Report Number : ICRR14549

IEG ICR Review
Independent Evaluation Group

1. Project Data:		**Date Posted :**	02/18/2015	
Country :	India			
Project ID :	P102768		**Appraisal**	**Actual**
Project Name :	Strengthening India's Rural Credit Cooperatives	**Project Costs (US$M):**	750	520.7
L/C Number :	C4338; L4862	**Loan/Credit (US$M):**	600	417.3
Sector Board :		**Cofinancing (US$M):**		
Cofinanciers :	None	**Board Approval Date :**		06/26/2007
		Closing Date :	06/30/2012	06/30/2013
Sector(s):	Banking (60%); General finance sector (20%); Micro- and SME finance (20%)			
Theme(s):	Rural policies and institutions (29% - P); State-owned enterprise restructuring and privatization (29% - P); Rural non-farm income generation (14% - S); International financial standards and systems (14% - S); Corporate governance (14% - S)			

Prepared by :	**Reviewed by :**	**ICR Review Coordinator :**	**Group :**
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2. Project Objectives and Components:

a. Objectives:

According to the Financing Agreement (Schedule 1) and the Project Appraisal Document (PAD, page 8), “the objective of the Project is to assist in providing the members of the credit cooperative banks (CCBs), including small and marginal farmers, with significantly enhanced access to formal finance (credit, savings, etc.), by ensuring that the potentially viable credit cooperative banks in the Participating States are transformed into efficient and commercially sustainable institutions .”

b.Were the project objectives/key associated outcome targets revised during implementation?

Yes

If yes, did the Board approve the revised objectives /key associated outcome targets?

No

c. Components:

There were four components:

Component 1. Technical Assistance for Capacity Building (appraisal US$25 million; actual US$5.6 million): This aimed to build the capabilities of short-term rural cooperative credit system (ST CCS) in all three tiers (including State Cooperative Banks or SCBs, District Central Cooperative Banks or DCCBs and Primary Agricultural Credit Society or PACS) 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 (US$100 million; actual US$2.1 million): This supported computerization of ST CCS to enhance their efficiency and transparency through enabling the efficient implementation of the new common accounting system (CAS) and management information system (MIS) and fostering cost efficiencies through facilitating the pooling of costs related to back office transactions .

Component 3. Support for Financial Restructuring (US$618 million; actual US$505.5 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 (US$7million; actual US$7.5 million): 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).

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

At appraisal, total project cost was estimated at US$ 750 million. The actual cost was US$521 million. The difference between the estimated and actual cost was due mainly to a partial cancelation of project components in 2013. The decision, in turn, was prompted by the large fiscal imbalance in the aftermath of the global financial crisis.

At appraisal, the project cost was meant to be financed by the Government (US$150 million) and the Bank (IBRD US$300 million; IDA US$300 million). Actual Bank lending was US$417 million (IBRD US$ 136 million and IDA US$281 million). The loan/credit balance of about US$183 million was canceled on June 25, 2013 at the request of the Government. In addition, a reallocation of funding was made on May 18, 2011 to transfer an amount of US$60 million from component 2 (IT implementation) to component 3 (financial restructuring of participating entities). Actual Government counterpart funding was US$104 million or $46 million below target.

Support for the Government's revival package was also provided by other development partners, including the Asian Development Bank, which provided a development policy loan of US$ 1 billion in parallel to this project.

The closing date of the project was extended by one year to June 21, 2013 to (i) allow participating entities to carry out agreed (benchmark) actions under the recapitalization plan and (ii) accommodate the slower than expected roll-out of the information technology platform, which in the end did not materialize .

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial .

The project objectives are relevant to the World Bank Group's Country Partnership Strategy (CPS) for India for the Fiscal Years (FY) 2013-2017. The CPS listed (i) financial inclusion as a strategic area of engagement and (ii) increased access to financial services as a desired outcome, stating : "the WBG will promote integrated approaches to financial inclusion by facilitating access to credit and other financial services to farmers and households" (para 103, page 39). The objectives are also consistent with the Bank's assistance strategy at appraisal. The 2004 Country Assistance Strategy considered improved access to rural finance to be a key priority. Anticipating a future project such as this one, it stated : "building on recently completed [analytical work], a Bank-supported rural finance investment operation could emerge to help address critical gaps for which a public sector role is important, capitalizing on the existing branch network of rural banks " (paragraph 147, page 39).
The objectives of the project are relevant to India's priorities, as demonstrated by "the revival package" of the Union and State authorities which defined major reform measures to be implemented by participating States to promote agricultural and rural development. The revival package, which was created in August 2005, identified the rural cooperative credit system, including state commercial banks (SCB), district central cooperative banks (DCCB) and primary agricultural credit societies (PACS) as the best mechanism for providing small and marginal farmers with access to financial services. The project was designed to support the implementation of the revival package in five States. The project remains relevant to India's strategy as reflected in the high priorities given to agriculture and rural development in the five-year national development plan for 2012 to 2017.

b. Relevance of Design:

Substantial .

The project design was straight-forward and logical. The objectives were clearly stated in terms that were understandable to the staff of implementing agencies as well as the general public . The results framework is convincing -- reflecting the guiding principle of the revival package, which is to revitalize the sector by rooting out political interference (primarily at the state level) and to realign the interests of cooperatives' owners and management.

Project supported activities were geared toward the change in prudential regulations at the state level and capacity building for the cooperatives to operate autonomously and to comply with new regulations . For example, the key benchmark actions, under component 3, including amendments of the Cooperative Society Act and other State by-laws, transferred regulatory powers from State to Union authorities (mainly the Reserve Bank of India and National Bank for Agriculture and Rural Development or NABARD), thereby improving the quality of supervision and raising the operational autonomy of the participating entities . Similarly, the training modules under component 1 were designed to build the skills of the staff, management and board members of participating entities to deliver the outputs and intermediate outcomes envisaged . In addition, the choice of a specific investment loan (SIL) with a sector wide approach (SWAp), instead of a quick disbursing development policy loan, was appropriate for the program envisaged .

A number of exogenous factors were anticipated and addressed, including the development of (a) eligibility criteria for recapitalization which excluded under-performing entities; and (b) standards for internal control of PACS, which often lacked the requisite skills . However, the task team did not anticipate the 2008 implementation by the GOI of a large-scale debt waiver program which was an ad hoc decision prompted by a spate of drought that destroyed farmers' crops. Nor did it foresee the onset of the global financial crises of 2008 and 2009 that would have severe repercussions on all participating credit cooperative banks .

4. Achievement of Objectives (Efficacy):

The degree of achievement of the project's development objective -- ***to assist in providing the members of the credit cooperative banks (CCBs), including small and marginal farmers, with significantly enhanced access to formal finance (credit, savings, etc .), by ensuring that the potentially viable credit cooperative banks in the Participating States are transformed into efficient and commercially sustainable institutions*** - is assessed separately for the three sub-objectives.

Sub-objective (i): to significantly enhance access to formal finance by members, including small and marginal farmers. **Substantial .**

<u>Outputs</u>:

- About 14,000 PACS and 13 DCCBs met the benchmark eligibility criteria and received some US$ 404 million of project funds for recapitalization. The recapitalization, however, was incomplete. 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 capital-to-risk-asset ratio of 4% mandated by the Reserve Bank of India (such 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).
- Other SCBs and DCCBs were indirectly recapitalized through the repayment of the overdue balances by PACS which improved the asset quality on their balance sheets .

<u>Outcomes</u>

- The recapitalization of the credit cooperatives enabled them to pay off their overdue debts, and receive new funds for on-lending to members. This was an important contribution to an expansion of lending . The volume of lending by the Short- term Rural Cooperative Credit System in the participating states expanded from Rupee 17,087 Crore (or ten million) in 2005 to Rupee 33,484 Crore in 2012, an increase of 96% (which exceeded the target of 70%). During the same period, outstanding loan balances in the participating states rose from Rupee 16,099 Crore to Rupee 29,348 Crore, an increase of 82%. In addition, the ICR indicates that some of the PACS have expanded their services by offering deposits, leasing of equipment and storage facilities (paras 70-71, pp. 23- 24).
- According to data compiled by NABARD and reported in the ICR, the number of small and marginal farmers who benefited from formal credit in the participating states rose from 4.3 million borrowers in 2005 to 7.6

million in 2012, representing an increase of 72% or 3.3 million borrowers (Annex 4, Table 6, page 44 and Section F, page iv, of the ICR).

- Rural credit cooperatives, which were identified in the Government of India 's revival package as the crucial source of finance to small and marginal farmers, continued to play that role throughout implementation .
- The average size of loan also indicates success in reaching small and marginal farmers . In 2012, the rural credit cooperatives accounted for 17% of the amount of credit and 50% of the number of loans extended in the participating states, implying that, on average, the size of the loans extended by credit cooperatives was much smaller than those extended by other financial institutions . In fact, the average size of loans extended by credit cooperatives was US$ 450 or one third of the average size of formal loans extended in the participating states in 2012 (para 68, page 23, of the ICR).

Sub-objective (ii): transforming the potentially viable credit cooperative banks into efficient institutions . **Substantial** .

Outputs

There were two sets of project outputs aiming at enhancing the efficiency of the credit cooperatives, the first to increase their autonomy and reduce political interference in their operations, and the second to enhance the performance of their management and staff .

Increasing autonomy :

- The Cooperative Society Act (CSA) was amended from August 2007 to July 2008 in all participating states, with the regulatory authority over the rural credit cooperatives transferred from the states to the National Bank for Agriculture and Rural Development Bank and the Reserve Bank of India .
- Rules and by-laws governing the operations of credit cooperatives were revised between 2008 and 2010 to ensure the operational autonomy of the credit cooperatives .
- Staged capital adequacy norms were introduced in 2011, specifying the gradual increases in the required capital to risk assets ratios for the three tiers of credit cooperatives .
- State ownership of credit cooperatives at all levels is restricted to less than 25% of equity.
- The number of state nominees to each board was reduced one person in SCBs and DCCBs and prohibited in PACS. in compliance with guidelines
- The governing bodies (boards of directors) of credit cooperatives were elected by members .
- Following the passage and ratification of the 97th amendment to the Indian Constitution in 2012 and 2013, board composition underwent further changes to include women and members of the scheduled castes as newly mandated .

Enhancing management and staff performance :

- Professionalization of board directors, including chairpersons and chief executives, took place in most of the SCBs, DCCBs and many of the PACS . Qualifications and codes of conduct were stipulated in conformity with the guidelines in most of the credit cooperatives . Professional directors and qualified CEOs were recruited in most SCBs and DCCBs .
- Nine core training modules were developed and delivered under the revival package nationwide . They were designed 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 .
- The project funded the training of 1,768 trainers at the state and district levels .
- The project supported the roll-out and training of 109,348 sector participants, including 28,000 staff members of PACS and 32,000 board members.
- Most credit cooperatives adopted a common accounting system (CAS), with PACS implementing the system manually until the necessary information technical skills were acquired .
- A common national software system was developed and tested, but the required hardware had not been purchased by the time the project closed .
- All credit cooperatives are audited annually under the same audit guidelines . For SCBs and DCCBs, annual external audits are required .

Outcomes

- Corporate governance was changed as a result of project interventions . Composition of the boards of Credit Cooperatives in participating states was transformed, since members now democratically choose their own directors while nominees of the state governments are limited in compliance with guidelines . The ICR does not provide information concerning the numbers of scheduled caste members or women elected .

- Impact assessments carried out for the Government of India 2009 and 2011 noted a significant increase in operational autonomy at the primary agricultural credit society (PACS) level, which included more than 20,000 participating entities under the project. Most PACS, on their own initiative, embarked on a deposit mobilization drive, prioritized the lending to small and marginal farmers, diversified services (to include, for example, sales of seeds, insurance coverage and bill payments) and upgraded productivity by raising margins and cutting losses.
- The project-supported common accounting system (CAS) ensured higher quality standards and greater uniformity than the diverse state-directed accounting systems. The project also supported the introduction of mandatory annual audits applicable to all credit cooperatives to be conducted by approved auditors under uniform audit manuals.
- According to the ICR (page 17), the new accounting standards were widely adopted at all levels of credit cooperatives, but compliance remained mixed at the PACS level. Nonetheless, financial disclosures and data availability gradually expanded and improved. Members were now better equipped to exercise democratic control of credit cooperatives. Improvements in the transparency of the sector were also reflected in the audits carried out by the regulator (NABARD), which assessed the quality of financial and operational indicators of each entity. In 2005, only 26.5 percent of the entities received the highest classification (A rating) from NABARD. By 2012, this group expanded to nearly half (47%) of the total.
- The ICR contains no "traditional" measures of efficiency of credit institutions (for example, relating activities to employment levels or to costs, interest rate margins, etc.).

Sub-objective (iii): transforming the potentially viable credit cooperative banks into commercially sustainable institution. **Modest.**

Outputs

There are no separate outputs for this sub-objective. The outputs are the same as those considered under sub-objectives (i) and (ii).

Outcomes

- Outcomes were adversely affected by (i) the Government of India's debt waiver (forgiveness) program of February, 2008, which caused significant losses to credit cooperatives and (ii) by the global financial crisis, which depressed farm prices and the rural economy.
- The share of PACS that were profitable nonetheless rose from 49% in 2005 to 60% in 2012 (Table 5, Annex 4, page 43 of the ICR). The capital adequacy ratio of DCCBs, in the states where the consistent data was available, rose from 5.8% in 2005 to 9.2% in 2012. In four out of five participating states, the SCBs met the required capital adequacy ratio of 7% two years ahead of schedule (para 60, page 19 of the ICR). The SCBs largely achieved full loan recovery, except in the state of West Bengal. However, the DCCBs and PACS did not meet the target of 5-10% improvement per year. Moreover, none of the states met either the original (1 percent) or revised (0.8 percent) return-on-assets targets for the SCBs and DCCBs.

5. Efficiency:

At both appraisal and closure, a cost benefit analysis was conducted in which the quantified benefit streams derived from (a) more credit that became available to members of the cooperatives, and (b) cost savings due to the lower interest rates offered by the credit cooperatives, compared to other local lenders. At appraisal, data from randomly selected entities were used, whereas at closure the analysis relied on entities that actually benefited from the project's recapitalization program. In addition, the assumed values of increased lending were replaced with actual values.

The ex ante analysis estimated a large and positive net present value using a discount rate of 7.55% (based on the yield to maturity of 5-year Government of India bonds). The internal rate of return (IRR) was 31%. Ex post, the net present value at the same discount rate was smaller but still positive, and the IRR was estimated at 10%. The ICR cites the effects of the Government debt waiver and the lower than expected recapitalization as the main reasons for this result. At project closure, the yield of Government of India bonds with a 5-year maturity was 7.8% -- somewhat higher than the discount rate used in the cost-benefit analysis, but still below the 10% rate of return achieved.

The rate of return of 10% at completion, however, was well below a variety of traditional benchmarks, including:
1. conventional hurdle rate 12% as applied to most of the WB investment projects;
2. long-term average economic rate of return for all WB loans of 19%;
3. the rate of return of 31% projected at appraisal;

4. long-term rate of return of 39.5% for financial sector projects in the South Asia Region.
(See Herrera, S., 2005, "The Economic Rate of Return of World Bank Projects", PRMED, World Bank.)

The administrative efficiency of the project was reasonable although a few lapses were indicated. For one thing, the closing date was extended by 18 months. For another, project funds were to some extent under-utilized, as with the allocation of about $100 million for the IT component which was ultimately cancelled.

Efficiency, on balance, is rated modest.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	31%	100%
ICR estimate	Yes	10%	100%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Relevance of both objectives and design is rated substantial. Efficacy of two out of three sub-objectives -- significantly enhancing members' access to formal finance, and transforming the cooperative credit banks into efficient institutions governance of participating entities - is rated substantial. However, achievement of the third sub-objective - transforming the banks into commercially sustainable financial institutions - is rated modest. DCCBs and PACS did not reach the target of 5-10% improvement per year in loan recovery, and the return on assets targets, were not met. Efficiency is rated modest. Overall outcome is assessed as **moderately satisfactory**.

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The improvement in corporate governance is underpinned by amendments of the Cooperative Society Act and the 97th Constitutional Amendment, both of which call for more inclusiveness among social and economic institutions. The outcomes on sector viability and financial access of members, however, remain subject to the risks observed during the duration of the project, including (i) negative policy interventions (such as loan forgiveness or interest rate subsidies) and (ii) crop failures, compounded by inadequate crop insurance or farm support programs. These risks are mitigated by the increased transparency and responsiveness of the governing bodies of the entities involved (see Section 4 above), as well as improved risk management brought about by capacity-building programs supported by the program. In addition, the Reserve Bank of India continues to support and supervise rural financial institutions.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

Project preparation relied on the work undertaken by the Government of India's Task Force on the Revival of Rural Credit Cooperative Institutions (the Revival Package), including key elements of the design for the project and implementation arrangements. The task team also undertook extensive consultations with local stakeholders and external partners (mainly Asian Development Bank and GTZ/GIZ - Germany's Society for International Technical Cooperation) which supported similar programs in other states. Risk assessment was consistent with established guidelines, although in hindsight it would seem that risk management practice of credit cooperatives could have been strengthened.

While the PAD details the project's approach towards recapitalization or liquidation of category A and B PACS, greater clarity on the approach for category C institutions could have been provided (the categorization was based on recovery percentages as of June 30, 2004).

The implementation arrangements, including the choice of implementing agency (National Bank for Agriculture and Rural Development or NABARD) and local partners for capacity building at the national and state levels and the design of project components, wereappropriate for the objectives envisaged . The preparatory work enabled rapid disbursement in the initial period - by 13% in the first and 50% in the second year.

The decision to use a specific investment loan (SIL) with a sector wide approach (SWAp), instead of a fast disbursing development policy operation, allowed the Bank to disburse credit funds against specific expenditures as needed for the large program of technical assistance and institutional development foreseen.

M&E design was adequate, albeit with some moderate shortcomings (see Section 10 a below). However, the task team underestimated the time needed to absorb a shift in organizational culture and to internalize new technical skills. As a result, some of the outcome targets were set too high for the duration of the project.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

The supervision team was adequately staffed with specialists in the country office and global experts from Headquarters. Implementation support was proactive, responding to the needs of a large number of activities to be carried out in 5 large states. The result focus of the task team was demonstrated by the prompt response to a number of policy surprises including debt forgiveness and interest waiver . Intensive dialogue was held with national and local authorities, as well as external partners, to coordinate and harmonize corrective actions.

However, more proactive and stronger remedial actions of the task team might have been productive on some issues. The restructuring might have been done earlier -- perhaps soon after the waiver program of 2008, instead of waiting until 2011. Furthermore, a greater focus of the task team on getting the data at the level of primary agricultural credit societies collected and consolidated would have facilitated the analysis of outcomes. It might have implied giving more targeted support for the National Bank for Agriculture and Rural Development {NABARD).

Other shortfalls in implementation, especially the IT component, were mainly attributable to factors beyond the scope of the project, including delays in the adoption of uniform software applications for all rural credit cooperatives in India.

Fiduciary compliance was adequately monitored (see Section 11b below).

Quality of Supervision Rating : Moderately Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Government of India and the Reserve Bank of India put in place reforms of the legal and regulatory framework for rural financial institutions, including a Constitutional Amendment mandating the presence of women and scheduled castes on the governing body of each credit cooperative . The five states covered by this project adopted the prudential regulations and paved the way for new governance practices at the entity level.

Both the Union and State Governments showed strong and consistent ownership of this project . An indication of this ownership was the ability of multiple government agencies to coordinate and carry out project activities, including training, implementing M&E system, applying new accounting systems, writing off bad debts, and allocating financial losses . In addition, the Government of India was able to replace Uttarakhand with West Bengal as a participating state, when the former dropped out due to its inability to meet the targets for benchmark reforms .

However, the decision in February, 2008 to forgive farmers' debts and grant a waiver of interest payments was not in accordance with the aims of the project . The debt relief program was broadly based, targeting about 40 million small and marginal farmers across India who were in default between 1997 and 2007. It was meant to give a fresh start and a new livelihood to farmers who were hit by a series of droughts, and was in response to a strong political imperative .

Government Performance Rating Moderately Satisfactory

b. Implementing Agency Performance:

The implementing agency was the National Bank for Agricultural and Rural Development (NABARD). On the positive side, NABRAD's staff at the regional level were strongly committed and made notable efforts to coordinate their work with a wide range of stakeholders while assisting several thousand participating credit cooperatives. Staff at the Head Office played a key role in backstopping the program across the country . The turnover of the task team was also kept at a low level, with key members remaining on the team throughout the duration of the project .However, NABARD could have been more effective in ensuring the compliance of cooperatives with fiduciary rules (timely submission of audit and financial reports) and in the implementation of the M&E system, including data collection and consolidation .

Implementing Agency Performance Rating : Moderately Satisfactory

Overall Borrower Performance Rating : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The indicators selected were mostly appropriate . Some of the outcomes, including improvements in corporate governance, were difficult to capture due to the lack of measurable data, but the election of directors by cooperative members (key performance indicator #5), which is observable and measurable, provided a reasonable proxy. The objective of improving access to savings or deposits might also have been reflected in an indicator, although this would also have added complexity to the M&E system to be implemented by about 30,000 entities. The responsibility for data collection was generally well thought -out and allocated to ensure adequate coverage on substance, entities and state -level jurisdiction. The capacity of some of the entities, especially at the PACS level, to comply with quality and timeliness standards, however, may have been over-estimated.

b. M&E Implementation:

The M&E system was implemented as intended, with key performance indicators tracked and updated every six months. In addition, benchmark activities which determined eligibility for recapitalization were monitored closely . The M&E system provided the inputs for banking regulators and for the Bank 's visiting missions throughout the project. The M&E system also enabled the task team to realize that the viability targets would not be met and to reach the decision to restructure the project . Data collection at the PACS level, however, remained uneven, due to the large number of entities, making data consolidation for the group a difficult task . Impact assessments were also carried out separately by NABARD and the Bank .

c. M&E Utilization:

The M&E system was used for tracking inputs used, outputs delivered, intermediate outcomes observed and key performance indicators. An example of the utilization was the in-depth midterm review conducted jointly by NABARD and the Bank early in 2010.

M&E Quality Rating : Substantial

11. Other Issues

a. Safeguards:

According to the PAD, the project was classified as Category C for purposes of environmental assessment, but the Integrated Safeguards Data Sheet (ISDS) incorrectly categorized the project as category F (Financial Intermediary). Since the project did not involve a line of credit and was not likely to trigger any safeguard policies, the C designation was appropriate.

b. Fiduciary Compliance:

Financial management was rated “moderately satisfactory” for the most part in supervision reports. An exception was between October 2008 and March 2009, when it was rated “moderately unsatisfactory” due to delays in the submission of the interim un-audited financial reports and audit reports. The same issue arose at project closure, resulting in another MU rating. According to the ICR (page 11), the project’s external auditors issued unqualified opinions throughout implementation, with the exception of the October 2008 - March 2009 period mentioned above.

Procurement was rated moderately satisfactory throughout in supervision reports. For the IT component, however, four out of five participating states could not complete the procurement due to the Government of India’s request for partial cancellation of the undisbursed funds in 2013. A post procurement review was being conducted by the Bank as the ICR was issued. There were no recorded cases of misprocurement.

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade

the relevant ratings as warranted beginning July 1, 2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The ICR presents many relevant lessons that may be helpful to similar Bank operations elsewhere. Among them:

- Reforming rural cooperatives is complex and time consuming. As the task team has learned, it involves a shift in skills, management, governance and culture. Changes are needed in the internal process, operating system and product offerings. Each element takes time to evolve and mature. The project's six-year life was not sufficient for the expected outcomes to be fully achieved.
- Governance reform of credit cooperatives is reinforced by a focus on credit risk management, including enhancing the capacity of staff and monitoring the operations. The outcomes on viability of project entities, which were exacerbated by external factors, could have been improved with stronger risk management capability.
- Governance reforms, designed to improve the alignment of interests between management, owners, and members, can enhance the efficiency and performance of the financial institutions. This project and the Government's revival package focused on enabling and supporting governance reforms. At project closure, and despite the adverse impact of global economic conditions and the Government's debt waiver decisions, the performance of project entities showed improvements as demonstrated by stronger capitalization and recovery rate rates for most of the participating entities and by the regulator's (NABARD's) audit results.
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14. Assessment Recommended? ● Yes ○ No

Why?

A Project Performance Assessment Report (PPAR) could identify and analyze a number of useful lessons that could be applied more widely. These would relate, inter alia, to the project's emphasis on corporate governance issues going beyond a more narrow technical focus; the inclusion of both policy and investment dimensions; and the challenges of financial development in remote and low-income rural areas.

15. Comments on Quality of ICR:

The ICR is informative. It provides useful background to a recapitalization program and highlights the key elements of reforms implemented. Lengthy technical discussion is limited or contained in annexes. Given the limitations of data available, the quality of the evidence presented is satisfactory. The analysis of efficacy is particularly well organized, with outcomes presented in three key dimensions (governance, viability of participating entities and access by members). In addition, the ICR is candid in its discussion of shortfalls in the achievement of expected outcomes.

a.Quality of ICR Rating : Satisfactory