

**Draft PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB1075

<b>Project Name</b>	Karnataka:Rural Service Delivery and Loc
<b>Region</b>	SOUTH ASIA
<b>Sector</b>	General agriculture, fishing and forestry sector (50%);Sub-national government administration (25%);Other social services (25%)
<b>Project ID</b>	P078832
<b>Borrower(s)</b>	GOVERNMENT OF INDIA
<b>Implementing Agency</b>	
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Safeguard Classification</b>	<input type="checkbox"/> S <sub>1</sub> <input checked="" type="checkbox"/> S <sub>2</sub> <input type="checkbox"/> S <sub>3</sub> <input type="checkbox"/> S <sub>F</sub> <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	August 26, 2004
<b>Estimated Date of Appraisal Authorization</b>	November 27
<b>Estimated Date of Board Approval</b>	April 2005

1. Key development issues and rationale for Bank involvement

Karnataka is one of the reforming states in India. However, despite its good economic performance, Karnataka is characterized by regional disparities and disadvantaged groups, particularly in rural areas, and benefits from growth have not been equally distributed. Karnataka has devolved 29 subjects and about 20% of public expenditures relevant for rural development and poverty reduction to district, block and village governments and therefore has chosen local rural governments as the institutional path for rural poverty alleviation. The proposed project would improve the effectiveness of local governments, particularly those in the most disadvantaged areas, in fostering local development and services, and in improving the well-being of the poorest households.

The Government of Karnataka recently completed a Report on Rural Decentralization that outlines the strategy to improve rural governance and empower local governments to deliver services to the rural poor. The proposed project would assist the Government of Karnataka in implementing this strategy. The Country Assistance Strategy (CAS) highlights a specific need of improving government's effectiveness through decentralization and accelerating pro-poor rural development through more effective delivery mechanisms, and by strengthening the rural safety net and beneficiary participation. The proposed project would support these objectives.

Recently completed AAA identified the key shortcomings of the current system of rural finances that prevent local governments from performing effectively. These include weaknesses in the financial management systems; a multiplicity of tied schemes that are non-equalizing and limit the autonomy of local governments to solicit and respond to local preferences; non-predictability of transfers; poor local revenue mobilization; and limited community participation in planning and accountability systems. Moreover disadvantaged regions and people lack the voice and organization to force public programs to work for them. Bank's experience with community-

based rural poverty projects, both in India and elsewhere, has demonstrated that despite the success of community based approaches to poverty reduction, these are not sufficient for scaling-up and sustainability, and local governments need to play a key role. In fact effective rural poverty reduction requires interventions at two levels: on the demand side to empower communities through information and organization to demand services from local governments; and on the supply side to empower local governments to deliver these services. The proposed project would intervene at both levels.

## 2. Proposed objective(s)

The project's development objective is to improve the capacity of rural governments to manage public resources for the benefit of the rural poor. This would be accomplished through a two pronged approach:

- (i) Capacity building at the level of the state, the gram panchayats, and constituents
  - At the state level, increase the capacity to manage the process of decentralization and monitor local governments.
  - At the gram panchayat level, improve the process of planning, budgeting and expenditure management, information systems, and participatory and consultative decision making.
  - At the community level, support public education and capacity building to build awareness and confidence at the community level and capacity to effectively participate in planning and budgeting.
- (ii) Grants for rural infrastructure to most disadvantaged Gram Panchayats

## 3. Preliminary description

India and Indian states spend a larger share of GDP on rural development and poverty alleviation than most other countries in the world. Bank projects have little impact unless they can influence mainstream programs. Therefore, the proposed project intends to assist the Government of Karnataka in improving the institutional environment for public rural poverty and development programs, including through policy reform, positive incentives and improved capacity of both local governments and rural constituents, particularly the poor. The project would raise the capacity of the decentralized arm of the rural public sector, specially the level closest to the people, and by improving their capacity leverage various rural programs of the state and central governments implemented through them. The project also intends to address the geographical dimensions of poverty. In Karnataka transfers to rural jurisdictions are non-equalizing and one of the consequences has been an increasing gap between richer (urbanized and irrigated) and poorer regions. The project would address this issue by : (1) assisting the state in redesigning the transfer system to make it equalizing in terms of fiscal disabilities and expenditure needs; and (2) providing grants for small rural infrastructure in disadvantaged areas

to allow these to catch up. The project gives priority to “poor villages” rather than to “the poor within the villages” although the later aspect would also be addressed.

The project components would be:

- Establishment of a decentralization cell at the state level and an information system on local finances and performance;
- Capacity building of rural governments in financial management, participatory budgeting and planning for poverty reduction;
- Equalizing grants for rural infrastructure; and

Organization and human development and information for poor constituents

#### 4. Safeguard policies that might apply

*[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]*

#### 5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	10
INTERNATIONAL DEVELOPMENT ASSOCIATION	150
LOCAL COMMUNITIES	10
Total	170

#### 6. Contact point

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