are advanced in Gujarat and Odisha to finance the pending computerization from within the sector, and similar discussions are ongoing in the other states. Moreover, all SCBs and DCCBs are currently implementing a CBS, which allows the introduction of electronic payments and transactions. This has created further interest within the sector to push for automation, either through converting PACS into business correspondents with Point of Sales (POS), or fostering their computerization. It is thus expected that the computerization will eventually still be carried out.

Box: Experience with introducing the common accounting system and computerization – feedback received during the completion report mission:

One of the visited small PACS highlighted that the introduction of the common accounting system has been a great help in running their business. Prior to its introduction, they had relied on an informal system, many times calculating costs only in their head and having limited paper trails. The new system now allows them to have an accurate reflection of their business, track payments made and outstanding, and assess the true costs incurred. While they have received a computer under the program, the management of the PACS did not yet feel comfortable in using it, and continued to use the manual forms for common accounting system for their daily practices. To insert the information periodically into the computer, they rely on one of the computer-literate members to come into the office.

Another PACS reported that they initially had strong internal resistance towards computerization, but eventually carried it out with project support. They are now using the systems on a daily basis, and highly appreciate the ease and accuracy of data and information it provides. They regularly share the print-outs with their Board members, who confirmed that the new computer has helped them assess the entity's current financial situation and talk about the overdue loans. The staff of the PACS however also highlighted that it was important to first prepare the accounts manually via the CAS, as this has helped them understand the principles of double accounting and understand what the data and ratios include and measure.

3. Disbursements (Bank Funding Estimate USD20 million/Actual Disbursement USD1.7 million)

Due to cancellation, other three PS as well as Haryana (phase II) could not complete the procurement and deployment process. However, manual roll-out of CAS conducted under Component 1 contributed to better quality of information provided by ST CCS.

Component 3: CCS Financial Restructuring Support

1. Objective and activities

The recapitalization under Component 3 provided the needed capital and provided the monetary incentive for introducing far reaching legal and regulatory reforms on the state and national level and for reducing the role of state governments in the management and ownership of the sector. In this regard, the recapitalization served as policy support as in many instances supported under a DPL. The recapitalization also directly helped the sector boost its capital, thus allowing it to increase lending to the targeted beneficiaries and increase outreach in line with the project development objective.

Output indicators

- All ST CCS deemed eligible for FRS as per the pre-determined criteria receive recapitalization support upon the achievement of pre-agreed benchmarks
- Increase in CRARs for at least 2/3 of the participating ST CCS in the PS

2. Outputs of the Component

Status of reform benchmark activities is shown in Table 3. UP and Gujarat completed all the benchmark activities, while other states also made a very good progress.

Table 3: Bench Mark Activities in five PS

Parameters	Gujarat	Haryana	Odisha	UP	WB
1. CSA Amendment	√	√	√	√	√
2-(a). Rules Amendment	√	Pending with state government	√	√	√
2-(b). Bye-laws Amendment					
SCBs	√	√	In progress	√	Model bye-laws circulated, ST CCS to confirm
DCCBs	√	√		√	
PACS	√	√		√	
3. Elections					
SCBs	√	√	Boards superseded	√	√
DCCBs	√	√		√	√
PACS	√	√		√	√
4-(a). Fit & Proper criteria - CEOs					
SCBs	√	√	Boards superseded	√	√
DCCBs	√	√		√	X
4-(b). Fit & Proper criteria – Professional Directors					
SCBs	√	√	Boards superseded	√	√
DCCBs	√	√		√	X
5. State government equity <25%					
SCBs	Not in excess	Not in excess	Not in excess	Not in excess	Not in excess
DCCBs	Not in excess	√	√	√	Not in excess
PACS	√	Not in excess	√	√	√
6. Release of committed liabilities	√	NIL	NIL	√	NIL
7. State government nominee on board of all CCS units	√	√	√	√	√
8. Roadmap for ineligible PACS	√	22 out of 33 improved recovery	X	Revival of 1200/liquidation of others	Pending with state government

Source: NABARD (as of September 30, 2013)

Table 4: Changes in the composition of boards and management of ST CCS

Gujarat	Haryana	Odisha	UP	West Bengal
Elected board put in place in SCB, 16 out of 18 DCCBs and 7102 out of 7174 PACS. Elections in Ahmedabad DCCBs are sub judice.	Elected board is put in place in SCB, all 19 DCCBs and 594 out of 604 PACS.	Prior to the 97th Constitutional Amendment, elected boards were in place in the SCB and DCCBs. In 2012, however, the boards were superseded to ensure proportional representation of weaker sections and women. Subsequently the Constitutional Amendment also came into the picture. They are currently managed by the Registrar of Cooperative Societies	Elected board is put in place in SCB, 49 DCCBs and in 6686 out of 6740 PACS.	Elected board is put in place in SCB, all 17 DCCBs and 4630 out of 5740 PACS.

		(RCS) nominated Committees. Elections are expected in 2014.		
Professional Directors are put in place in 17 DCCBs and SCB.	Professional Directors are put in place in Haryana SCB and all 19 DCCBs.	As boards were superseded, there are currently no professional directors.	Professional Directors have been put in place in 49 DCCBs. Two Professional Directors are placed on the board of SCB. Seven vacancies exist in 5 DCCBs.	Professional directors as per Fit & Proper criteria placed in the board of SCB
CEOs as per Fit & Proper Criteria are appointed in SCB & all DCCBs.	CEOs as per Fit & Proper Criteria appointed in SCB and 19 DCCBs.	CEO at SCB complies with the Fit & Proper Criteria. Recruitment of CEOs for DCCBs is ongoing.	CEOs of SCB & 47 DCCBs are as per Fit & proper criteria. CEOs at remaining DCCBs yet to be appointed by the Board.	Advertisement issued for selection of CEOs in SCB and DCCBs.

Source: NABARD (as of September 2013)

Around 14,000 eligible PACS as well as 13 DCCBs were recapitalized under component 3 when the respective benchmark activities were met (see Table 5 and 6). The recapitalization of the sector is however not yet complete. In all 89 of the 102 assessed DCCBs did not receive the expected recapitalization support and some had to depend on the provision of grants from the state government to meet the introduced CRAR of 4% mandated by RBI.[68] The situation is similar in the other states of India which signed the MOU with the government and embarked on the necessary reforms but were not directly funded under the project. It should however be noted, that most of the expected benchmark activities for recapitalization have now been met in the PS, which were the main expected output under the project and capital adequacy project targets for DCCBs and SCB were met – so despite the lower recapitalization amounts, the main objectives of boosting the capital of these institutions, was attained (in part on account of the waiver which supported recoveries of bad loans and other measures).

[68] This support was for example provided by the state government of Gujarat, which recapitalized 4 DCCBs that were not meeting the capital adequacy requirements and would have otherwise had to be closed as a consequence.

Table 5: Special audits and recapitalization provided under component 3 and 4

	Registered ST CCS			Assessed ST CCS			Recapitalized ST CCS							
							# of STCCS receiving funds				Disbursed amount (Rs crore)**			
	PACS	DCCBs	SCB	PACS	DCCBs	SCB	PACS	Ineligible PACS (DCCBs)*	DCCBs	SCB	PACS	Ineligible PACS (DCCBs)*	DCCBs	SCB
Gujarat	8,092	18	1	7,176	18	1	2,330	780	0	0	267	187	0	0
Haryana	616	19	1	585	19	1	547	-	0	0	376	-	0	0
Odisha	3,813	17	1	2,726	17	1	2,528	196	13	0	476	38	54	
Up	8,929	50	1	6,740	50	1	4,689	-	0	0	499	-	0	0
West Bengal	8,061	17	1	5289	17	1	2,937	-	0	0	108	-	0	0
Total	**29,511**	**121**	**5**	**22,516**	**121**	**5**	**13,031**	**976**	**13**	**0**	**1,726**	**225**	**54**	**0**

Source: NAFSCOB (2007/8) for registered number of entities, NABARD for assessed and recapitalized entities
DCCBs received indirect recapitalization toward losses due to Ineligible PACS (see section 2)
***Disbursed amount **by Bank** under component 3covered 80% of the GoI share.*

Table 6: FRS disbursed under Component 3[69]

Rs Crore

	Gujarat	Haryana	Odisha	UP	WB
SCBs	-	-	-	-	-
DCCBs	-	-	54	-	-
DCCBs - Losses due to ineligible PACS	187	-	38	-	-
PACS	267	376	476	499	108
TOTAL	**454**	**376**	**568**	**499**	**108**

Source: NABARD

3. Disbursements (Bank Funding Estimate USD555 million/Actual Disbursement USD404 million)

Due to cancellation, the final FRS disbursement was not completed (in particular UP and Gujarat that achieved all the benchmark activities). However, the five PS committed to the legal and governance reform under the Component, and achieved an objective of laying a good foundation toward a sustainable cooperative sector.

[69] The amount funded by the World Bank (80% of the GoI portion).

Component 4: Implementation

1. Objective and activities

The support for the implementing unit provided under the Component 4 also funded the special audits carried out for all sector entities. These were needed to determine the actual amount of recapitalization for each eligible entity. Component 4 also supported efforts to monitor state-level adherence to the recapitalization benchmarks, as well coordinate and supervise activities on the state and national level.

Output indicators

- Implementation capacity of NABARD and of the SLICs, DLICs, and RCS in PS is strengthened, as necessary
- Agreed M&E framework is developed and implemented
- A communications and dissemination strategy is prepared and implemented

2. Outputs of Component

Special audits to assess the situation of over 21,000 ST CCS were financed in all five states under Component 4 (see Table 5 above). KPI were produced semi-annually in five PS. In addition, impact studies were conducted (Gujarat, Orissa, UP and West Bengal by NABARD, and Andhra Pradesh and Odisha by the Bank).

4. Disbursements (Bank Funding Estimate USD5.6 million/Actual Disbursement USD7 million)

Annex 3. Supporting Data and Information: Fiduciary Aspects

Financial Management

The key issues that were identified during the project implementation are listed below:

- **Delays in submission of IUFRs and audit reports**. Out of the 20 IUFRs received during the life of the project, 10 were past 90 days overdue, 8 were past 30 - 89 days overdue, and only 1 IUFR was received within the stipulated time of 45 days from the end of the reporting quarter. The submission of audit reports is reflected in the Table 1.[70] In addition, Statement of Expenditure (SOE) claims were submitted only once a year as opposed to quarterly claims.

Table 1: Submissions of the project's audit reports

Reporting Period	Due Date	Date of Receipt
01-10-2007 to 31-03-2008	30-06-2008	26-11-2008
01-04-2008 to 30-09-2008	31-12-2008	01-12-2008
01-10-2008 to 31-03-2009	30-06-2009	03-08-2009
01-04-2009 to 30-09-2009	31-12-2009	14-04-2010
01-10-2009 to 31-03-2010	30-09-2010	25-10-2010
01-04-2010 to 31-03-2011	30-09-2011	24-11-2011
01-04-2011 to 31-03-2012	30-09-2012	07-12-2012
01-04-2012 to 31-03-2013	30-09-2013	Not received till date (as on 24-12-2013)

- **Monitoring, accounting and reporting on PACS share of recapitalization remained an issue and led to a downgrading of FM rating toward the project close.** The ST CCS's share of recapitalization contribution in UP was estimated at 26% (as compared to 5-10% in other states), constituting a significant share of the total recapitalization. Although Aide-Memoires pointed out the need to monitor and report such contributions in the IUFRs, this remained a pending action till the project close. As per the last field visit to one district in UP in November 2013, out of Rs35.6 million required to be raised as their own contribution by 132 PACS that received financial assistance in the district, 56 PACS have raised Rs9.11 million (25%) from profits etc. The others are unable to raise their contribution. Additionally, PACS in the district have raised Rs0.59 million as additional capital and have also recovered Rs2.1 million from out of the fraud etc. However, it could not be confirmed, from the visit of sample district, if accounting entries for PACS contribution as suggested by NABARD have been made.
- **Delays in audits of PACS by departmental auditors with the state governments, especially in UP, remained an unresolved issue till project closure.** The status of submission and audit of financial statements of PACS in November 2013 is shown in Table 2.

[70] During the first 2 years of project implementation, half yearly audit reports of the project were due for submission to the Bank within 3 months of the end of the reporting period. From the 3rd year onwards an annual audit report was required to be submitted to the Bank within 6 months from the end of the financial year.

Table 2: Status of PACS audits in UP

Period	Submission of Financial Statements	Audit of Financial Statements
FY 09-10	25	124
FY 10-11	25	139
FY 11-12	43	150
FY 12-13	111	169

Procurement

The final status of the procurement and rollout progress on the computerization of CAS and MIS is as follows:

- In **UP,** pilot testing of the National level core software, selected by the SLIC was carried out in three PACS. The customization requirements for the software, based on this pilot testing, were identified. Out of the 4,705 PACS eligible for IT support, electricity connection was available at 2,641 PACS. Computer hardware requirements had been already determined. The procurement of hardware was not yet been initiated since floating of tenders was put on hold due to non-availability of funds.
- In **Orissa,** 1,200 PACS had been identified to be covered in the phase I computerization. The requisite infrastructure in terms of having own building and electricity connection was ready. The tenders for selecting the (i) Hardware vendor for supply and installation of computers, printers and UPS, and (ii) Software deployment agency for installation of software, data entry and providing training and three years onsite service support at these 1,200 PACS (under 17 DCCBs) have been invited in February 2012. Orissa State Coop Bank (OSCB) has adopted the bidding documents recommended by NABARD while issuing these tenders. The bids were opened in April 2012 and evaluation is completed. OSCB could not get the SLIC sub-committee's decision on availability of funds that were expected from NABARD and the contract was not awarded.
- In **West Bengal,** the SLIC had approved to use the Common Software developed by a firm. The common software was tested on a dry run in three PACS for testing (customization). The System Integration vendor for supply of hardware, system integration and deployment of software, was contracted pursuant to a procurement process initiated before West Bengal was incorporated as a PS (in place of Uttarakhand) under the project. This procurement was reviewed and was found not to be in compliance to the agreed procurement procedures of the Bank. The System Integrator supplied the hardware to these PACS locations at their own cost. The System Integrator was assigned with the task of implementation of the entire project, but could not carry on the project further, because they had not yet been paid.
- In **Gujarat** the dry run of core software on computerization of CAS/MIS was carried out in three identified PACS. The tendering for procurement of hardware, system integration and deployment of CAS was not initiated due to non-availability of funds.
- **Haryana** could complete the roll out the state specific software in 325 PACS which was taken up in for computerization in the first phase. For the remaining 277 PACS in Phase II tenders for procurement of hardware and identification of the deployment agency (SDA) were floated but the Roll out of the software in the second phase could not be completed since tenders could not be floated due to non-availability of funds.

Annex 4. Supporting Data and Information: Indicators

Basic features of ST CCS in five PS

	Gujarat	Haryana	Odisha	UP	West Bengal
# of DCCBs	18	19	17	50	17
# of PACS	8,052	643	2,699	7,253	5,106
# of members (,000) – PACS*	3,552	2,755	4,884	12,595	2,970
Total Assets – DCCBs (crore)	20,826	11,026	9,846	19,165	10,090
Deposits – DCCBs (crore)	14,075	5,365	4,731	11,646	7,576
Loan Outstanding – DCCBs (crore)	8,144	7,333	4,873	6,021	2,977

Source: NABARD (March 2012)
**average of 2010-2012*

Table 1: Evolution of capital adequacy ratios in DCCBs

	CRAR (average)		CRAR < 4%				CRAR < 7%			
	2005	2012	2005 (#)	2012 (#)	2005 (%)	2012 (%)	2005 (#)	2012 (#)	2005 (%)	2012 (%)
Gujarat	3.08%	9.92%	7	0	39%	0%	11	5	61%	28%
Haryana	8.21%	8.79%	0	1	0%	5%	6	5	32%	26%
Odisha	5.13%	6.28%	6	6	35%	35%	10	6	59%	35%
UP	-15.36%	-42.39%	32	24	64%	49%	36	27	72%	54%
West Bengal	6.5%	6.8%	4	4	24%	24%	7	5	41%	29%

Source: NABARD

Table 2: Recovery Rates in ST CCS

	SCB			DCCB (Average)			PACS (Average)		
	2005	2012	Annual Growth	2005	2012	Annual Growth	2005	2012	Annual Growth
Gujarat	80.2%	100.0%	2.8%	74.2%	87.6%	1.9%	58.4%	72.0%	1.9%
Haryana	99.8%	100.0%	0.0%	75.6%	71.1%	-0.6%	77.9%	67.6%	-1.5%
Odisha	88.0%	96.0%	1.1%	65.0%	68.4%	0.5%	79.1%	66.7%	-1.8%
UP	71.5%	96.0%	3.5%	51.7%	60.2%	1.2%	N.A.	N.A.	N.A.
West Bengal	91.1%	75.4%	-2.2%	72.7%	84.5%	1.7%	48.8%	64.5%	2.2%

Source: NABARD (SCB, DCCB), NAFSCOB[71] (PACS)

[71] NAFSCOB data has variable quality, although it remains the main source of consolidated data on PACS. The data in the table is for all PACS (even ineligible, non-recapitalized PACS) and therefore, the recovery rates for eligible PACS are weighed down in the measurement. However, at this point in time, this is the only consolidated information available.

Table 3: ROA in SCBs and DCCBs

	SCB		DCCB ROA < 0.5%				DCCB improved ROA*	
	2005	2012	2005 (#)	2012 (#)	2005 (%)	2012 (%)	#	%
Gujarat	0.13%	0.24%	8	13	44%	72%	8	44%
Haryana	1.25%	0.31%	5	19	26%	100%	0	0%
Odisha	0.84%	0.14%	9	12	53%	71%	6	35%
UP	0.64%	0.37%	34	35	68%	70%	28	56%
West Bengal	0.23%	-0.44%	7	14	41%	82%	6	35%

Source: NABARD **between 2005 and 2012*

Table 4: Profitable DCCBs

	Mar-05	Mar-08	Mar-12
Gujarat	70.0%	61.1%	83.3%
Haryana	100.0%	73.7%	73.7%
Odisha	94.1%	82.4%	88.2%
UP	52.0%	42.9%	68.0%
West Bengal	94.1%	82.4%	88.2%

Source: NABARD

Table 5: Profit and loss at PACS level

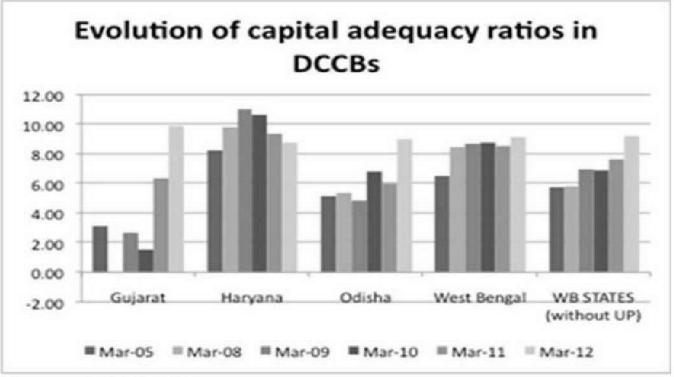
	% of PACS in profit (of total)	
	Mar-05	Mar-12
Gujarat	63.60%	68.70%
Haryana	49.10%	12.80%
Odisha	37.60%	26.00%
West Bengal	44.70%	57.40%
Total (4 PS)	**48.80%**	**59.60%**

Table 6: Growth in loan amount and number of borrowers

	Loan Issued (Rs Crore[72])			Loan Outstanding (Rs Crore)			Number of Marginal and Small Farmer(,000)*		
	2005	**2012**	**Growth**	**2005**	**2012**	**Growth**	**2005**	**2012**	**Growth**
Gujarat	5,427	9,222	70%	5,118	8,144	59%	4,210	5,187	23%
Haryana	4,910	8,029	63%	4,081	7,333	80%	4,867	7,929	63%
Odisha	1,634	4,946	203%	2,153	4,873	126%	7,822	17,356	122%
UP	3,836	8,617	125%	3,660	6,021	65%	17,174	30,453	77%
West Bengal	1,280	2,670	109%	1,087	2,977	174%	9,550	11,335	19%
Total	**17,087**	**33,484**	**96%**	**16,099**	**29,348**	**82%**	**43,623**	**72,260**	**66%**

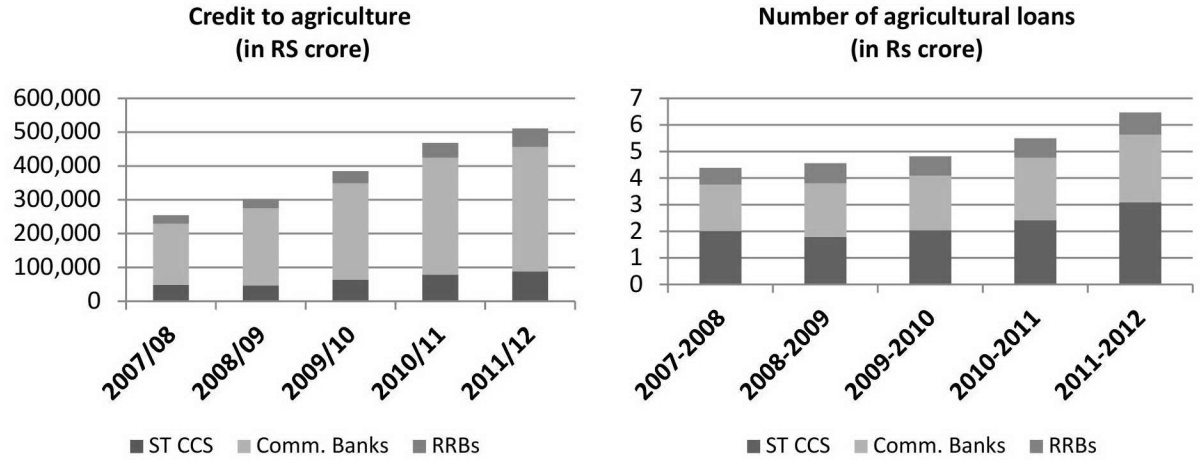
*Source: NABARD, NAFSCOB * Total borrowers in 2012 were 11.24 million (7.26 million were small and marginal farmers)*

Chart 1: CRAR of DCCBs



Source: NABARD

Chart 2: Evolution of agricultural credit in India (by type of financial entity)



[72] Crore=10,000,000

Annex 5. Economic and Financial Analysis

1. **Assumptions in PAD.** The project design as described in the PAD had the objective of dealing with the external and internal factors that were seen to be undermining the ST CCS. The identified undermining factors were inadequate legal framework, poor governance, weak operational capacity, limitations on size and scope and the resultant low efficiency. The project was designed to address inadequacies in regulation through support to reforms that require states to amend their cooperative laws, consolidating regulatory powers in the hands of the central bank (by doing away with the overlapping regulatory powers of states) and introducing prudential norms in all the three tiers. On governance, the reforms were to be introduced in reducing state ownership of cooperatives, providing voting rights for all shareholders, removing participation of state representatives in boards, periodic and regular conduct of elections to boards, removing state interference in business, operations and governance matters of the CCS and providing autonomy of operations to CCS to do business with any institution of their choice without the bonding to the cooperatives in the different tiers. These reforms were to be supported with capacity building and member awareness.

2. Weak operational capacity was proposed to be addressed through strengthening management capacity of CCS, training of staff, boards and senior management, improving accounting, MIS and audit mechanisms, introducing a results-focused business planning framework and IT enablement. The scale and scope issues were to be dealt through a focus on cost optimization, improvement of efficiency, risk diversification through a wider range of products and services, and IT enablement which will increase staff productivity. The freedom to price products, savings services at PACS level and integrating with other financial products such as crop and asset insurance were also thought of as having the potential to facilitate ST CCS expanding to achieve appropriate scale and benefit from economies thereof.

3. In terms of impact, the interventions were to bridge the huge gap between demand and supply of rural finance through effective leverage of capital infusion from the program. The expanded business was expected to improve outreach to marginalized sections of rural households. Apart from improved welfare resulting from increased access to financial services, cost reductions were anticipated from substitution of high cost informal borrowing with affordable loans from ST CCS. Positive linkages both forward and backward, increased autonomy of ST CCS resulting in member focused functioning and therefore higher quality of benefits leading to better income and enterprise opportunities have been assumed as likely outcomes.

4. **Assessment of economic impacts.** As discussed in Section 3, the scenario of legal, regulatory and governance reforms envisaged in the PAD have almost fully been realized. Overall the legal, regulatory and governance changes have introduced a positive environment where good leadership can take institutions on a sound, expansionary path. The value of these changes in economic terms is not quantifiable, but the increasing economic activity level in local areas in which the institutions operate will be a telling testimony to their effectiveness. However it must be noted that the reforms at these levels of institutions take time to fully translate in to tangible improvements that impact local economies. While changes are visible, impact of well-functioning reformed institutions will ideally need to be measured after an interval of about three to four years as internal processes, systems and products also need to change. These changes will not be knee-jerk response to legal and governance reforms, but more calibrated and well thought out actions by managements that have to absorb the risks

and own the outcomes. This is the reason why there will be a time lag between the initiation of reforms and the full realization of outcomes on the ground.

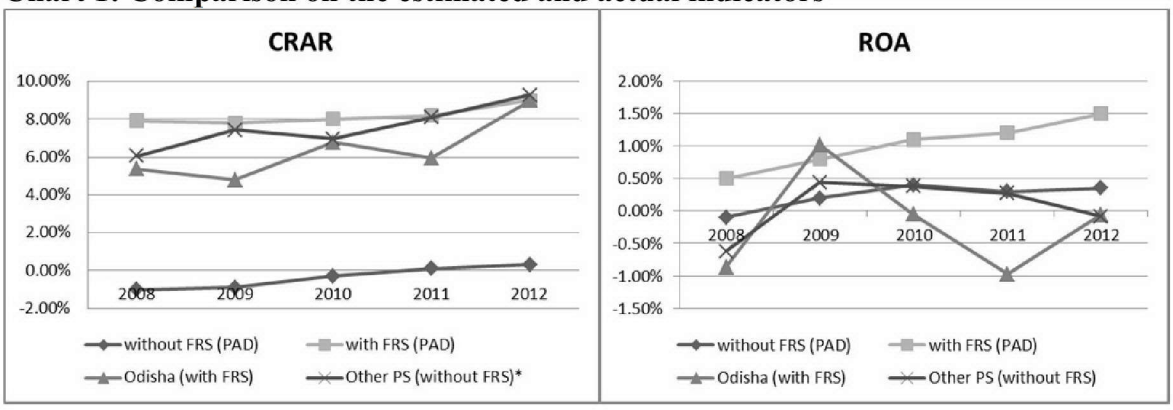
5. The linkages established by the reformed ST CCS had been varied. While systematic data capture is not carried out, field missions regularly came across PACS providing an array of services from improved supply of inputs, renting out farm equipment, aggregating agricultural produce, undertaking procurement of produce from members on behalf of procurement agencies, undertaking cooking gas supply, promoting and financing SHGs, collection of utility bills, etc. A number of PACS had resumed savings mobilization from members after a long interval following the initiation of reforms and preparation of new business plans.

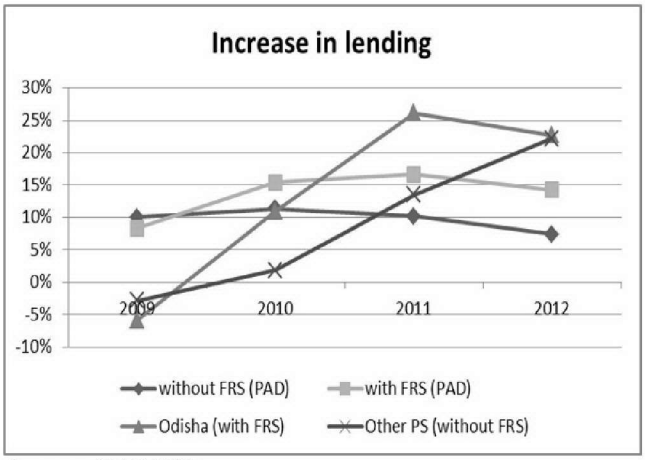
6. **Assessment of financial impacts.** As most of the analysis on the financial strength in ST CCS is presented in Section 3, this section complements the analysis by adding a comparison between what the financial analysis section in the PAD presented and the actual outcomes.

7. The PAD randomly selected ten DCCBs in the country and analyzed the impacts expected on their financial parameters. The analysis in the PAD showed that, over a five year period, following receipt of financial assistance in 2007, the DCCBs' CRAR was expected to rise from an average of minus 0.88 percent to 9.08 percent. In the same timeframe, it was assumed that ROA was to show consistent improvement, rising from 0.07 percent to a 1.46 percent by the end of the period, providing a good indication that the DCCBs would be able to achieve sustained profitability. Lastly, the dramatically improved CRAR and profitability of the DCCBs were expected to lead to a substantial increase in their lending, because they would achieve the creditworthiness required to increase their borrowing and attract additional deposits.

8. The actual outcome shows Odisha and other four PS separately. Odisha is considered separately as only Odisha received the full FRS (Chart 1), while other PS received only a partial FRS. CRAR in DCCBs evidences the expected achievements in both Odisha and other PS (average). ROA, however, shows a weak result compared to the assumptions at appraisal, and does not demonstrate a strong linkage between the FRS and profitability. Lastly, growth in lending achieved a very positive trend, with a more rapid growth in Odisha.

Chart 1: Comparison on the estimated and actual indicators





Source: NABARD
**Excludes UP, as valid time series data is not available.*

9. As the PAD also noted, a conventional economic rate of return analysis is not straightforward in this project. The Table 1 presents the FRR analysis in: (i) Odisha, where the FRS was fully completed; and (ii) five states, following the same methodology applied in the PAD. Although a sample analysis of 10 DCCBs randomly selected from all the DCCBS in the country (including non-PS) in the PAD showed a much better FRR, both the cases show a good level of FRR and positive NPV.

Table 1: Project FRR and NPV

Odisha Lakhs

		2008	2009	2010	2011	2012
Increase in available refinance			-19,365.68	34,165.90	90,426.91	99,377.71
Moneylender Minimum Interest Rate		36%	36%	36%	36%	36%
Refinance rate to Rural Borrowers		7%	7%	7%	7%	7%
substitution Cost Benefit		29%	29%	29%	29%	29%
Borrower Cost Savings on Interest			-5,616.05	9,908.11	26,223.80	28,819.54
Cost of FRS		-47,496.00			-9,355.20	
Net benefit		-47,496.00	-5,616.05	9,908.11	35,579.00	28,819.54
Discount Rate	7.55%					
NPV	5,567.45					
IRR	11%					

Five States Lakhs

		2008	2009	2010	2011	2012
Increase in available refinance			-75,417.84	69,494.43	349,925.56	585,234.14
Moneylender Minimum Interest Rate		36%	36%	36%	36%	36%
Refinance rate to Rural Borrowers		7%	7%	7%	7%	7%
Substitution Cost Benefit		29%	29%	29%	29%	29%
Borrower Cost Savings on Interest			-21,871.17	20,153.38	101,478.41	169,717.90
Cost of FRS		-120,712.00	-27,275.20	-23,219.20	-29,330.40	
Net benefit		-120,712.00	-49,146.37	-3,065.82	72,148.01	169,717.90
Discount Rate	7.55%					
NPV	14,677.12					
IRR	10%					

Annex 6. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title[73]	Unit	Responsibility/ Specialty
Lending			
Andrew Lovegrove	Consultant	ECSF1	
Atul Deshpande	Senior Public Sector Specialist	AFTP3	
Aurora Ferrari	Sector Manager	ECSF2	
Robert Keppler	Consultant	FFIFI	
Dhimant Baxi	Consultant	SASFP	
Carlos Cuevas	Consultant	CGP	
Gabi George Afram	Senior Financial Economist	SASFP	
Heather Fernandes	Senior Executive Assistant	SACIN	
Henry K Bagazonzya	Sector Manager	SASFP	
Juan Carlos Mendoza	Manager	EACNF	
Mansi Handa	Temporary	SASDT	
Niraj Verma	Lead Financial Sector Specialist	SASFP	
Priya Basu	Manager	CFPMI	Task Team Leader
Shellka Arora	Legal Specialist	LEGMS	
Tara Vishwanath	Lead Economist	MNSED	
Vijay Mahajan	Institutional Development Expert	CGAP	
Supervision/ICR			
Ashish Bhateja	Senior Procurement Specialist	OPSOR	
Atul Deshpande	Senior Public Sector Specialist	AFTP3	
Durga Prasad	Consultant	SASGP	
Gabi George Afram	Senior Financial Economist	SASFP	Co-Task Team Leader (2009-2011)
Ilka Funke	Consultant	SASFP	
Juan Carlos Mendoza	Manager	EACNF	
Kumar Amarendra Singh	Consultant	SASDU	
K.V. Raju	Consultant	SASFP	
Mehnaz Safavian	Senior Economist	AFTFW	Task Team Leader (2011-2013)
Neeraj Arora	Consultant	SASFP	
Niraj Verma	Lead Financial Sector Specialist	SASFP	Task Team Leader (2009-2011)

[73] The titles refer to current designations, wherever available.

N. Srinivasan	Consultant	SASFP	
Papia Bhatachaarji	Senior FM Specialist	SARFM	
Pradeep Valsangkar	Consultant	SASED	
Priya Basu	Manager	CFPMI	Task Team Leader (2007-2009)
Puneet Kapoor	Consultant	SARFM	
Senapati Balagopal	Procurement Specialist	SARPS	
Shiori Onishi	ET Consultant	SASFP	
Shivendra Kumar	Consultant	SARPS	
Sona Thakur	Senior Communications Officer	SAREX	
Suhail Kassim	PSD Specialist	FCDKP	
Xavier Gine	Senior Economist	DECFP	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of Staff Weeks	USD Thousands (including travel and consultant costs)
Lending		
FY07	76	548
TOTAL:	**76**	**548**
Supervision/ICR		
FY08	19	155
FY09	28	165
FY10	32	144
FY11	28	134
FY12	21	143
FY13	25	130
TOTAL	**153**	**871**

Annex 7. Beneficiary Survey Results

Not Applicable

Annex 8. Stakeholder Workshop Report and Results

Not Applicable

Annex 9. Summary of Borrower's ICR and/or Comments on Draft ICR

Document of NABARD
IMPLEMENTATION COMPLETION AND RESULTS REPORT
GOI Package for revival of STCCS
World Bank Assisted Project

National Bank for Agriculture and Rural Development
C-24, G Block,
Bandra Kurla Complex
Bandra (E)
Mumbai - 400051
Date : 26 December 2013

Sr. No.	Topic
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2	GoI Agreement with World Bank - Strengthening Rural Credit Cooperative Project
3	Role of NABARD in implementing the package
i	Creation of an exclusive department
ii	Conduct of NIMCs
iii	Signing of MoU by States
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xiv	Impact Assessement Studies & field level observations
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xvi	Release of State Govt share in excess of requirement by participating States
xvii	Effect of Revival Package on unlicensed banks

STRENGTHENING INDIA'S RURAL CREDIT COOPERATIVES PROJECT

GOI Package for revival of STCCS - World Bank Assisted Project - Implementation Completion Report (ICR)

The Government of India had set up a Task Force in August 2004 under the Chairmanship of Prof. A Vaidyanathan to suggest an implementable action plan for reviving rural cooperative credit instituions including legal measures necessary for facilitating this process. Accepting the recommendations of the Task force in principle, they were placed before the NDC at its meeting held in June 2005.The recommendations were also discussed with state governments to arrive at a consensus. The Revival Package was announced by GoI on 5 January 2006.

1. **Revival Package**

Objective

The objective of the revival package was aimed at reviving the short-term rural cooperative credit structure (CCS) and make it a well-managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers. It sought to (a) provide financial assistance to bring the system to an acceptable level of health; (b) introduce legal and institutional reforms necessary for their democratic, sel-reliant and efficient functioning; and (c) take measures to improve the quality of management. It was also made clear in the package that all the three components are equally important and should be implemented as an Integrated Package.

Approach

The proposed financial assistance was a one time measure only. Financial assistance was conditional and released only on the implementation of the recommendations for legal and institutional reforms. States had the option to participate or not to participate in the package. States that are not ready to make the choice immediately were given two years time to take a decision in the matter.

Financial Package

Financial restructuring started first by bringing the Primary Agricultural Cooperative Societies (PACS) to an acceptable level of financial health through cleaning of their balance sheets and strengthening their capital base and then moved on to the upper tiers. The DCCBs were thereafter provided assistance to clear the balance of accumulated losses, if any, and to reach a minimum norm of capital adequacy. The same process was to be applied to the State Cooperative Banks (St.CBs).

Eligible Purposes

Financial assistance under the package was available for wiping out accumulated losses, covering invoked but unpaid and un-invoked guarantees given by the State Governments and other dues to the CCS from them, and increasing the capital to a specified minimum level. The package also included assistance necessary to bring all cooperatives, including PACS, to a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 7%. It was also expected that the CRAR of PACS will be raised to 9% within three years and that of CCBs and Stcbs as prescribed by RBI. Such increase was to be done by the CCS from their resources.

Eligible Institutions

The package provided for the capitalization of all societies in the three tier of the CCS . However in regard to PACS that satisfy the eligibility criteria the capitalization would be direct and in regard to others the capitalization would take place in the next higher tier. The package was to capitalize the STCCS entities in a bottom up approach beginning with the lower tiers first and then moving upwards.

For the purpose of determining the eligibility of PACS they were classified as A,B and C category based on their recovery percentage as on 30 June 2004, Thus PACS with a recovery of 50 % and above as on the above date were classified as A category and were eligible for full recapitalisation assistance directly and PACS with recovery of 30 to 50% were to receive the recap assistance in 3 annual back ended installments subject to their achieving an incremental increase of recovery of 10% points by 30 june 2006. As and when PACS in B category (Recovery between 30 to 50 %) achieved 50 % recovery they were eligible for full direct recap assistance without waiting for the year to year benchmark recovery. However subsequently NIMC relaxed the eligibility criteria and all PACS (including those with recovery percentage of less than 30% as on 30 june 2004) that achieved a recovery of 50% by 30 June 2007 were considered eligible for recap assistance . As

regards the NER states including Sikkim the eligible criteria was waived as a special case making all the PACS eligible for assistance under a special package and a special dispensation with concessions was announced by GOI during 2006.

Technical Assistance

The financial package also covered the costs of training and capacity building to improve the financial and management skills of staff and board members; for installation of uniform accounting and monitoring systems known as CASMIS, as well as for computerization of PACS with provision for Hardware and Software including capacity building of the PACS personnel.

Sharing Pattern

The liability for funding the financial package was shared by the Central Governments, State Governments and the CCS based on origin of loss and existing commitments. The actual magnitude of the share was to be determined on the basis of the findings of the special audit. However, a broad picture, based on available aggregate data as on March 2003, was estimated as given below:

(` crore)

Elements	GoI Share	State Govt. Share	CCS Share	Total
Acc. Loss + CRAR	5476	2689	401	8566
HRD+Spl. Audits	154			154
Computerisation	516			516
Impl. Costs	360			360
Contengencies	2739.28	1120	141	4000
Total	9245.28			13596

Legal and Institutuional Reforms

The root cause for the weak financial state of cooperative societies lies in poor management and governance, and unless these are improved the entire recap assistance would be wasted . With this end in view the Package suggested amendments in various acts such as Cooperative Societies Act of implementing States, BR Act, NABARD Act, DICGC Act, etc. States were also committed to implement the acts as amended. While the amendment of CS act was completed in 23 states out of 25 that signed the MOU , The amendments to BR Act and NABARD Act are yet to be carried out. It was felt that no amendments to DICGC act would be required since it was proposed to have a separate Deposit and Institutional protection scheme for PACS.

The Package also suggested to bring down the State Government equity in these Institutions to below 25% of the subscribed capital within a period of 3 years subject to the condition that there would be only one government representative in the board of DCCB/StCBs while there would be none to represent the state Govt. in PACS, even if they had received equity contribution from the state Govt.

Benchmark activities

Release of financial assistance under the financial package will be back ended and linked to achievement of pre-defined benchmarks.

Implementation Mechanism

NABARD was designated as the implementing agency for the scheme. However, for guiding and monitoring the implementation of the scheme at national, state and district levels, Implementing and Monitoring Committees were constituted at National , State and district levels with senior level participation from GOI, State Govt, NABARD,SCBs and also of chartered accountants.

2. **GoI Agreement with World Bank - Strengthening Rural Credit Cooperative Project**

GoI had entered into a loan agreement and financing agreement with International Bank for Reconstruction and Development (the IBRD) and the International Devt. Association (the IDA) (the IBRD and IDA collectively referred to as World Bank) on 02 November 2007 for an amount of US $ 600 million under strengthening of Rural credit Cooperatives Project.

The objective of the project was to assist in providing the members of the CCBs, including small and marginal farmers with significantly enhanced access to formal finance (credit, savings, etc) by ensuring that the potentially viable CCBs in the participating states transformed into efficient and commercially sustainable institutions.

The project consisted various components viz., Capacity Building and Technical Assistance, Information Technology, Financial restructuring of eligible CCBs in the participating states through a one time recapitalisation of eligible CCBs and Implementation.

3. **Role of NABARD in implementing the package**

i. Creation of an exclusive department

On announcement of the package by Govt of India, as an implementing agency, NABARD created a seperate department viz. Department of Cooperative Revival and Reforms (DCRR) to pay undivided attention to take up the implementation of the Revival Package throughout the country.

ii. Conduct of NIMCs

To oversee implmentation and monitoring of Revival Package as per the decision of Govt of India, National Implementing and Monitoring Committee (NIMC) was set up under the Chairmanship of Secretary, Financial Services, Ministry of Finance. Chairman/ Managing Director of NABARD was one of the members of the NIMC. NABARD faciliated conduct of NIMCs. In the NIMC meeting, policy issues of importance and issues raised by the participating States were discussed and decisions taken in the meeting. Nine NIMCs were held during the implementation period of the pacakge. The last such meeting was held on 27 January 2011.

iii. Signing of MoU by States

Union Finance Minister addressed DO letter to all Chief Ministers of States on 6 January 2006. NABARD followed up with States by correspondence, meetings, discussions with Chief Ministers of States for expeditious signing of MoU by the States. NABARD also held interactions with State Government officials, made presentations on package urging upon signing of MoU and advantages accrued to the CCS under the Package. Formats for signing of MoU for two tier structures and 3 tier structures were prepared by NABARD.

Outcome

As a result, 25 out of 28 States signed MoU during August 2006 to 1 July 2008. i.e. 89% of the States covered. All North Easter Region States signed MoU. (There are 28 States and 7 Union Territories in the country).

iv. Special Audit

The first step for CCS units to receive financial assistance under the Package was to complete the special audit with reference date as on 31 March 2004.

Objective

The main objective of the special audit was to determine the share of GoI, State

Government and the CCS concerned as envisaged in the package.

Implementation & Operational experience

NABARD as the principal implementing agency of the Revival Package for the STCCS, was responsible for proper and timely conduct of the special audit and precise assessement of the extent of the financial assistance to all units of the STCCS. The task involved conduct of special audit on-site using prescribed scheduled and tables, sample checking by Chartered Accountant and then compilance and finalisation of the DLIC and SLIC.

For this purpose, audit manuals for conduct of special audit of PACS/DCCBs/SCB were prepared by NABARD. The manual contained, in general, 8 Schedules and from the schedules sharing of financial assistance under the Revival Package and Additional Provisioning required for cleaning of Balance Sheet was worked out.

Through operational experience, it was found that the PACS did not have norms for provisioning and no uniformity found in provisioning accounts. Hence, NABARD in consultation with the RBI had prepared the guidelines on prudential norms for PACS which was followed in special audit and continued to be followed since then.

Special audit of the PACS was conducted by Departmental Auditors. In states, where the Departmental Auditors were not sufficient in number to complete the special audit within a reasonable period of time and the State Government, the ROs were advised to engage Chartered Accountants for conducting the special audit also. The same CA was made as a member of

the DLIC. As conduct of special audit is different from regular audit, extensive trainings were given to Departmental Adutiors as well as CAs on the audit manual through Master Trainers. Regional Office officials and District Development Managers (Chairman of DLIC) and CAs of DLIC & SLICs were also given trainings on Special Audit. Clarifications were also given in respect of accounting related queries arisen during conduct of special audit. All audits were vetted by the DCCB level Support Team (DLST) and 15% of audits by each auditor, already vetted by the DLST was sample checked by the CA member of the DLIC.

The Chartered Accountant conducted on-site sample checking of 15% of special audits done by the auditors. These audits were passed on to the CA only after due vetting by the DCCB Level Support Teams. The special audit of PACS was to be completed first and then special audit of DCCBs and SCBs was to be taken up.

Out come

As the actual magnitude and recapitalisation assistance of the package was to be determined on the basis of the findings of the special audit, the size of the overall package enhanced to Rs.21739 crore from Rs.13596 crore and GoI share increased to 15902 crore from ` 9245.28 crore. Details are given in Table No. III below.

Special Audit of 80883 PACS in 25 States were completed. 75479 PACS were recommended for recpaitalisation assistance. 52,902 eligible PACS in seventeen States, and 1510 ineligible PACS affiliated to 30 CCBs in three States were released recapitalisation assistance. As regards CCBs only 13 DCCBs in Odisha were released recap assistance. Recapitalisation assessed and released to the World Bank assisted States are given in Table No. IV.

NABARD in consultation with the RBI had prepared the guidelines on prudential norms for PACS which was followed in special audit and continued to be followed since then. The guidelines were on prudential norms issued to PACS for adoption in the State from 01 April 2009 In addition to this, PACS had also been advised to draw the balance sheet as per the format prescribed by NABARD.

Audit Clearance

One of the reform measures brought in cooperatives was conduct of Statutory Audit by Departmental Auditors or CAs, as decided by their Management. The Statutory Audit of PACS upto 31 March 2004 was completed in 80,639 PACS to faciliate implementation of Revival Pakage. A need was felt to provide a one-time assistance to PACS to facilitate/updte the audit so that it is regularly completed on continuous basis. With a view to clearing the existing arrears of audit in PACS, a one-time Scheme for Audit Clearing was also announced by NABARD in September 2011 as its own initiative to continue the momentum and in auditing of PACS achieved during the implementation of the package and also to make the auditing of PACS up to date. The objective of the scheme is to provide incentive to the PACS for clearing arrears of audit by 31 December 2011 and help PACS to meet the additional expenditure to clear the arrears in audit. An amount of ` 8000/- was given to each PACS for clearing the arrears of audit upto the financial year ending 31 March 2011 latest by 31 December 2011.

Appointment of CAs for conduct of Statutory Audit of DCCBs/SCB

As per the amendments carried out in State Cooperative Societies Act in the implementing States, the Stautory Audit of StCB/CCBs were required to be conducted by professional Chartered Accountants from the panel approved by NABARD.

Impelmentation and Operationlisation

For this purpose, NABARD prepared a Panel of CA firms from the CA list provided by ICAI as per standardised norms and was made available to DCCBs/Stcbs for selection of auditors by their Board.

Outcome

Since then, the SCB/CCBs in the impelemnting States are utilising the panel provided by NABARD for selection of Auditor for conduct of Statutory Audit of their banks.

v. Training and Capacity Building initiatives to improve the quality of Management

Objective

Task Force laid thrust on 'qualitative improvement in personnel in all tiers and at levels through capacity building and other interventions leading to an increase in overall efficiency.

Design

The Task Force had recommended for constitution of a Joint Group comprising members from NABARD, RBI, National Counsil for Cooperative Training, Cooperative Training Establishments and Training Establishments of NABARD to finalise the training strategy to be adopted in STCCS, prepare training modules at various levels and different categories of personnel along with detailed session plans and prepare necessary reading material/training kits. The internal group of NABARD examined this subject and also prepared a Road Map for Training Intervensions in STCCS. A National Committee was set up for giving direction on capacity building in Cooperative Credit Institutions, and to assess the critical minimum training needs at all level of cooperatives. The committee consisting of Trainers from the training Institutes of NABARD prepared suitable course modules for each identified subject or issue, and also developed suitable training and reading materials and detailed trainers Guide and got translated all these materials into various regional languages. Further considering the huge number of trainees spread across the country, a novel and suitable strategy to train and equip adequate number of trainers was devised by application of a cascading system of training to reach the trainees at the lowest tier of the STCCS. Accordingly Master trainers selected from the implementing states that consisted of Officers both retired and serving from the StCbs and CCBs and other experienced trainers from the Banking industry were trained at the National level Institute of NABARD, BIRD on each course modules. These Master trainers later trained the state level trainers in the respective State level Training Institutes and they in turn trained the district level Trainers to reach entire hierarchy of STCCS personnel. Besides these trainers and training modules NABARD also formulated training modules on the core areas of Banking and Governance for the Branch Managers of CCBS/STCBs CEOs of CCBS/STCBS and also for the Board members of CCBS/STCBS. They were trained by apex level training Institutes like BIRD, Vamnicom, RICMs and ICMs directly to maintain the standard and quality of Training.

As on 31 March 2005, the STCCS, with a three tier federal structure, had PACS (112309) at the grass root level; the central banks (DCCBs-368) at the district level and the Apex Cooperative Banks (30) at the state level. In the North-Eastern states and Smaller states, the SCB has been purveying credit through PACS without the intermediate tier.

Implementation

Considering the number of PACS in each State, nodal training institution partner was identified in each State so as to coordinate, organise, monitor and report on the required training programmes for PACS in each DCCB either directly or by collaborating with other training institutions or by contracting outsourced factuly etc. As the focus of the entire Revival Package was autonomy of every cooperative institution, it was ensured that the training institutuions and the faculty involved in the training programmes become responsible for transmitting such a message. For this purpose, Trainers Training Programmes were conducted so as to equip the identified master trainers and district level trainers.

To start with modules, reading material and also trainers work book for the capacity building of the secretaries and elected members of PACS were prepared. The programme design and methodology were field tested. Before finalising the modules, reading material and trainers workbook, were got validated by persons having indepth knowledge in STCCS and particularly PACS functioning. Thereafter, the focus was on conducting regular programmes based on modules and tool kit developed by the working group. Nine modules / consisting of course material, reading material and trainers guide were developed by NABARD are as under

Module-I:	Module for Secretaries of PACS
Module-II:	Module for elected members of PACS
Module-III&IV:	Training on CAS/MIS
Module-V:	BoD of CCBs
Module-VI :	CEOs of CCB/ StCB
Module-VII:	BDP for PACS Secretaries
Module VIII:	Orientation Programme for Branch Managers/Senior Officers of CCBs/StCB
Module IX:	Orientation Programme for Supervisors/ Inspectors for PACS

Operationlisation

For this purpose, ACSTIs of states, ICMs of states, VAMNICOM, Pune, CAB, Pune were also involved in conduct of training. The training modules focused on governance, management, house-keeping, internal controls and MIS, member involvement and business development and diversification. " Doing existing things better" and "doing new things profitability" were the focus of the training programmes to PACS Secretaries.

Outcome

So far, 86,276 PACS secretaries from 24 States and 1,29,775 elected members of PACS from 20 States have been trained by 2081 DLTs. Further, 6019 Departmental auditors and supervisors from 20 States have been trained to provide hand-holding support and 76,457 PACS functionaries from 20 States have been trained in CAS/MIS. 39,387 PACS staff in 13 States have been trained on Business Development and Profitability so far. Further, 8,188 Branch Managers/Senior Officers of CCBs/SCBs in 23 States have been trained on business development/ diversification. The all India details of number of training programmes conducted for Trainers / at PACS, CCB and StCB level are given in Table I and II. Details of Training given in World Bank States as on 30 September 2013 are given below.

Details of Trainer's Training On Modules I to IX

Sr. No	State	MTs trained on		Dist Level Trainers'Trg			Resource Persons for CAS/MIS– Module III
		I &II	VII &IX	No. of Progs.	Trained on capacity building	Trained on BDP	
1	Gujarat	15	6	6	209	110	335
2	Haryana	15	9	0	109	0	124
3	Orissa	22	7	4	104	0	102
4	U P	24	6	2	86	0	282
5	WB	5	3	5	74	0	121
	Total	81	31	17	582	110	964

Details of Training at PACS, CCB and SCB level

Sr. No	State	Training of PACS functionaries				Training of CCB/SCB functionaries			
		PACS Staff Mod. I	Board Members Mod II	CAS/MIS Mod IV	BDP Module VII	Board of CCB/ SCB Module V	CEOs of CCBs/ SCB Module VI	Br. Mgrs./Sr. Officers Mod. VIII	Total
1	Gujarat	7238	13431	5651	6510	81	20	954	33885
2	Haryana	1205	1256	1309	668	110	30	567	5145
3	Orissa	4150	4025	3909	3254	150	17	288	15793
4	U P	7404	6348	8162	3475	284	55	603	26331
5	WB	7893	7764	5578	6345	168	17	429	20301
	Total	27890	32824	24609	20252	793	139	2841	109348

vi.

Member Awareness Programme

Objectives

Revitalisation of the cooperatives on a sustaibale basis would not merely depend on the enabling legal and institutional arrangements, but actually on the members' understanding of their roles and responsibilities in making the cooperatives member driven organisations and their active participation in the affairs of the cooperatives. In other words, member awareness is a sort of insurance for the cooperatives and, therefore, a necessary and vital component of the reform process. Recognising this, NABARD prepared Member Awareness Programme to implement through publicity literature like posters and leaflets. Further, NABARD also prepared a concept paper on Member Awareness Programme with the strategy to implelment through Mass Awareness through print publicity, media publicity, mobile projectors, involving the support reputed autonomous institutions. However, due to non-availability of fund the above programme could not take off.

vii. Institutional Reforms

CAS and MIS

Accounting systems and practices followed in PACS prior to the implementation of the Package were largely determined by the requirements of the Cooperative Societies Acts of the States concerned. However, lack of uniformity in the accounting systems and standard financial statements coupled with absence of provisioning for bad assets and other accepted practices had not only hidden their actual financial position but also hindered their business growth in many cases. Therefore, as envisaged in Revival Package, Common Accounting System was made applicable to all PACS including LAMPS and FSS. A Common Accounting System for use by PACS was designed by NABARD after extensive consultations with various tiers of the STCCS and other stakeholders. The major components of this CAS are :

a. Applicability of universally accepted basic concepts and principles in maintenance of accounts by the PACS.
b. Adoption of standard financial statements, viz. Balance Sheet, P&L A/c. and Trading A/c.
c. List of a common set of General Ledger Heads of Account compatible with financial statements; and
d. Maintenance of minimum essential and Standard Books of Accounts.

CAS and Management Information System (MIS) is the basis for the computerization in PACS.Uniformity in financial statements, viz., Balance Sheet, Profit and Loss Account, Trading Account coupled with adoption of certain basic accounting principles regarded as an essential part, while the exhaustive list of GL A/c. heads and minimum standard set of books are to be taken as best practices/measures under the CAS. A number of sessions were devoted to the CAS in the training modules of PACS Secretaries and board members, to introduce the subject to them in varying degrees. CAS was introduced manually in the PACS across the country and in all the WB assisted states as a prelude to computerized accounting system.

Outcome

All the PACS in the 5 implementing states under WB assistance have adopted the CAS manually.

viii. Computerisation of common accounting system (CAS) in PACS

As already decided by NIMC, CAS and MIS are (quote) "the core of the computerisation for PACS. As the entire focus of computerisation of PACS is to obtain standardised consolidated information, preference is to be given to installation of CAS in PACS even if it is to be handled initially through manual operations" (unquote). It needs no emphasis that the PACS staff should be reasonably familiar with the CAS accounting heads, various books of accounts and postings to be made therein, and MIS outputs required to be generated at various periodicities before moving over to computerised environment. It should be taken as a prerequisite to the computerisation exercise.

As required by NIMC, NABARD had developed in 2007, comprehensive guidelines for getting State specific software developed and for procurring of hardware. However, as none of the States except Andhra Pradesh, Haryana and Tamil Nadu had made any progress, the VIIth NIMC held in September 2009, directed NABARD to identify a software for all India implementation and to examine the software developed by these 3 States for the same. These guidelines were prepared by a committee headed by NABARD, Managing Director and had taken into account the requirements of the CVC as well as requirements of the Government of India with respect to their borrowing agreements with the World Bank and the ADB. The guidelines included the logic for computerisation of CAS and MIS in PACS, the conditionalities to be adhered and process to be followed by the SLIC and the tender documents to be utilised for the purpose.

The tender documents issued were received on behalf of the SLIC at the office of the SCB or NABARD RO as was decided by the SLIC. The RO provided necessary support for printing of these documents. The processing of the tender documents received was done by a subcommittee of the SLIC in which NABARD RO was a member. As required by the GoI agreements with the World Bank and ADB, all payments were directly made by NABARD RO to the vendors after due verification and recommendation of the SLIC or respective DLICs.

Computerization of PACS:- Status

1. As per the decision taken in the VII National Implementing and Monitoring Committee (NIMC) meeting held in September 2009, NABARD as the implementing agency finalized the Core Software and sent CDs containing the software to all 20 States that have opted for the Core software viz., Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Jammu & Kashmir, Jharkhand, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Rajasthan, Sikkim, Tripura, UP and W Bengal. Preceding this, the revised guidelines for rollout of the software and training of PACS staff & hardware procurement were sent to all implementing States. The remaining 3 states that have gone ahead with computerization viz, A.P, Haryana , and Tamil Nadu had adopted state specific software as per the decisions of the State Govt./SLIC.

2. Guidelines on computerization of CAS and MIS for PACS were issued in two separate modules: (i) development, procurement & deployment of software including training on software, and (ii) procurement and installation of hardware. Cost of dry run, bilinguality, training of SDAs, Customisation and AMC for the first year are reimbursable under the Revival Package.

3. Dry run of the software has been completed in 13 States viz., Arunachal Pradesh, Assam, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Maharashtra, Madhya Pradesh, Odisha, Tripura, Uttar Pradesh, West Bengal and Rajasthan . Haryana, Andhra Pradesh and Tamil nadu chose for state specific software and the computerization is in progress at different stages in these states . Thus all the WB assisted states had completed the Dry run and customization of the software and further progress in computerization is hampered for want of funds.

In Haryana, state specific software was developed by M/s Nelito Systems Ltd. Based on open tendering process, SLIC awarded the hardware and software deployment contract for roll out of the software in 325 PACS to M/s HCL Infosystems. Training of Software Deployment Agency (SDA) by Nelito wascompleted. Installation of hardware in all 325 PACS was

completed. Training of PACS staff by SDA is also completed. SLIC had approved the tendering for SDA & procurement & installation of hardware in respect of remaining 277 eligible PACS in the State. Tenders for hardware procurement and identification of SDA floated for 277 PACS under Phase II. Finalization of vendor for hardware is in progress. Retendering has been done for identifying vendor for roll out of software in the second phase. However the whole process is kept in abeyance for want of funds under the package.

Outcome

Although the process of computerization is at different stages in the 5 states there is a need to take the computerization programme to all the PACS, as the same was halted due to non-availability of funds.

ix. Management Information System

Post reforms, PACS were expected to function as full fledged and self controlled financial intermediaries that establish their own business policies to meet the challenges of a dynamic economic environment and business models. To help decision making at PACS and at all other levels including those of the higher financing agencies, regulators and other agencies, there was an urgent need to have a sound and standardized MIS at PACS. With the above objective, an MIS for PACS was designed by NABARD after extensive field study and consultation with all the stake holders.

Under MIS, PACS were required to prepare and submit nineteen Annexures periodically to various agencies. These statements were also required for the management of PACS to exercise operation control and take management decisions.

NABARD had brought out a comprehensive handbook on MIS which guided the PACS for preparation of Annexures. It gave the tips/ explained the source of data required for compiling statements. It also indicated additional information required to be furnished in the ledgers/registers so as to enable PACS to prepare the Annexures smoothly. Suitable explanations were also given in the handout, to define various accounting terms/ratios as per requirement.

Outcome

It is understood from the field visits/success stories compiled, that the PACS have extensively used the MIS for improving the business. All the PACS where Dry run of the software is completed are generating the MIS statements and same are being used by the PACS and CCBs as observed during the field visit of ix support mission in Gujarat.

x. Internal Control System for PACS

Post reforms, PACS are expected to function as full fledged and self controlled financial intermediaries that establish their own business policies to meet the challenges of a dynamic economic environment and business models. In order to enable the PACS to have fool proof systems and procedures that would enable prudent decision making at their level, which would also help the higher financing agencies, regulators and other stake holders to discharge their obligations smoothly and more responsibly, it was necessary to have a sound internal control systems in PACS.

Design

NABARD designed a deailed guidelines on the Internal Control System for PACS. The main objectives of the Internal Control System are to ensure that (a) business is conducted in an orderly, prudent manner in accordance with he testablished policies, (b) transactions are entered into only under general or specific authority, (c) assets are safeguarded and liabilities controlled, (d) accounting and other records provide complete, accurate and timely information and (e) management is able to identify and assess the risk of the business. The various internal control measures to be adopted by PACS were spelt out and PACS were advised to prepare Books of Accounts and Balancing and Reconciliation on quarterly basis and put up the same to MC so as to ensure that some of the essential internal control measures are put into practice in the society.

xi. Institutional Protection and Deposit Safety Scheme for PACS

Primary Agricultural Cooperative Credit Societies (PACS) have very poor resource base, both capital and member deposits. At present, the deposits mobilized by the PACS are very insignificant mainly because of deposits mobilized by PACS are not covered by DICGC or any other effective deposit insurance scheme. With the implementation of GoI revival package for the rural credit cooperatives, PACS are expected to mobilize more and more deposits from their members. At the same time deposits from the members of PACS need to be protected as safety of their hard earned money has to be ensured. With this aim in view, NABARD has prepared a scheme of **Institutional Protection and Deposit Safety Scheme for PACS.** For implementation of the schemes, two funds have been proposed - (i) Institutional Protection Fund and (ii) Deposit Safety Fund. The proposal is under consideration of GoI.

xii. Regulatory Reform

As a part of reform process, professionalism was brought in cooperative banks. As financial institutions, the Boards of SCBs/CCBs required minimum support at the Board level. For this purpose RBI prescribed Fit and Proper criteria for

professionals to be on the Boards of Cooperative Banks both elected and co-opted and also for the CEO to be appointed by cooperative banks.
All the banks are adopting the criteria prescribed by RBI. However, problem persists as they do not get suitable candidates from outside due to low remuneration, lack of experienced Bankers of the suggested age profile etc.

xiii. Achievement of Benchmark Parameters In WB assisted states

Release of financial assistance under the financial package was made back ended and linked to achievement of pre-defined benchmarks, in respect of legal, institututional and regulatory reforms and will, therefore, be phased over a period. The benchmark prescribed and achievement made by the World Bank States are as under:

1. Act Amendment

All the states under the world Bank project viz. Gujarat, Haryana, Odisha, Uttar Pradesh and West Bengal have amended their respective Cooperative Societies Act.

2. (i) Amendment to Rules

Gujarat, Odisha, UP and West Bengal have amended their respective cooperative societies rules while it is in progress in Haryana.

(ii) Amendment of Bye-laws

Bye-laws have been amended in Gujarat, Haryana, and UP in all the three tiers of STCCS. The amendments of bye-laws are in progress in Odhisa and West Bengal.

3. Conduct of Elections

Elections have been completed in all three tiers of the cooperatives in the States of Gujarat, Haryana, Uttar Pradesh and West Bengal except in cases of societies/banks where the matter is subjudice or they are under liquidation. In respect of Odisha, the Cooperatives had elected Board soon after the implementation of the package and the election process for the next term is yet to be started in the State.

4. a. Appointment of CEOs in SCBs and DCCBs

Gujarat, Haryana, UP and West Bengal (except CCBs) have appointed the CEOs as per Fit and Proper Criteria. In Odisha the appointment of CEOs as per fit and proper criteria is pending.

b. Appointment of Professional Directors in SCBs and CCBs.

Gujarat, Haryana, UP and West Bengal (except CCBs) have appointed as per Fit and Proper Criteria. As the election is yet to be completed in cooperatives in Odhisa the appointment of professional directors as per fit and proper criteria is pending.

5. Reduction of State Government equity to less than 25%

All the three tier structures in all the five States had reduced the State Government equity to less than or equal to 25%.

6. Release of committed liabilities

Gujarat and UP States have released their committed liabilities in full. Haryana, Odisha and West Bengal States did not have any committed liabilities pending to be released, as per special audit.

7. Reduction of State Government Nominee

All the five States have complied with the norms prescribed in the package

8. Preparation of Roadmap for ineligible PACS

Gujarat had prepared the road map for their ineligible PACS.

In Haryana State, out of 33 ineligible societies, 22 had improved recovery and the rest are being strengthened. UP has released funds for the revival of 1200 PACS, so that they are able to take up new business and improve themselves. In West Bengal, RCS has prepared the Roadmap for ineligible PACS which is awaiting the approval of the State Government. Odhisa is yet to complete the preparation of the Roadmap for inelgiible PACS.

Sl. No.	Parameter	Gujarat	Haryana	Odisha	Uttar Pradesh	West Bengal
1	**Act amendment**	√	√	√	√	√
2a	**Rules Amendment**	√	**Progress**	√	√	√
2b	**Bye laws - Amendment**	√	√	√	√	**Progress**
3	**Elections**	√	√	x	√	√
4	**Fit &Proper criteria**	√	√	x	√	**Progress**
	Prof. Directors	√	√	x	√	**Progress**
5	**State Govt.equity >25% -**	√	√	√	√	√
6	**Release of Committed liabilities**	√	√	√	√	√
7	**State Govt nominee on board of all CCS units**	√	√	√	√	√
8	**Roadmap for ineligible PACS**	√	**Progress**	√	√	**Progress**

Table III (` in Crore)

Elements	**Original Financial Package**				**Revised Financial Package**					**Amount Released**
	GoI Share	**State Govt share**	**CCS share**	**Total**	**GoI Share**	**State Govt share ***	**CCS share**	**Total**	**No. of CCS units**	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Acc. Losses + CRAR										
PACS					12534	1193	1824	15551	75488	8934.24
CCBs					1838	483	2139	4460	190	67.87
SCB					378	102	95	575	10	0
Total	**5476**	**2689**	**401**	**8566**	**14750**	**1778**	**4058**	**20586**		**9002.11**
HRD + Spl audits	154			15	1152			1152		72.12
Computerisation	516			516						31.50
Impl. costs	360			360						139.55
Total	**6506**	**2689**	**401**	**9596**	**15902**	**1778**	**4058**	21739		**9245.28**
Share of liability	68%	28%	4%	100%	72%	8%	18%	100%		
Contingencies	2720	1120	160	4000						
Total including Contingencies	**9226**	**3809**	**561**	**13596**	**15902**	**1778**	**4058**	**21739**		

Table IV : Recapitalisation Assistance assessed and released in WB States

(` crore)

Sl. No.	**State**	**Assessed**			**Released**		
		GoI share	**SG share**	**CCS share**	**GoI share**	**SG share**	**CCS share**
1	Gujarat	830.53	60.73	124.26	567.78	38.29	13.13
2	Haryana	633.81	30.28	60.25	470.50	22.13	2.92
3	Orissa	710.64	83.78	168.52	710.64	83.78	0.00
4	Uttar Pradesh	1545.69	265.67	388.32	623.41	61.19	4.02
5	West Bengal	328.86	29.63	28.33	134.97	15.59	0.00
	Total	**4049.53**	**470.09**	**769.68**	**2507.30**	**220.98**	**20.07**

All India Details

Table I: Details of Trainer's Training

Sr. No	**State**	**MTs trained on**		**Dist Level Trainers'Trg**			**Resource Persons for CAS/MIS– Module III**
		Module I &II	**Module VII &IX**	**No. of Programmes**	**Trained in Capacity Building**	**Trained on BDP**	
1	Andhra	37	8	2	83	86	1589
2	Arunachal	0	2	0	0	0	40
3	Assam	5	20	6	117	0	48
4	Bihar	14	10	1	64	0	1529
5	Chhattis	7	10	7	283	25	0
6	Gujarat	15	6	6	209	110	335
7	Haryana	15	9	0	109	0	124
8	J &K	3	0	0	0	0	85
9	Jharkhand	5	6	20	56	0	36
10	K'taka	11	9	2	127	0	416
11	M P	13	5	9	179	74	211
12	Maha	20	5	8	206	79	343
13	Mani	0	4	0	0	0	0
14	Megh	3	7	0	0	0	102
15	Mizoram	4	6	0	0	0	0
16	Nagaland	4	0	0	0	0	0
17	Orissa	22	7	4	104	0	102
18	Punjab	11	0	0	38	0	0
19	Raj	17	4	8	152	0	174
20	Sikkim	3	6	0	0	0	25
21	TN	6	10	8	194	182	110
22	Tripura	6	7	0	0	0	323
23	U'khand	9	1	0	0	0	24
24	U P	24	6	2	86	0	282
25	WB	5	3	5	74	0	121
	Total	**259**	**151**	**88**	**2081**	**556**	**6019**

Table II: Details of Training at PACS, CCB and StCB level

Sr. No.	State	Training of PACS Functionaries				Training of CCB/ StCB functionaries		
		PACS staff Module I	Board Members Module II	CAS / MIS Module IV	BDP Module VII	Board of CCB/ SCB Module V	CEOs of CCBs/ StCB Module VI	Br Manager/ Sr Officers Module VIII
1	Andhra	4993	5006	4902	2750	307	24	191
2	Arunachal	0	0	40	0	0	1	40
3	Assam	1276	1150	0	0	3	1	75
4	Bihar	3397	16785	0	0	0	25	66
5	Chhattis	2008	2194	2591	1402	77	6	71
6	Gujarat	7238	13431	5651	6510	81	20	954
7	Haryana	1205	1256	1309	668	110	30	567
8	J &K	140	0	0	0	0	2	35
9	Jharkhand	1662	1825	2476	0	1923	16	110
10	K'taka	7314	8052	7314	292	328	26	768
11	M P	7522	8032	5000	3142	243	42	422
12	Maha	14251	39823	12676	6631	248	35	2195
13	Manipur	108	0	0	0	0	1	25
14	Megh	123	274	89	0	0	1	91
15	Mizoram	332	332	220	220	7	1	44
16	Nagaland	129	305	0	0	0	0	49
17	Orissa	4150	4025	3909	3254	150	17	288
18	Punjab	4411	3983	5010	0	47	20	70
19	Raj	5254	7662	5254	0	161	0	101
20	Sikkim	67	243	196	0	0	0	0
21	TN	4339	0	5084	4431	0	23	958
22	Tripura	268	1285	204	267	10	1	36
23	U'khand	792	0	792	0	18	10	0
24	U P	7404	6348	8162	3475	284	55	603
25	WB	7893	7764	5578	6345	168	17	429
	Total	**86276**	**129775**	**76457**	**39387**	**4165**	**374**	**8188**

xiv. Impact assessment studies and field level observations of the effect of Vaidyanathan Package in World Bank Assisted States

Orissa

Observations on Bira Hare Krushnapur SCS affilated to Puri CCB

- Recovery improved. Interest Subvention most important reason for improved recovery; Paddy procurement is helping the PACS to earn profit; Commission received on paddy procurement – 2010-11: ` 0.47 lakh, 11-12: ` 1.02 lakh and 12-13: ` 1.49 lakh. Payment from Govt after a time lag of nearly a year; Commission from seed business – ` 0.10 lakh; Profit of ` 0.55 lakh after commission as above and also loss on loan compensation from the State Govt at 2.25%; CAS maintained since 2009. However, the PACS secretary was unable to explain the balance sheet in toto.; Audit through Dept. Audit only; Planning to mobilise deposits and also new areas of businesses such as agri clinics.

Plan for PACS

- Paddy procurement and supply of seeds being done; 100 Soil testing labs to be introduced; 134 Godowns planned; 150 agro service centres; In 2010, StCB arranged for a farmer family survey to be done – 54 lakh farmer families were asked what they wanted; Now additional activities planned – Agro service centres, custom hiring of tractors; 337 PACS identified for Common Service centres – will do web based agro info services; Grant to PACS for repair and renovation: 1 crore in 2009-10, 5 crore in 10-11, 5 crore budgeted for 12-13 and 7 crore in 13-14; SG is giving grant to PACS – Govt share is being raised to 25%. The state average now is 13%. This year 12 crore will be released to all PACS and 19 crore to 4 CCBs. Sambalpur CCB will alone get 15 crore.

Case Study of Lingada LAMPCS

- The Lingada LAMPCS in Orissa was incurring losses for a long period and dependent on the DCCB for its business. The implementation of Revival Package in true spirit from 2008 onwards helped the LAMPCS to diversify and grow in many areas. New initiaties have been taken because of democratically elected Board. The risk taking ability of the LAMPCS has gradually increased.

- The Society started deposit mobilisation for the first time in the year 2009.
- The Society has turn around from loss to profit in 2010-11.
- LAMPCS has established Common Service Centre for providing various services to the farmers.
- The Society has started selling insurance products also. The Society started a Farmer
- Resource Centre with Internet and other technology support.
- The LAMPCS has started computerisation of various operations
- The Societies have diversified its sphere of activities to other areas like agriculture term loans for tractor, power

tiller, etc, alliwed activities like dairy, broilerr farmers, etc. and farm activities like rural housing, person loan, SRTO, etc.

- The Society has taken up non-fund business activities also. The society has takne up Joint Liability Group financing also.
- The society has introduced Common Accounting System also.

Gujarat

Observations during field visit - StCB/ Ahmedabad CCB

- RP has had a positive impact on the cooperative sector; Three CCBs have met the licensing requirements on account of RP. Four CCBs were given support by the State Govt; After CAS, getting data is feasible. There is transparency in financial analysis of PACS; Computerisation of PACS under the package would have brought more positive impact; Implementation of the core software kept in abeyance at dry run level in 3 PACS. Customisation of the software was not done. Software not made in bilingual in Gujarati. Hence, StCB has identified a seperate software in gujarati; CCB is giving hardware to all its PACS and is sharing the cost of software with StCB; Preparation of BDPs – encourage PACS to adopt commercial activities; PACS – important to ST structure. So CCB conducts seminars periodically for PACS to act as MSC; Encouraging PACS for business diversification; In Gujarat, the State Govt. has decalred 4% rebate for prompt payers. So farmers get loans at 0% inetrest; CCB will be paying 5.5% to PACS which repay KCC loans on due dates to avoid interest loss to societies due to late settlement of interest subvention claims; PACS are following CAS –This has brought in transparency; Borrowing membership shown improvement; Imbalances have been brought down to zero between members' loans and bank loans; The societies have adopted CAS. This facilitated the society to get license for distribution of fertilizers. As there was overwhelming response from the members for this activity, the society has achieved excellent turnover from this activity.; Due to the progress being made in business and all other areas due to the implementation of the Revival Package, the Society is expected to achieve a turnaround within 2 to 3 years.

Uttar Pradesh

- Number of Borrowing members have increased after relase of recapitalisation assistnce as the disbursement capacity has increased at PACS level; The Society has adopted Common Accounting System; Due to extensive training received under the RP, there has been an improvement in housing keeping and internal controls and procedures as well as record keeping.; Trainings were of immense use to the STCCS functionaries which helped them for maintaining the CAS accounting system and also in the preparation of BDP for PACs besides helping them understand about the basic governance and management of the cooperatives; Dry run was completed in 3 selected PACS and the all the statements as per the CAS MIS are being generated in these PACS; State govt is initiating various measures to bring the PACs into viable and profit making units by diversification of their activities like acting as agents for procurement of grains under minimum support price, running of consumer shops , tie up with the milk socities and various other local specific activities; PACS are financing in poly houses and selling of insurance products.

Haryana

Field visit observations

The consolidated financial position of the PACS were as follows:-

- While the share capital of the PACS on a combined note stood at Rs.487 crore the owned funds shows a negative balance of Rs.585 Crore indicating a combined accumulated loss of around Rs.1072 Crore; The recoveries of the PACS stood at 70 % during 2012-13; The loans and advances were showing a steady increase and stood at 7000 crore as on the above date ; 98% of the loans issued were for ST and MT loans (Agri).; **Major Highlights Rajouli PACS**The PACs has a total membership of 1431 and the borrowing member stood at 332.; The share capital of the PACS stood at 19 lakhs and deposits at 541 lakhs; The borrowing outstanding at the PACS level was 109 lakhs with a recovery percentage of 58; The PACS has made a profit of Rs.1.61 lakhs during 2012-13 and it has been on profit since 2010-11; The accumulated losses of the PACs stood at Rs.26.41 lakh in spite of the recapitalization; The PACs received an assistance of Rs.12.94 lakh under R.P.; The PACS board members and the personnel were trained under various training programmes including CAS MIS and computerization and expressed their satisfaction on the same; The bank is computerized and is making use of the software developed by NELITTO and is generating all the CAS statements and MIS statements; The board of the bank and the functionaries agreed that it has saved much time and also helps in management decision making; The Computerised system of accounting is being looked after by 2 staff while all the staff has knoweldge of the same as per the PACS officials; The team expressed satisafction of the computerised system of accounting.

The major highlights of the Mullana PACS were as follows

- The total membership of the PACS stood at 4065 with borrowing member of 1224; The share capital of the PACS is ` 57.41 lakh and the deposit stood at ` 471 lakh.; Loans issued during the year 2012-13 was 1088.60 lakhs with a recovery % of 54.; The audit was completed up to 2013 and the accumulated losses of the PACS was 3667 laks as on 31-03-2013; The PACS received a recap assistance of ` 79.10 lakh with a GOI share of ` 65.79 lakh.;The PACs is presently being managed by a staff of the |PACS itself as selected by the CEO of the CCB and he is doing a good job in the PACS as per the R.O and the CCB.;The PACs has diversified the activities like fertilizer distribution, consumer store and also the procurment of food grain as per the support price. The PACs proposes to diversify its activities to areas like Multipurpose Godown,Milk booth, Kizan Bazar, Insurance products and Potatoe Chips Plant.

Impact Assessment - in general

The first phase on Impact Assessment Studies on Implementation of the Revival Package in 6 States viz Andhra Pradesh, Madhya Pradesh, Bihar , Maharashtra, Rajasthan and Tamil Nadu was awarded to to ISEC and IIM Bangalore. The studies were conducted during July to October 2009 and the findings of the studies were presented before the stakholders at a meeting held in New Delhi on 29 November 2009. The findings of these Studies were presented in the Annual Report 2011-12.

The Second Phase of Impact Assessment Studies on Implementation of the Revival Package were awarded to 3 agencies in 13 States viz Gujarat, Haryana, Odisha, West Bengal, Rajasthan, Chhattisgarh (assigned to IDS Jaipur), Uttar Pradesh and Madhya Pradesh (GIRI Instiute of Development Studies), Andhra Pradesh, Bihar, Karnataka, Maharashtra and Tamil Nadu (assigned to Gokhale Institute of Politics and Economics Pune). These impact studies have brought out a number of positive features as detailed below:

- Overall outcome of the Revival Package has been positive and visible in several ways such as institutional and legal reform. Cooperative Societies Act, Rules and Bye laws have been amended thus creating the basis for autonomy to the banks/PACS ; Release of recap assistance has improved liquidity of PACS and has enabled them to re commence lending and restore cash flow and income streams; The overall efficiency and functioning of PACS has improved after implementation of the Revival Package. Overall outcome of the Revival Package has been positive and visible in several ways such as institutional and legal reform. Cooperative Societies Act, Rules and Bye laws have been amended thus creating the basis for autonomy to the banks/PACS ; Release of recap assistance has improved liquidity of PACS and has enabled them to re commence lending and restore cash flow and income streams; The overall efficiency and functioning of PACS has improved after implementation of the Revival Package; Financial indicators have shown varying degrees of improvement in all three tiers of CCS during the implementation period of the Package; Loans disbursed by PACS during the period 2006-07 to 2009-10 have registered a growth ranging from 73% in Uttar Pradesh to 53% in Madhya Pradesh and 23% in Odisha. The Annual Average Growth Rate (AAGR) during the period 2003-04 to 2009-10 ranged from 62% to 38% (in States like Odisha and Haryana); SF/MF coverage was a priority with the CCS and continued to be around 70% during the period 2006-07 to 2009-10 in Madhya Pradesh & Uttar Pradesh; PACS have embarked on deposit mobilisation drive in a significant way in the post implementation phase and have also improved their membership; PACS in most of the States have successfully diversified their business portfolio consequent on receiving inputs in this regard under the Revival Package; There has been an improvement in important productivity ratios like interest margins and transaction cost etc and reduction in losses which has largely been without fresh recruitment; PACS have achieved significant diversification of business like establishment of Common Service Centre for providing service like insurance, supply of recharge vouchers, ticket booking, payment of electricity and other utility bills, sale of revenue related and other forms at a commission, establishment of Farmer Resource Centre with internet and other technology support thus enabling farmers to have first hand information regarding prices of different commodities at different centres and solution to crop related problems; Setting up of Agri Clinic, Agro Service Centre and Common Service Centre offering services like soil testing, renting out agri implements, making available seeds and fertilizers and consultancy on farm activities thus augmenting their income; There is increased awareness among members regarding the reforms process like autonomy of CCS, reduction of government interference, need for diversified business development, and responsibility & accountability of Boards to run the affairs.

xv. Impact on the disbursement of Loans in the country by the Coop sector- Pre and Post implementation of the Revival Package:-

e. The Cooperative sector has the largest institutional presence in the country. The cooperatives have a significant role in agricultural credit disbursement as they provided agricultural credit to 3.10 crore farmers during 2012-13 compared to 3.07 crore farmers by commercial banks and 84 lakh by the RRBs. The average loan provided by Cooperatives stood at ` 35,349 as against ` 86,328 by RRBs and ` 1,40,730 by the Commercial Banks. Total Disbursements made by Cooperatives (ST&LT) during the last 6 years and the disbursements made to SF/MF are as

under.

Year	Total Disbursement (` Crore)	Out of Total Disb. disbursement under SF/MF (` Crore)
2007-08	48258	22609
2008-09	46191	26188
2009-10	63496	29519
2010-11	78121	35116
2011-12*	87962	48298
2012-13*	111203	61894

* provisional figures

It may be observed from the above that the total disbursements made during the year 2012-13 has increased to 230% from the disbursement made during the year 2007-08 and disbursement made to SF/MF during 2012-13 increased to 273% from the disbursement made under SF/MF during the year 2007-08.

xvi Release of State Govts share in excess of requirement by participating States

A few States like UP, Maharashtra, Assam, M.P., Rajasthan, Gujarat have released fund to the DCCBs in their States, so as to bailout the banks from non-compliance of Section 11(i) of BR Act, 1969 as applicable to Cooperative Societies. The details of additional amount released by the World Bank States is given below.

(` in crore)

States	Addl. amount Released
Gujarat	69.36
UP	299
Total	459.31

xvii Effect of Revival Package on unlicensed banks

During the implementation period, since PACS got recapitalisation assistance concerned CCBs got their overdues. Further, State Govt also pushed some funds so that unlicensed banks became licensed one. The details of CCBs and StCBs got licensed during the implementation period in the World Bank project States is given below.

WB State	No. of CCBs	No. of CCBs qualified for licence during implementation period
Gujarat	18	8
Haryana	19	14
Odisha	17	7
Uttar Pradesh	50	13
West Bengal	17	8
StCB	0	0
WB StCB	1	1
UP StCB	1	1

NABARD's comments on the draft ICR

Observations

Performance Rating

Performance Rating by ICR – Outcome rating, Bank (World Bank rating), Borrower rating all rated as Moderately Satisfactory. Bank and Borrower performance at entry level and exit level are Moderately Satisfactory.

Comments:

As discussed in the wrap up meeting dated 20 November 2013, World Bank may consider giving a higher rating (Satisfactory) in view of the following reasons:

f. Post ADWDR, the performance of the banks took a dip and was subsequently corrected. But as the base year is taken as 2005, the improvement does not appear to be substantial.

g. The PDOs review in Page 7 indicates that in 4 out of the 5 indicators, the date achieved is 30 June 2007. RoA is the PDO which is shown as achieved in 18 May 2011.

h. Much of the progress has been made since 30 June 2011, even in the absence of financial support.

i. Deciding on the achievement in PDOs alone is not sufficient to rate the overall performance. Learnings from the field visits clearly indicate that the reforms have significant impact and are being internalised. The report has mentioned these, but if the given the rating at MS, these do not seem significant.

Bank team's response[74]: The Bank acknowledges the many positives but in line with internal guidelines, retains the ratings.

Result Framework Analysis:-

a) PDO indicators

While reviewing the PDO indicators in the report, under item 1 to item 5 the base line values have been taken as on 31-03 2005 in respect of STCCS in participating states by the world Bank as originally approved. The indicators viz Recovery rates, the annual percent increase in ground level financing, the increase in number of SF/MF that received credit, and the ROA of the participating states etc would have presented a more realistic picture as a consequence to the implementation of the project had the Achievements under these heads as on 31-03-08/30-06-08 been compared with the achievements as on the latest available data (31/03/12/30/06/12) since although the project was formally announced in January 2006, the financial assistance was received by the PACS/DCCBS only after 2007.

Bank team's response: Noted, but the baseline was identified during preparation and was linked to the reform program announcement.

b) **Intermediate outcome indicators**:-

Indicator No.-6:-While the report on indicators no.1 to 5 are as per the data furnished by NABARD , the item 6 mentions about lack of use of MIS in CCBS under "comments". It may be mentioned that the core software being implemented in PACS under STCCS is designed for the CAS and MIS for the PACS. While the implementation of the core software has been with held in PS due to paucity of funds , PACS that have completed the customization and dry run make use of the same as vouchsafed from the filed visits (Eg: Haryana). Similarly the respective DCCBs are also making use of the same as could be observed from the data made available by the AMBALA CCB of Haryana during the field vist of ix support mission of the World Bank. Thus it is not the lack of comprehension of the importance of MIS that mars the use of MIS by the PACS but the delay in the implementation of the software across the PACS.

Indicator 10:- The observations that the approved output indicators were tracked only partially is not factually right. The detailed Monthly progress report known as the status report were received from the PS and was consolidated by the implementing agency. Further the Impact evaluation studies were conducted with the overall requirements of all the multilateral agencies and a common terms of reference was followed in the reports. The outcome indicators as required by the WB were separately tracked in the implementing states and were made available during the support missions.

Project Context Development Objectives and Design:-

Page No. 13 Para 3 Government response-

The figures reported about STCCS is differing from that reported in the VC Report dated 4 February 2005. As per the VC report, the structure had 112309 PACS, 367 DCCBs and 30 SCBs.

Bank team's response: Noted, but data taken from PAD and the orders of magnitude are similar.

Page No. 14 Other donor engagements

The report refers the agency as GTZ instead of GIZ. Further GIZ was also involved in preparation of a guidelines for governance in PACS and also helped in preparation of a model Deposit and institutional protection scheme that paved the way for a comprehensive scheme prepared by NABARD for PACS which is still under the consideration of GOI.

Page No. 14 Original project development Objectives and Key indicators

[74] Against NABARD's comments where no response from the Bank team is provided, it implies that the comment was noted/merited modifications made where necessary.

Although the PDO mentioned here is as per the Project appraisal document and the over all increase in this was much more than the target level of 50 % (66%) this has also a bearing on the extent of fragmentation of land and could only be proportionate to the increase in membership of the PACs .

Original components:-

Component 1:- The technical assistance for capacity building aimed to build not only the capacity of the STCCS personnel but also the Board of directors, and the departmental personnel in the changed scenario of governance and accounting system.(Needs revision in the elucidation)

Component 3:-The financial assistance aimed at making the institutions eligible to borrow from other institutions to ensure continued credit flow to the farmers besides restoring the value of members capital and enhancing the CRAR to 7%'

Page 15, Para 1.5, Component 3 - Original Components
CRAR of 7% - as on 31 March 2004 may be added here.

Pg 17 , Para 19 The GoI contributed a larger share of the recapitalization funding than initially expected

Table 1: Expected and actual recapitalization assistance provided (Rs Crore)

Total estimated project cost was ` 9596 crore. Further GoI added ` 4000 crore as contigencies. Hence the total package worked out ` 13596 crore.

Amount released in 5 States by the State Govts is ` 479.78 crore and PACS share brought in is ` 21.75 crores. This information may please be updated in the Table no. 1.

Bank team's response: Noted, but data taken from earlier submissions by state.

Pg 19, para 25 titled "The program had clear eligibility criteria for the FRS package"
Last sentence "This resulted from GoI-state government discussions, most of which occurred prior to the formal initiation of the Bank's project preparation". Not clear what it means. The relaxation of the eligibility criteria was NIMC decision.

Pg 20, Para 31 titled "The approach towards recapitalization or liquidation of category C PACS was unclear".
The Package is very clear that if the PACS meet the 50% recovery criteria, they will receive direct capitalisation support and if they fail to achieve 50% recovery, their overdues to the higher tier i.e., the DCCBs in r/o of 3 tier and StCB in r/o 2 tier ST CCS would be extended to the higher tier as indirect recapitalisation. A roadmap for these category "C" PACS is required to be drawn by the State Govts., which is a benchmark activity. Hence if the PAD incorporates the above 2, then the caption needs to be re-examined.

> "The issues were mainly due to the general lack of data on the sector, and insufficient computerization, **but also due to a lack of effort and support to harmonize the collected data on the central level. Given the recurring issues around the collection of core data, NABARD could have considered standardizing data collection".**
> It is not clear what is meant by but also due to a lack of effort and support to harmonize the collected data on the central level. The cooperative sector has not had an effective MIS. We have a data collection system in place (PACS data is collected for the Dossier which is being published by NABARD regularly). But data has not been forthcoming which necessitated work on designing MIS. With lack of computerisation at PACS level, this was not forthcoming. NABARD cannot be blamed for this.

Bank team's response: Noted, explanation modified to pinpoint specific issues.

Page 21, Para 42

> **"This activity aimed at providing capacity building to the agencies responsible for data collection and reporting, through strengthening their data gathering and compilation systems, as well as the skills of the staff that undertake this activity. Despite the difficulties in getting the data, the project implementation did not focus its resources on such support."**

We are not sure whether capacity building for M & E were reviewed in the earlier Implementation missions and the observations sent to GoI/NABARD. The issue is not of the skills of implementation but lack of systems that at PACS level. See para above

Page 22, Para 40

"The issues were mainly due to the general lack of data on the sector, and insufficient computerization, **but also due to a lack of effort and support to harmonize the collected data on the central level. Given the recurring issues around the collection of core data, NABARD could have considered standardizing data collection".**

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However, as per the available data, on credit flow to small and marginal farmers, there is substantial improvement in the number of accounts as well as in the disbursements during the period 2007-08 to 2011-12 by cooperative banks. Details are given as under:

Amount in crore Accts. In lakhs

	Total No. of Accts @	No. of Accts SF/MF	Total disbursements	Out of total disbursement, disb to SF/MF	% of Accts of SF/MF	% of disbursemenof to SF/MF
2007-08	201.81	117.86	48258.19	22608.79	58.40	46.85
2011-12 (PROV)	308.97	205..08	87962.79	48298.14	66.38	54.91

@ Cooperative banks as a whole in the country.

Page 22 Key factors affecting implementation and outcomes:-

Members education of PACS was repeatedly……..But the attention paid under the project was lower than expected….

Efforts were initiated in this regard by the implementing agency in a few selected states including in WB assisted states vis., Haryana & U.P.

Monitoring and Evaluation Design -implementation and utilization:-

As pointed in the report, lack of availability of quality data with regard to the financial parameters of PACS was indeed a constraint in the absence of an established accounting system and delay in computerization. The design of the monitoring and evaluation had therefore. its limitations . (NABARD does not maintain comprehensive data on PACS and relying on the NAFSCOB data might bring out inconsistencies when compared with other POD parameters collected directly from our R.Os which needs to be kept in mind).

Page 23, Para 42

"This activity aimed at providing capacity building to the agencies responsible for data collection and reporting, through strengthening their data gathering and compilation systems, as well as the skills of the staff that undertake this activity. Despite the difficulties in getting the data, the project implementation did not focus its resources on such support."

We are not sure whether capacity building for M & E were reviewed in the earlier Implementation missions and the observations sent to GoI/NABARD. The issue is not of the skills of implementation but lack of systems that at PACS level. See para above

Page 24 Para 46 (2.5) - Post-completion Operation/Next Phase-

"**NABARD is currently facilitating the process of setting up a Core Banking Solution (CBS) platform, involving a total of 200 SCB and DCCBs in 16 states and three Union Territories (UTs)."**

The number is 205.

Para 2.5 - Post-completion Operation/Next Phase -
"Subsequently, NABARD issued a circular to SCBs and DCCBs in July 2013, to provide guidance on decisions and arrangements to be made in case that PACS were to become BCs".
May be corrected as "Subsequently, **based on RBI's acceptance of the recommendation,** NABARD issued a circular to SCBs and DCCBs in July 2013, to provide guidance on decisions and arrangements to be made in case that PACS were to become Bcs".

Page 26 Impact of the revival package on the governance of the sector (Highly satisfactory)

The revival package paved the way for the much needed revision of the legal frame work.....the CS act were amended in 23 states and not in 21 states as reported.
.....
.....
.....In the area of audit the CSA mandate .....

Our comments:-Although the audit was in arrears in many PACs , it is worth mentioning in this context that the management committee of NABARD had approved a scheme of incentive for clearance of audit in PACs that evoked response and the audit in many states were brought up to date.
CRAR

Finally considerable progress was made under the revival package in harmonizing capacity building measures.....

It would be worth mentioning the effort of NABARD in the capacity building of the STCCS. Developing the 9 modules by its own faculty and also facing the challenge of training around 2 lakh STCCS personnel by a new and innovative method of cascading of trainers viz. Master trainers at State level, and district level trainers could help leverage the training of the cross section of STCCS personnel..Further harnessing the training infrastructure of the STCs and also of the national level training institutes like Vamnicom , ICMs and RICMs. was achieved for the first time to reach the unusual number within the shortest span of time.

Page 27, Box 1, Reforming the Cooperative Societies Act- the example of Gujarat
The amendments are as per MoU and done in all 5 PS and the other 18 implementing states too.
Page 28, Para 56

"Furthermore, staged capital adequacy norms for DCCBs and SCBs were introduced, requiring these two tiers to eventually reach a CRAR of 9 percent by 2016/17".
CRAR norms have been applicable for licensing. As on date, 4% CRAR is the requirement. The Expert Committee has recommended that CRAR requirement may be raised to 9% by 2017, which is under consideration of RBI. Hence this sentence may be redrafted.

Page 29 Footnote 37 –
"With the exception of the PACS in Odisha, where the boards were superseded with view to not fulfilling the requirements of the 97th Constitutional Amendment".
Observation factually incorrect. The supercession was done to ensure proportional representation of weaker sections and women. 97th amendment came much later.

Page 30 Impact of the reforms on the viability of the sector:-

The report has exhaustively dealt the impact in the area of CRAR,recovery etc.

There were initial expectation that unviable entities would be liquidated or merged with profitable PACS:-

Although the support missions have talked about the consolidation/liquidation of unviable PACS, the MOU under the project provided only for formulating a concrete road map for the unviable PACs and not necessarily their closure, considering other socio political factors and also the same being purely at the domain and discretion of the Government of the

PS. Much progress has been made in this regard in all the implementing states except in WB. as could be seen in Table 3 in annexure –ii

Page 33 Para 67 Some of the underlying problems in the area of loan recovery are:

- **Shortcomings in the lending products and loan evaluation schemes:** Loans from PACS tend to offer ….....
borrower.

The lending portfolio of the PACS consists of short term loans as a major component and not of longer maturities as reported in the report. PACs have little freedom in this aspect in as much as the major chunk of the crop loan (-%) is serviced by the STCCs being the last resort for the farmers and also based on the GOI policy on farm credit. Further the credit repayment capacity of the farmer is influenced by multifarious dynamic factors like, Monsoon, price of commodities etc.

Impact of the debt waiver on the repayment culture:

The comment with regard to the debt waiver scheme that it was 5 to 8 times larger than the amount disbursed under the revival package is not factually correct. The total amount disbursed under Agriculture Debt Waiver and Debt Relief Scheme for the cooperative banks was to the tune of Rs.22125 crores that works out to hardly 2.5 times of the amount released.

Page 31 Footnote 46
"The recapitalization mechanism foresaw that the recapitalization would be used to pay back the outstanding loans from PACS to DCCBs, so the DCCBs were allowed to deduct the overdue loan portfolio from the amount of recapitalization funds that the PACS were to receive".
The DCCB/SCB necessarily credit the account of the PACS with the entire Recapitalisation Assistance amount and then recovered **the dues of PACS to DCCB as on 31 March 2004** (as shown in the audited balance sheet of the PACS).

Page 32 Footnote 48 –
"Such entities are expected to be phased out of the financial system in line with the gradual strengthening of the prudential norms that RBI has introduced (Requiring a minimum CRAR of 4 percent by 2013, and consecutively 7 percent by 2014/15 and 9 percent by 2016/17)"
Pl see comments at Sl. 10 above.

Page 34 Para 70 The margins from the crop loans decreased from 5.75 percent in 2005 to now 2.5 percent for the system together.
The Statement that the margin from the crop loan has decreased for the cooperative system as a whole from 5.75% to 2.5% is not true. The refinance to the cooperatives at the rate of 4.5% give a margin of 2.5% to the system as a whole. This along with the interest subvention of GoI at the rate of 2% and the interest subvention by the State Govt. even a lower rate of 1% makes the margin at 5.5%. (The interest subvention given by the participating states ranges from 1 % to 4 %).

Bank team's response: Noted. The statements stand corrected.

Page 39 The M&E implementation faced challenges on timeliness, quality and consistency of data:-

NABARD as an implementing agency of the project had left no stones unturned for collection of data and furnishing to the WB . However the system did not provide for a database of PACS due to sheer lack of data at the PACs level mainly due to lack of man power in many states. Further data on PACS on the basic POD indicators were provided for each support mission and there was no requirement of a periodical flow of such data at lesser intervals and therefore was not attempted. Standard formats for data collection from PACs through the respective regional offices was made and no efforts were spared in this regard with the only exception of W.B. during the last support mission due to the specific nature of problem with regard to computerization in the state of WB .

Bank team's response: Noted. NABARD's role is recognized.

Page 40 Para 90

"The CSAs in 21 states were adapted (including in all five states supported by the Bank) to introduce enhanced governance regimes in the sector and eliminate / reduce the potential influence of the government in their management (checks and balance)".
Number is 23.

Page 41 The Performance of NABARD has been *Moderately Satisfactory*.
"However, there were also aspects were more could have been achieved – for instance on member education and data measurement, review and analysis – and there were gaps that existed in the M&E and fiduciary framework as discussed above".
Regarding data measurement, pl see comments at Sl.No.5.
Regarding member education, a proposal was drafted by us. It is pending with GoI. So this observation against NABARD is not justified.

Page 41 Implementing agency or Agencies' performance:-

While rating the performance of NABARD , the report take reservation to 2 areas that could have been achieved more.viz. Member education and data review and analysis. The report also states about the gaps in M&E and fiduciary framework that lead to the rating to moderately satisfactory.

While the member education programme had limitations as the same was not part of the financial package and consequently suffered from lack of resources, efforts were made in initiating the awareness creation of the members of PACs through literature and palm lets in selected states. Data management had its own limitations considering the sheer lack of data at PACs level since the MIS could not be taken off which hampered the data compilation at PACs level . It is worth observing that the data at DCCB and SCB level were analyzed and made available to the world bank/ GOI as per requirement. The observation with regard to the monitoring and evaluation needs to be a point that finds a place in the lessons learned since there were inherent limitations being a maiden project of its kind .

Bank team's response: The Bank acknowledges the many positives but in line with internal guidelines, retains the ratings.
Lessons learned:-

Comments:-

While the first 3 points are of course eye openers for a future project of this kind the 4th one viz capacity building of the Board need not find a place here since the Capacity building of the members of the BOARD of PACS/DCCBS was one of the most successful modules under the project that evoked excellent response. The vast number of BOARD of directors that was trained and the content and coverage of this module would speak on this point. As regards reaching the members at their door step the cascading effect of the training system had taken care of this aspect to a great extend and location and institution specific training were also conducted under the package as sufficient freedom was given to the Regional offices and the Training establishments in this regard.

Bank team's response: Added.

Annexures:-

Page 42 Despite available project funds for strengthening.....no dedicated training and capacity building was actually provided…

The observation that the project implementation did not focus its resources on providing capacity building for the agencies responsible for data collection is far from truth….Two of the 9 modules under the Project was on CAs /MIS . Not only the STCCS personnel were trained on these module, even the departmental auditors were also imparted training on this module, the end of which was uniform accounting and adoption of management information system. Refresher programs on CAS/MIs was also imparted to strengthen the system and which indeed paved the way for better Book keeping across the PACs. However the data collection and maintenance was hampered by the abrupt end of the package and consequent deferment of the implementation of the core software. It may be recalled that the PACS in Haryana that adopted the core software could provide the data on various businesss parameters to the satisfaction of the team members of the IX support mission. So it was the delay in completion of the computerization that hampered the data management at the PACs level.

Page 44 Annex 2 :Table 4

Comments against Odisha: Prior to the 97th Constitutional Amendment, elected boards were in place in the SCB and DCCBs. In 2012, however, the boards were superseded with view to not complying with the Constitutional Amendment. They are currently managed by the Registrar of Cooperative Societies (RCS) nominated Committees. Elections are expected in 2014.

The boards of the cooperatives were superceded in 2012, to ensure proportionate representation of weaker sections including women. The 97th amendment to the Constitution has incorporated representation of weaker sections on the boards of the cooperatives. Elections are expected in 2014.

Page 49 Table 5 to be revised:

Original

Table 5: Special audits and recapitalization provided under component 3 and 4

	Registered ST CCS			Assessed ST CCS			Recapitalized ST CCS							
							# of STCCS receiving funds				Disbursed amount (Rs crore)**			
	PACS	DCCBs	SCB	PACS	DCCBs	SCB	PACS	Ineligible PACS (DCCBs)*	DCCBs	SCB	PACS	Ineligible PACS (DCCBs)*	DCCBs	SCB
Gujarat	8,092	18	1	7,174	18	1	2,330	780	0	0	267	187	0	0
Haryana	616	19	1	585	6	1	547	-	0	0	376	-	0	0
Odisha	3,813	17	1	2,725	13	1	2,528	196	13	0	476	38	54	
Up	8,929	49	1	6,740	50	0	4,689	-	0	0	499	-	0	0
West Bengal	8,061	17	1	4,502	15	1	2,937	-	0	0	108	-	0	0
Total	**29,511**	**120**	**5**	**21,726**	**102**	**4**	**13,031**	**976**	**13**	**0**	**1,726**	**225**	**54**	**0**

Source: NAFSCOB (2007/8) for registered number of entities, NABARD for assessed and recapitalized entities

**DCCBs were received recapitalization toward losses due to Ineligible PACS (see section 2.1)*

***Disbursed amount under component 3covered 80% of the GoI share.*

Revised

Table 5: Special audits and recapitalization provided under component 3 and 4

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	PACS	DCCBs	SCB	PACS	DCCBs	SCB	PACS	Ineligible PACS (DCCBs)*	DCCBs	SCB	PACS	Ineligible PACS (DCCBs)*	DCCBs	SCB
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West Bengal	8,061	17	1	5289	17	1	2,937	-	0	0	108	-	0	0
Total	**29,511**	**121**	**5**	**22,516**	**121**	**5**	**13,031**	**976**	**13**	**0**	**1,726**	**225**	**54**	**0**

Source: NAFSCOB (2007/8) for registered number of entities, NABARD for assessed and recapitalized entities

****DCCBs received indirect recapitalization toward losses due to Ineligible PACS (see section 2.1)***

***Disbursed amount **by Bank** under component 3covered 80% of the GoI share.*

Page 55 Annex 4 : Procurement

- **UP - The procurement of hardware was not yet been initiated since clearance from NABARD Head Office was not provided.**

May be substituted as "**The procurement of hardware has not yet been initiated since floating of tenders was put on hold due to non availability of funds".**

- **Gujarat – to add "customisation requirements were identified." Similar comment as UP regarding non receipt of funds.**
- **Haryana – "Roll out of the software in the second phase could not be completed since clearance from NABARD Head Office was not given". To be substituted with "**Roll out of the software in the second phase could not be completed **since floating of tenders was put on hold due to non availability of funds".**

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Annex 10. Comments of Cofinanciers and Other Partners/Stakeholders

Not Applicable

Annex 11. List of Supporting Documents

- Project Appraisal Document, Strengthening Rural Credit Cooperatives Project (May 2007)
- Financing Agreement between the GoI and IDA (November 2007)
- Loan Agreement between the GoI and IDA (November 2007)
- Project Agreement between NABARD and IBRD/IDA
- ISRs from the project
- Aide Memoire of all missions conducted under the project
- Restructuring Paper (May 2011; June 2012; June 2013)
- Minutes of NIMC meetings
- Circulars on the revival package by RBI and NABARD
- "Final Report of the Task Force on Revival of Cooperative Credit Institutions" (2004), GoI
- "Scaling-up Access to Finance for India's Rural Poor" (2004), Report No. 30740-IN, World Bank
- "After the Microfinance Crisis: Assessing the role of government-led microcredit alternatives" (2012), World Bank
- "An Assessment of the Vaidhyanathan Committee Recommendations in Andhra Pradesh and Orissa" (2012), World Bank
- "Report of the Expert Committee to Examine Three Tier Short Term Cooperative Credit Structure" (2013), RBI
- Twelfth five year plan 2012-2017 (2012), GoI
- Impact studies in UP, Gujarat, Odisha and West Bengal, NABARD (2012 and 2013)
- GIZ publication
- RBI Research paper