

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
PRE-APPRAISAL STAGE**

Report No.:PIDC0071568

Program Name	West Bengal Institutional Strengthening of Gram Panchayats Project II (P159427)
Region	South Asia
Country	India
Sector	Sub-national government administration
Lending Instrument	Program for Results
Program ID	P159427
<i>{If Add. Fin.}</i> Parent Program ID	-
Borrower(s)	Department of Economic Affairs, Ministry of Finance, Government of India
Implementing Agency	Panchayats and Rural Development Department
Date PID Prepared	November 21 2016
Estimated Date of Appraisal Completion	December 16, 2016
Estimated Date of Board Approval	March 14, 2017
Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

A. Country Context

- Local governments in India play a fundamental role in the delivery of public services.** The 73rd Constitutional Amendment of 1993 and the ensuing state legislations created the Panchayat Raj Institutions (PRIs) with devolved powers and functions to enable the rural local bodies to deliver services more effectively. Despite the prominence of PRIs, decentralization in India remains constrained by the high dependence on inter-governmental transfers, the unpredictability of funds, and the weak organizational and administrative capacities of local governments. In 2015, the 14th Central Finance Commission (CFC, a constitutional body set up every five years to define the inter-governmental fiscal relations), recommended to further the devolution process through an unprecedented increase in tax devolution to States from 32 percent to 42 percent of the sharable central tax for the next five years (amounting to US\$46 billion), which is the largest increase in the history of Indian fiscal federalism. The success of the 14th CFC recommendations depends largely on the role of the States in assisting local bodies to strengthen their systems to manage resources and deliver services.
- For the last few decades, West Bengal (GoWB) has been on the forefront of the decentralization process in India.** West Bengal was the first State in India to hold democratic elections at the local level starting in 1978 and to devolve to the local governments all the functions listed on the Eleventh Schedule of the Constitution (public administration, service delivery, economic development and social justice). Aggregate funding flows to the PRIs have increased significantly (47% between 2010 and 2015) at the time that mandatory annual financial audits and

M&E systems have been put in place to ensure better controls and accountability. The consolidation of the PRI system was supported by the World Bank-financed Institutional Strengthening of Gram Panchayats Project (ISGPP-I). The project focused on strengthening the 1,000 (out of 3,342) relatively better performing Local Governments through the provision of more resources, capacities and incentives to improve service delivery and governance overall.

B. Sectoral and Institutional Context of the Program

3. **In West Bengal there has been a substantial increase in the aggregate funding flows to the PRIs.** During the 2011-16 period the total funding increased by 128%, with the highest increase going to the upper tiers of PRIs (Zilla Parishad (ZP) - district, Panchayat Samiti (PS) – block) and the lowest tier (Gram Panchayat (GP) - village) experiencing a 28% increase. The main characteristic of this increase is that it has been majorly driven by a high allocation of discretionary/untied funds to GPs that increased by 73% as compared to a 20% increase in tied funds. This increase in the proportion of untied funds is consistent with the fourteen CFC and fourth State Finance Commission (SFC) recommendations to meet a long standing demand for greater flexibility in the design of government programs to better reflect local preferences and increase efficiency in spending.
4. **Going forward, it is estimated that untied funds allocated to the GPs will more than double between 2015 and 2020** owing to significant increases in 14th CFC funds, 4th SFC funds, and the World Bank's assistance under the proposed ISGPP-II. Till 2015-16, IDA funding under ISGPP (financed by the World Bank) was the only performance based grant (PBG) going to GPs. However, the 14th CFC recommended an important paradigm shift from the past: that 10% of CFC funds be allocated to GPs on the basis of performance. The GoWB adopted this principle and made a decision that 100% of SFC funds would also be allocated on the basis of performance. As a result, the total performance based grant for the GPs will increase by about 145%.
5. **In order to enable GPs to make full use of the significant increase in untied funding and enhanced autonomy given to them, it is necessary to strengthen public administration, financial management, planning and accountability systems at the GP level.** International experience on strengthening decentralization in local governments, suggests that an increase in resource allocation must be accompanied by proper planning, implementation and control systems as well as adequate and skilled manpower at the local and state levels. Such support would facilitate greater functional and fiscal devolution ultimately leading to improved local service delivery. In West Bengal, this approach has already been piloted in ISGPP-I that provided a combination of discretionary funds to 1000 GPs on the basis of performance coupled with capacity building activities in areas like participatory planning, budgeting, implementation, monitoring, public expenditure management, accounting, financial reporting and auditing, public procurement, human resources management, and environmental/social safeguards screening. Based on the learnings and success of ISGPP-I, ISGPP-II has adopted a programmatic approach covering all 3,342 GPs in West Bengal.

C. Relationship to Country Partnership Framework

6. **This program is central to the inclusion pillar of the India Country Partnership Framework (2013-17).** Empowering and improving the capacity of the GPs that directly interact with the citizens at the grass root level helps the inclusive growth agenda at the country level. It also aims to improve access to services to the excluded population, and enhance governance in the entire State as intermediate contributions to the longer term goals of reducing poverty and boosting shared

prosperity. Global evidence suggests that decentralized governance and institutional arrangements can contribute to improved service delivery and lead to positive development outcomes.

D. Rationale for Bank Engagement and Choice of Financing Instrument

7. **The rationale for Bank engagement in the strengthening of GPs in West Bengal was laid out by the first phase of the project, which envisioned that the “systems introduced by the project will be expanded to all GPs and will become an integral part of the PRI fiscal framework in the State”** (ISGPP-I, PAD, p. 27). ISGPP-I built a strong foundation for systems reform through a combined approach of performance-based grants (PBG) and capacity building support. ISGPP-II aims to build upon this project that has demonstrated positive results. The proposed program aims to support all the GPs in the state to better plan and utilize all their discretionary resources which is key in the current context of a three-fold increase in untied grants from both the Central and State governments. The program will not only help all GPs to better utilize the increased funds, but also provide an enabling environment for levelling the playing field amongst strong and weak GPs by establishing a differentiated system of PBGs to incrementally reward good performance. By the end of the proposed program, a unified state-wide performance based grant allocation system would be in place to provide discretionary funds from various sources to all GPs in the state.
8. **A Program-for-Results (PFR) operation is an ideal financing instrument for this program as it will focus on systems development and capacity building on the basis of measureable results**, by using and strengthening existing State and GP government systems, already tested under ISGPP-I. The use of PFR will facilitate a seamless transition from the implementation of capacity building and system development activities for a limited number of GPs to a state-wide coverage in full alignment with the Government’s program. Moreover, the PFR will follow an area-based approach covering the new and weaker GPs, as part of the support to a wider government program, which covers all GPs with a harmonised grant allocation and capacity building support system. The choice of instrument also responds to the government’s intentions, as recommended by the SFC, to adopt and roll-out the performance based grant allocation model of ISGPP-I throughout the State.

II. Program Development Objective(s)

A. Program Development Objective(s)

9. The Program aims to strengthen the institutional and financial capacities of Gram Panchayats (GPs) across the State.

B. Key Program Results

10. The PDO level indicators for the proposed program are: (i) Percentage of GPs that meet Basic Mandatory Conditions (BMCs) and Expanded Mandatory Conditions (EMCs) annually; and (ii) Average percentage of total performance based grants utilized by the GPs annually. The above mentioned PDO indicators will measure the overall improvement in local government functioning from an institutional and financial perspective through the Annual Performance Assessment (APA). The APA covers key institutional and financial issues of local government in a comprehensive manner, including: own source revenue generation; timely external audits; decentralized planning; financial capacity to utilize discretionary funds; and improvements in financial management systems. In addition, the performance measures included in the APA focus on measuring and incentivizing performance in planning and budgeting; project execution and service delivery; financial management and transparency; and accountability. At a higher level, the Program aims to

strengthen the local government systems to enable them to provide improved access to devolved public services through efficient and robust systems for decentralized and participatory planning as well as design, implement and manage the infrastructure projects for long term sustainable service delivery.

III. Program Description

The Government program

11. **The Government program is anchored in the recommendations of the fourth State Finance Commission (2014-2019)** that notes that while West Bengal has made good progress on local government and decentralization issues, there are still a number of legal and fiscal issues to be addressed. These include: (i) weak own source revenue generation and management; (ii) weak inter-governmental fiscal transfer framework owing to unpredictable fund transfers; (iii) lack of proper expenditure management systems; (iv) weak accounting and budgeting procedures; and (v) weak internal and external audit systems.
12. **The fourth SFC recognized the significant positive contributions of the World Bank-assisted ISGPP-I to the achievement of State’s Decentralization Roadmap of 2009**, including: improvements in local government functioning through performance-based grant allocations systems, along with focused institutional development capacity building and implementation support. The fourth SFC recommended that the state government establish an Institutional Strengthening Program (ISGPP-II) for all the 3,342 GPs, including the institutionalization of a state wide performance-based grant system accompanied by comprehensive capacity building support.
13. **In accordance with SFC’s recommendations, the state government has launched ISGPP–II with an estimated budget of USD 595.5 million covering all 3,342 GPs** from FY 2016/17 to 2021/22. The government program aims to accelerate the pace of rural decentralization to attain better quality of public services and local self-governance by augmenting the financial resources of PRIs, and providing them support to plan, implement and manage services in a decentralized and participatory manner. The Government program focusses on four Key Result Areas (KRAs): (i) Establishing a state wide unified performance based grant allocation system for all discretionary funds available for GPs; (ii) Improving local government financial management systems in GPs; (iii) Improving local governance and Human Resource (HR) capacities for increased transparency and accountability in local government functioning; and (iv) Improving the decentralized and participatory planning and budgeting mechanisms at the local level.

The PfR Program

14. **The proposed PfR operation (‘the Program’) is identical to the government program and will support the four KRAs** through the ten core activities outlined in Table 1 below; see Annex 1 for a detailed description of these activities.

Table 1: Key result areas and Program activities

Key Result Areas	Specific activities	Cross-cutting activities
(i) Establishing a state wide unified performance based grant allocation system for all discretionary funds available for GPs	1. Performance Based Grants to GPs 2. Timely completion of APA every year 3. Program management, coordination and	4. Focused mentoring support for strengthening GP functioning

	monitoring	5. Formal learning and trainings for the GPs 6. Institutional systems development and roll-out for improving local governance
(ii) Improving local government financial management systems in GPs	7. Timely completion of external audits of all GPs annually 8. Development and implementation of internal audit system for GPs	
(iii) Improving local governance and Human Resource (HR) capacities for increased transparency and accountability in local government functioning	9. Support for adequate core staff in the GPs	
(iv) Improving the decentralized and participatory planning and budgeting mechanisms at the local level	10. Citizen engagement, project communications and IEC	

15. **Activity 1: Performance Based Grants to GPs.** This activity will be based on comprehensive APAs for all 3,342 GPs conducted through an independent agency. The Program will contribute Disbursement Linked Indicator (DLI)-based funding for PBG to an equivalent of two thirds of the total number of GPs, while GoWB and GoI will provide the supplementary funding from SFC and CFC funds to the remaining number of GPs. Table 2 below presents the funding framework for the PBGs including the three sources of funds.

Table 2: Funding Framework for PBG

Funding Source	All GPs	Two thirds of GPs	One third of GPs
Performance Based Grants	523.4	371.5	151.9
IBRD (DLI-based funding)	139.3	139.3	0
<i>Total Government funding</i>	384.1	232.2	151.9
CFC (10 % PG)	253.0	140.2	112.8
SFC (100%)	131.1	92.0	39.1

16. The Program will support the roll-out of APA for all 3,342 GPs in order to establish an integrated and harmonized performance-based grant system for all GPs. A three-element performance grant system is envisaged to recognize the contextual differences in GPs, including demographic factors as well as prior level of support. The first element will be assessed against a set of three basic mandatory conditions (BMCs); the second element will be assessed against a set of expanded mandatory conditions (EMCs); and the third element will be assessed against a set of performance measures (benchmarks). Table 3 below summarizes the proposed APA and PBG allocation framework; and Annex 1 provides more details.

Table 3: Proposed APA and PBG Allocation Framework

Elements	2,344 GPs (Covered under ISGPP-II)	998 GPs (Covered by ISGPP-I)
<i>Element 1:</i> Assessment against Basic Minimum Conditions (BMC)	All qualified GPs eligible to receive a minimum pre-fixed fraction of PBG if BMCs are complied with	Not applicable

<u>Element 2:</u> Assessment against Expanded Minimum Conditions (EMC)	All qualified GPs eligible for the PBG as per their performance scores
<u>Element 3:</u> Assessment against Performance Measures	All EMC qualified GPs receive PBG on assessment against performance measures PBG allocation for all GPs based on a weighted formula comprising GP's population and GP's geographical area and performance scores

17. **Activity 2: Focused mentoring support for strengthening GP functioning.** The activity will provide mentoring support to GPs through a robust system ensuring that: (i) the support is maintained at a level that is as cost-effective as possible; (ii) the support is subject to annual quality assessments to ensure that mentoring services are appropriate; and (iii) mainstreaming GP mentoring services into the local government system as far as possible. Mentoring teams will be closely involved in the identification and monitoring of capacity building activities, and will provide demand-driven capacity building for core GP functions.
18. **Activity 3: Formal learning and trainings for the officials and representatives from the PRIs, delivered through a District-level planning process.** A demand driven and focused approach to formal learning and training for GPs will be adopted on the basis of GPs' specific and individual needs, oriented towards providing GPs with the skills and knowledge they need in order to access performance-based grants and to deliver more and higher quality public goods and services. This will require a flexible approach to the provisioning of training and learning events – with less emphasis on the delivery of a standard training package to all GPs.
19. **Activity 4: Institutional systems development and roll-out for improving local governance.** This activity will provide support for development and state wide roll out of institutional systems for improved local governance, transparency and accountability, which were piloted successfully under ISGPP-I including (i) Gram Panchayat Management System (GPMS), (ii) Geospatial Information System (GIS) and Management Information System (MIS), and (iii) Grievance Redressal Mechanism (GRM).
20. **Activity 5: Support for adequate core staff in the GPs.** This activity will support the recruitment of three key staff positions in the GPs - Executive Assistant (Executive head of the GP), Secretary and Civil Engineer (Nirman Shayak).
21. **Activity 6: Development and implementation of internal audit system for GPs.** This activity will provide support for developing and implementing a robust state wide internal audit mechanism for all the GPs through a risk based approach.
22. **Activity 7: Timely completion of APA every year.** This activity will support PRDD in conducting the APA for 3,342 GPs in a timely manner every year by engaging an independent third party professional agency.
23. **Activity 8: Program management, coordination and monitoring.** This activity will provide support to PRDD for: (i) deploying required resources at the state and district level for program management and coordination activities to ensure timely and smooth program implementation and; and (ii) undertaking the key monitoring and verification activities such as contracting of DLI

verification agents, baseline and end line assessments as well as periodic physical and financial progress reports. At the state level, a State Coordination Unit (SCU) will be responsible for program implementation and coordination while at the district level, this will be done by District Coordination Units (DCUs) both of which will be supported under this activity.

24. **Activity 9: Timely completion of external audits of all GPs annually.** This activity will provide institutional strengthening support to the office of Examiner of Local Accounts (ELA) including adequate staffing as well as infrastructure/IT support which will enable ELA to complete the external audit of all GPs in a satisfactory and timely manner.
25. **Activity 10: Citizen engagement, project communications and IEC.** This activity will generate awareness among the population about the objectives, mission, vision, and benefits of the program. The project communication interventions will focus on GP personnel along with relevant block, district and state level stakeholders. The IEC strategy includes key activities such as print and electronic media, electronic and digital media, local folk-culture events, internal government channels and satellite communication.
26. **The Program has seven disbursement-linked indicators (DLIs)** that build around key outcomes of the Program and are well aligned with the Program’s KRAs.

Table 4: Summary of DLIs

DLI	Total Financing Allocated to DLI (US\$, millions)	As Percentage of Total Financing Amount (%)
DLI 1: No. of GPs that have qualified Basic Mandatory Conditions (BMCs) in the APA	43.55	20.62
DLI 2: No. of GPs that have qualified Expanded Mandatory Conditions (EMCs) and got access to performance rewards in the APA	95.77	45.37
DLI 3: Percentage of annual learning and training plan implemented by PRDD	12.00	5.68
DLI 4: Average number of annual mentoring days per GP provided by PRDD with performance assessment	26.00	12.32
DLI 5: Core institutional systems implemented by PRDD across GPs	10.30	4.88
DLI 6: APA, program management & reporting activities implemented by PRDD as per agreed annual plan	16.00	7.58
DLI 7: Targeted number of vacant core GP positions filled	3.00	1.42
Total Disbursements for DLIs	206.6	97.9
Program Preparatory Facility (Advance)	4.5	2.1
Total financing allocated	211.1	100

27. **PRDD will hire an independent professional firm for the periodic verification of the achievements of DLI targets and to submit a report to the Inter-departmental Program Steering Committee (PSC).** The Bank will make the final decision on whether a DLI has been achieved. In addition, the Bank may undertake regular independent quality assurance checks of the APAs to ensure continued robustness of the system.

IV. Initial Environmental and Social Screening

28. **The Program interventions are expected to result in substantial social and environmental benefits to local communities,** especially to those from the poor and vulnerable sections. Adverse impacts on the environment and people that are sensitive, diverse, and unprecedented are not foreseen. However, planned efforts are essential to ensure that program interventions result in sustainable social and environmental benefits. Towards this, an Environmental and Social Systems Assessment (ESSA) was conducted in line with Bank policy on Program for Results financing to assess the degree to which the program systems align with the principles of: promotion of environmental and social sustainability; avoidance, minimization or mitigation of adverse impacts on natural habitats and physical cultural resources; protection of public and worker safety; management of land acquisition; consideration of issues related to indigenous peoples and vulnerable groups; and, avoidance of social conflict. The ESSA identified actions required for enhancing Program systems and mitigating environmental and social risks. Overall, the ESSA concluded that while Program systems are aligned with the core principles of the Bank’s Program for Results instrument, there is considerable scope for strengthening them.
29. **The ESSA found that a clear and definite regulatory and institutional mandate exists at the national, state and sub-state levels** that ensures the capacity building of various agencies to address social and environmental issues. However, there are several constraints: (i) inadequate operational linkages among the PRI institutions; (ii) uncertain and erratic fund flows; (iii) need for facilitation assistance to ensure widening and deepening of investment choices; (iv) poor technical capacity and inadequate capacity support; (v) need for a new set of guidelines (for construction works and worker safety) in certain ecological sensitive areas; (vi) need to make explicit the rules governing securing lands through voluntary donations for civil works; and (vii) need to recognize diversity and heterogeneity among the districts/GPs and for differential outreach measures. Actions for addressing these gaps have been agreed and relate to: (i) up-dating of the existing ESMF, specially, to enhance the negative list of activities; (ii) capacity support to ensure effective outreach and facilitation efforts; (iii) capacity building, especially on the technical front, to address environmental issues; (iv) refining approaches towards enhancing inclusion of poor and vulnerable households; (v) up-dating of the guidelines on cyclone/ disaster resistant construction technologies, worker safety etc.; (vi) ensuring “voluntariness” in land donations; and (vii) strengthening grievance redress mechanisms. The ESSA has been disclosed to various stakeholders at a workshop organized in Kolkata on December 15, 2016 and will be subsequently uploaded on the websites of the GOWB and the World Bank.

V. Tentative financing

Source	USD Million
Borrower/recipient	90
IBRD	210

Others (specify)	0
Total	300

VI. Contact point

World Bank

Contact: Mr. Uri Raich and Ms. Rajni Khanna
Title: Sr. Urban Specialist and Program Leader
Tel: 91 11 49247601 and 41479301
Email: uraich@worldbank.org and rkhanna1@worldbank.org

Borrower/Client/Recipient

Contact: Mr. Rishikesh Singh
Title: Director (MI), Department of Economic Affairs
Tel: 91 11 23093542
Email: rishikesh.singh74@nic.in

Implementing Agencies

Contact: Mr. Saurabh Kumar Das
Title: Principal Secretary, PRDD
Tel: 91 33 2334-0021
Email: secy-prd@nic.in

VII. For more information contact:

The InfoShop

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>