

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA36000

Project Name	IN: Strengthening Governance and Service Delivery in Karnataka Panchayats (P150288)
Region	SOUTH ASIA
Country	India
Sector(s)	Sub-national government administration (100%)
Theme(s)	Decentralization (100%)
Lending Instrument	Investment Project Financing
Project ID	P150288
Borrower(s)	Department of Economic Affairs, Government of India
Implementing Agency	Rural Development & Panchayat Raj
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	16-Dec-2015
Date PID Approved/Disclosed	11-Jan-2016
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	10-Mar-2016
Appraisal Review Decision (from Decision Note)	The Decision Review Meeting that took place on December 14, 2015 authorized the team to proceed with appraisal.

I. Project Context

Country Context

The Government of India launched profound decentralization reforms in 1993 to strengthen public service delivery and reduce poverty, particularly in rural areas. The 73rd Constitutional Amendment created the Panchayat Raj Institutions (PRIs), or the three tiers of rural governments at the district, block and village (Gram Panchayats) levels, and mandated that states devolve functions and funds to the local governing bodies. The aim was to bring government closer to the people, in particular to the rural poor.

Karnataka has a long history of local decentralization and strengthening rural local governments, perhaps longer than any other state in India. In particular, Karnataka enacted the Karnataka Panchayat Raj Act in 1993 following the 73rd Amendment which established the PRIs and envisaged a greater participation of people for more effective implementation of development programs and schemes. In 2015, the 14th Finance Commission recommended a significant increase in the grants to be transferred to Gram Panchayats to improve basic services from 2015-20, acknowledging their responsibility for delivering public services in rural areas.

Despite the strong legal framework for devolution, Karnataka is confronted with difficult challenges of improving the quality of services in rural areas and to expand the role of the poor and disadvantaged groups in local governance and accountability. First, the fiscal backing to carry out these functions is largely weak. Karnataka's rural society is largely scattered and dependent on agriculture and related activities. Furthermore, regional imbalances over the years have worsened creating a wedge between the relatively developed and the less-developed regions of Karnataka. During the last five decades, Karnataka has made efforts to achieve rapid growth through investments in agriculture, industry, infrastructure and other sectors. This growth, however, has not been inclusive and twenty-five percent of the state's population (16 million) are living below the poverty line. Much of these imbalances are a result of the amalgamation of regions at varying levels of socio-economic development and different political and administrative structures of these regions on the eve of its reorganization.

Sectoral and institutional Context

The improvement of public services, due to historic and systemic reasons, has proven to be especially difficult in the less developed areas of Karnataka. The marginalization and exclusion of the backward regions and its people from the mainstream development process is evident by the stagnant economies of the poorer blocks and the abysmally low standards of living of the vulnerable sections of society in these areas. The backward regions of Karnataka are characterized by a high representation of the scheduled castes and scheduled tribes, women, marginal and landless farmers.

GoK has put in place an overarching goal of shared prosperity in the specific rural interventions that have been developed for its less developed regions. In 2001, GoK established a High-Powered Committee on Redressal of Regional Imbalances to examine regional disparities in the State. It produced a report that compared regions, especially at the block level, and laid out a strategy for ameliorating poverty and regional imbalances in these areas. The report classified 39 blocks to be "most backward" and 40 to be "more backward" out of a total of 176 blocks. One of the key recommendations was the need for additional public investments in the most disadvantaged rural areas.

Furthermore, the 14th Finance Commission recognized a significant funding gap for public service delivery at the Gram Panchayat level. Increasing the share of untied transfers in the overall devolution to the Gram Panchayats is critical to execute their service-delivery functions and to respond to specific local needs. Despite the sharp rise in the transfers from the center since 2006-7, the current transfer system in the state is largely tied and scheme based leaving little space for local planning that reflects community preferences.

The Bank supported the development of local capacities in rural Karnataka through a series of projects in Karnataka. The recent Karnataka Panchayat Strengthening Project (KPSP) focused on improving effective service delivery in selected backward Gram Panchayats by a mix of untied grants and capacity-building initiatives to strengthen institutions. There is a need, however, for strengthening inclusiveness as well as scaling up and increasing the coverage and the size of investment.

The proposed Project builds on the achievements and learnings of KPSP. It promotes more inclusive development in Karnataka given its broader geographical focus to include "more" and

"most" backward blocks and its support for mechanisms to address the unique needs of certain marginal groups in PRI governance. The proposed Project, along with 14th Finance Commission grants, will increase Gram Panchayats' access to untied discretionary funds helping GoK to expand the share of untied transfers to backward blocks. It will also invest in technical assistance and capacity building of Gram Panchayats functionaries/stakeholders. This will not only improve their resource management, strategic planning and revenue mobilization capacities, but will lead to an overall enhancement of the operating efficiency of the Gram Panchayats.

II. Proposed Development Objectives

The project development objective is to enhance the ability of Gram Panchayats to manage resources and deliver services prioritized in their development plans in the least developed areas of Karnataka.

III. Project Description

Component Name

Block Grants to Gram Panchayats

Comments (optional)

This component will provide funding for block grants to 2815 GPs which will strengthen their capacity to manage resource, deliver services and enhance their accountability towards the community. It will finance block grants to GPs and fund activities and services listed in GP's Five Year Perspective Plans and budgets prepared on the basis of participatory processes. The utilization of the block grant will rest on an institutional framework. It will be defined on the basis of "minimum mandatory conditions" to be met by the project GPs and would be revised or updated every two years based on the recent developments and progress made. Furthermore, in order to reward well performing GPs, the block grants will be allocated on the basis of a formula driven basic and incentive grant.

Component Name

Institutional Development

Comments (optional)

This component covers the range of holistic institutional development activities and investments required to ensure the progress towards the PDO. The block grants would be accompanied by a suite of targeted capacity building and technical assistance activities that will strengthen the capacities of the PRI, strengthen monitoring systems and increase awareness among rural people. This component will support the following activities: Capacity Building of Panchayat Raj Institutions; Community Engagement and Feedback; and Information Systems for Evidence Based Decision Making and Enhanced Accountability.

Component Name

Project Management Support

Comments (optional)

This activity would put in place systems at the state level to enable it to oversee, facilitate and manage the PRI system and the project GPs. It includes: Strengthening the Project Monitoring Unit (PMU); Strengthening the Decentralization Analysis Cell (DAC); and Strengthening Abdul Nazeer Sab State Institute for Rural Development (ANSSIRD).

IV. Financing (*in USD Million*)

Total Project Cost:	318.40	Total Bank Financing:	223.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			95.40
International Bank for Reconstruction and Development			223.00
Total			318.40

V. Implementation

The primary agency responsible for overall implementation of the program is the GoK Department of Rural Development and Panchayat Raj (RDPR), in conjunction with other state institutions. The investment program implementation responsibilities in the field are at the Panchayat level, and in particular, with the Gram Panchayats. A Project Management Unit (PMU) has been established in the RDPR and is responsible for day-to-day project management and the overall project implementation. It will ensure inter-departmental coordination, financial management, implementation of environmental guidelines, and adherence to procurement arrangements as per the Bank and Karnataka Transparency in Public Procurement Act among others.

- The PMU will be responsible for conducting specific studies and regular assessment of the project implementation status.
- Quantitative monitoring will be achieved through the administrative Management Information System already used by Karnataka's Gram Panchayats.
- The community feedback mechanism will allow citizens to provide their own oversight of project implementation.
- The Monitoring will be complemented by an impact evaluation component with support from the Bank's Development Impact Evaluation Initiative (DIME).

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

The social assessment and consultations in the select Gram Panchayats has informed the overall design of the project and its components. A Draft Tribal and Disadvantaged Groups Inclusion Plan (TDGIP) has been prepared based on the social assessment and consultations specifically organized with the tribal communities and their representatives. The TDGIP provides the key issues, actions, M&E mechanism and institutional arrangements for ensuring inclusion of tribals and other

disadvantaged groups. A social expert has been designated to ensure implementation of TDGIP in coordination with the Decentralization Analysis Cell, Abdul Nazeer Sab State Institute for Rural Development, Tribal Research Institute and Panchayat level functionaries. Social mobilizers at the GP level will help ensure participation of all sections of society in plan preparation and monitoring at GP level

Similarly, the Government of Karnataka has developed an Environmental Management Framework (EMF) to manage potentially negative environmental impacts. Project activities, especially the civil works financed under the block grants to GPs, will typically be small-scale and have the potential for generating positive impact on environment (eg: improved sanitation) and human health (eg: provision of safe drinking water) if they are well designed and managed. However, some of the activities could have negative environmental impacts by virtue of their location in ecologically sensitive areas, poor design, operation and maintenance; but since these will be small-scale in nature, they can be appropriately managed and mitigated. The EMF includes mitigation measures and an institutional strategy, including 'environmental review' of all GP works, capacity building of GP functionaries and engineers on environmental management, focused technical support for GPs in ecologically sensitive areas and monitoring. An Environment Management Specialist will be appointed at the PMU to ensure internal due diligence of EMF implementation. The budget for EMF implementation has been integrated into the project cost.

VII. Contact point

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