

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC6568

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| Project Name | IN: Karnataka Panchayat Strengthening II (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 & Panchayati Raj Department, Government of Karnataka |
| Environmental Category | B-Partial Assessment |
| Date PID Prepared/ Updated | 30-May-2014 |
| Date PID Approved/ Disclosed | 30-May-2014 |
| Estimated Date of Appraisal Completion | 08-Dec-2014 |
| Estimated Date of Board Approval | 19-Mar-2015 |
| Concept Review Decision | Track I - The review did authorize the preparation to continue |
| Other Decision (as needed) | The PDO will be refined further before appraisal. |

I. Introduction and Context

Country Context

To strengthen public service delivery and reduce poverty, particularly in rural areas, the Government of India launched profound decentralization reforms in 1993. Constitutional amendments (73rd and 74th) created rural governments at the district (zilla), block (taluk) and village (gram panchayat) levels, and mandated that states devolve functions and funds to the newly-elected local governing bodies. The aim was to bring government closer to the people, in particular to the rural poor. Karnataka has a longer history of rural local governments than any other state in India, but it remains a difficult challenge to improve the quality of services in rural areas and to expand the role of the poor and other disadvantaged groups in local governance and accountability. The distinguishing features of Karnataka's rural society are the large number of scattered habitations, dependence on agriculture and related activities, a low share of state domestic product

compared to its population, low levels of infrastructure such as roads, electricity, housing, sanitation, and water supply, and a lower ranking than the State's urban areas on the human development indicators.

Sectoral and Institutional Context

Karnataka has been a decentralization pioneer in India, ranking second only to Maharashtra in the Devolution Index. The Index is determined largely according to panchayats functions, functionaries and funds (3Fs). In Karnataka, about 3.28 lakh state government personnel have been deputed to the PRIs to assist them in their planning and implementation. 29 subjects/activities have been devolved to the PRIs as per the 1993 Act, and currently the panchayats are managing 31 schemes pertaining to these twenty nine subjects. As a share of non-loan net own revenue receipts of the state (NLNORR), 42 percent is devolved to local bodies. Of this amount, 32 percent is assigned to PRIs. The PRI system in rural Karnataka consists of a three-tier structure: 5,629 Gram Panchayats (GPs, comprising 56,682 rural habitations including 27,017 revenue villages), 176 Taluk Panchayats (TPs, sub-district development blocks), and 30 Zilla Panchayats (ZPs or districts).

The proposed second phase of the Karnataka Panchayat Strengthening Project (2015-2020) follows the broad outlines of its predecessor, which lasted from 2006 to March 30, 2014. Phase I focused on improving service delivery by providing untied block grants to the 1341 most backward Gram Panchayats, and capacity building at all Panchayats in the State including 30 Zilla Panchayats, 176 Taluk Panchayats, and 5627 Gram Panchayats. In addition, the Phase I supported capacity building at the State level to oversee, facilitate and manage the Panchayat system in general and the project in particular. Some key achievements of Phase I are as follows:

- 172 Taluk Resource Centers and 5 SATCOM centers established.
- 88% of Total Block Grants utilized
- 55,127 works approved by GSP, of which 98% works were completed, including inter road connectivity (44.58%), sanitation (17.97%), asset creation (9.76%), drinking water (4.53%) and other infrastructure, such as bridges and lighting (27.27%)
- Percent of revenue collection from the property tax increased from 22.3 to 37.19 during the project period.
- The average Total Own Source Revenue (OSR) collection per GP increased from Rs.1.72 lakhs in 2006-07 to Rs. 5.33 lakhs in 2012-13.
- 22.69% recorded Annual Average Growth Rate of Revenue Mobilization
- 2,23,385 individuals are trained through the State Institute for Rural Development (ANSSIRD) under various training programs.

Phase II will build on these foundations, but with an expanded geographic coverage and stronger performance triggers. For the second phase (KPSP II), the Government of Karnataka (GoK) has proposed to extend the project to include in the block grant scheme the "more backward" taluks (with 1,244 GPs) in addition to the "most backward." Thus, the total number of Gram Panchayats potentially participating would increase from 1,341 to 2,585. The KPSP II operation also is to include an institutional development component with a programmatic approach designed to assist the GoK's Rural Development and Panchayati Raj Department in meeting its goal of 'sustainable and inclusive growth of rural Karnataka along with empowerment of PRIs.' The impact evaluation framework will be enhanced to include the impact of the intervention on poverty. The appropriate methodology for conducting the impact evaluation in the second phase will be identified during project preparation.

Relationship to CAS

The Country Partnership Strategy (CPS) notes that rural development is essential for India to make dramatic reductions in poverty and increase shared prosperity. Indian society remains highly segmented and income inequalities have been on the rise among a number of groups, including scheduled castes, scheduled tribes, and women. The CPS (2013-2017) emphasizes transformative projects that can leverage the policy and operational space in India. If successful, the Karnataka model of ‘inclusive growth and shared prosperity’ can serve as an important example for the rest of decentralizing states. The instruments and processes of decentralization have the potential to initiate social transformations and inclusive self-governance. The KPSP II will promote participation of local people in Gram Sabhas, foster participatory planning through community preferences, and emphasize transparency and accountability in use of public funds at the local level. In addition, the inclusion and empowerment of the women and disadvantaged groups in the planning process through Gram Sabhas can trigger social transformation at the grass root level.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The development objective of the project is to improve the effectiveness, responsiveness and accountability of the rural local governments, in particular, Gram Panchayats in delivering public services prioritized by rural people. During project preparation a more operational PDO will be developed that is amenable to measurement. It is important to note that this development objective is institutional in nature as it focuses on the strengthening of local self-government to deliver relevant services better. This is an important change of emphasis from Phase I where the PDO was focused on "improving the effectiveness of service delivery by Karnataka's Gram panchayats..."

Key Results (From PCN)

The key results indicators of the project will be:

- Increased public satisfaction with local infrastructure and GP's service delivery (“treatment” GPs compared to “controls” (non-participants) to calculate the “difference in difference.”
- More effective Participatory Planning with increased rate of participation and increased responsiveness of plans to public inputs. (Fuller participatory planning and community decision making promoted through a proposed performance-linked disbursement, discussed below).
- % age of OSR to total revenue receipts of the GPs.
- X% of Gram Panchayats (GPs) preparing plans and budgets (according to KPR Act, 1993) based on participation of women, scheduled castes/tribes and other citizens through Gram Sabhas and Ward Sabhas.
- X% of Gram Panchayats (GPs) implementing works and providing services to citizens in a time-bound manner
- Improved management performance of local governments as measured by: (a) contract tendering processes; and (b) improved collection of own source revenues.
- The GoK local government transfer formula is weighted to the benefit of the least developed Taluks (consistent with the recommendation of the Nanjundappa report) rather than allocated on a strict per capita basis.

III. Preliminary Description

Concept Description

Applying lessons of experience from the first KPSP, the Bank team is proposing several modifications to the approach taken in Phase I. It is proposed that the project activities could be organized under the following three components: (i) Local Government Block Grants (“window 1”: compliance-based; and “window 2”: performance-based); (ii) Institutional Development (state-wide); and (iii) project management support. A brief description of the components is as follows.

Component A - Local Government Block Grants

Grants will finance activities and services listed in GP plans and budgets based on participatory processes and sector-wide activity mapping, such as investments in roads, drinking water, bridges, and sanitation. Grants will be provided to GPs in the “more backward” taluks (with 1,244 GPs) in addition to the 1341 GPs in “most backward taluks”, which were covered in Phase I. The grants for “more” and “most” backward” taluks would follow an 80:20 ratio for basic and performance grants. The parameters for the performance grant would be discussed with GoK during preparation. For the basic grants there are eligibility criteria which emphasize operationalization of financial management and procurement systems acceptable to the Bank, implementation of planning guidelines, regular Gram Sabha meetings with open participation, and public disclosure of FM and procurement information. The formula for the block grants gives weight to poverty (SC/ST population), area (proxy for cost of service provision), illiteracy rate, etc.

Component B - Institutional Development

B.1- Strengthening of Information Systems (US\$ 2 million): This component will increase the ability of rural people to voice their demand to local governments and elicit responses from them, in particular for the poorest and excluded people such as women, scheduled castes and scheduled tribes. This will include: (a) capacity building for organizations of the poor (SHGs, community-based organizations, NGOs) to empower greater participation in the Panchayat planning and decision-making process, and improve access to government services and programs; (b) re-activation of GP Standing Committees on Production, Social Justice and Amenities; (c) improved GP linkages with village-level committees such as School Development & Monitoring Committee (SDMC), Village Health Nutrition & Sanitation Committee (VHNSC), Village Water & Sanitation Committee (VWSC), and Joint Forest Managements (JFMs). In addition to this, the component would link the GPs software (Panchatantra) to the State SAKALA information system, and thus to the Citizen-Government Interface Platform under ‘The Karnataka Guarantee of Services to Citizens Bill (2011)’. It will also provide training in use of PLANPLUS, the Government of India Decentralized Planning System, in order to support spatial planning. However, in the proposed project there will be a stronger focus on empowering women and other disadvantage groups in the decision-making process by introducing a performance allocation from the 3rd year based on earlier achievements in empowering these groups. In addition, capacity building efforts will be targeted to a carefully selected list of prioritized civil society actors.

B.2 - Building Capacity of Panchayats: Strengthen the capacity of all three levels of Panchayats to manage the budget, augment own-source revenue, and upgrade/promote competent staff for efficient monitoring of service delivery. Specifically it will include:

- Strengthen Taluk Resource Centers (TRCs) to provide training programs locally, mentor GP planning, and provide comprehensive monitoring of local development programs.

- Support development and operation of “clusters” (a small set of GPs) to provide an effective link between the GP and the Taluk.
- Support computerized financial management and generation of development indicators through Panchatantra.
- Capacity building and support (specifically for Panchayati Raj Engineering Dept.) to mainstream environmental management into GP-level planning & design (following development of general design guidelines for GP assets (e.g., roads, drains, etc)).

Component C – Project Management Support

This activity would put in place systems at the state level to enable it to oversee, facilitate and manage the Panchayat system in general and this project in particular. The activity will include:

- Upgrade PMU capacity in line with extended project coverage.
- Incorporate Decentralization Analysis Cell (DAC) into the Rural Development and Panchayat Raj Department, GoK.
- Abdul Nazeer Sab State Institute for Rural Development (ANSSIRD) to compete in open tendering to provide training funded under the project.
- Develop a monitoring mechanism for effective management of the Project.

Safeguard Policies that Might Apply

The project provides opportunity for strengthening the capacity of the Rural Development & Panchayat Raj Department in environmental management in order to support the Gram Panchayats in undertaking environmentally sustainable and safe works. An Environmental and Social Management Framework (ESMF), that builds on the lessons from Phase I, and comprises the following elements will be developed before Appraisal: (a) a simple safeguards system for GP works that will promote good design as well as ensure compliance with legal and regulatory requirements, (b) capacity building of the PRI staff and constituents focusing on selection of relevant works, technically sound designs, continued maintenance of assets, and monitoring of outcomes on public health and environmental quality (c) focused technical support to GPs located in environmental ‘hotspots’ (areas with high biodiversity value, drought-prone areas, areas with over-exploited groundwater, etc.), and (d) integration of environmental aspects into performance indicators for GPs for block grants. The ESMF will be consulted with key stakeholders and disclosed before finalization.

OP/BP 4.10 safeguards policies on Indigenous Peoples will be triggered. The project will be active in areas that cover tribal groups and hence this policy is triggered. The Karnataka Panchayat system and the project both include various pro-tribal measures. Therefore, a separate Tribal Development Plan would not be developed. However, small plots of private land may be required for certain small infrastructure sub-projects to be taken up with grant funds such as check dams, culverts, bore wells, pump houses and drains. These lands will be acquired through voluntary donations or purchase, provided they are legally available, litigation free, and under the legal guidelines of the State of Karnataka. Similar approaches are already in place for the State’s rural water and sanitation services project and these would be adopted for the proposed project. The policy on involuntary resettlement is currently being triggered and shall be confirmed again at appraisal stage based on the review of the application of voluntary donation/ purchase approach during Phase I. During project

preparation, a Social Management Framework (SMF) shall be prepared drawing on lessons from Phase I.

IV. Safeguard Policies that might apply

| Safeguard Policies Triggered by the Project | Yes | No | TBD |
|--|-----|----|-----|
| 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 | |

V. Financing (in USD Million)

| Total Project Cost: | 318.00 | Total Bank Financing: | 220.00 |
|---|--------|-----------------------|--------|
| Financing Gap: | 0.00 | | |
| Financing Source | | Amount | |
| Borrower | | 98.00 | |
| International Bank for Reconstruction and Development | | 220.00 | |
| Total | | 318.00 | |

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