

# IEG ICR Review

Independent Evaluation Group

<b>1. Project Data:</b>		<b>Date Posted:</b> 04/13/2015	
<b>Country:</b>	India		
<b>Project ID:</b>	P078832	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Karnataka Panchayats Strengthening Project	<b>Project Costs (US\$M):</b>	133.33      140.39
<b>L/C Number:</b>	C4211	<b>Loan/Credit (US\$M):</b>	120      127.06
<b>Sector Board:</b>	Agriculture and Rural Development	<b>Cofinancing (US\$M):</b>	
<b>Cofinanciers:</b>		<b>Board Approval Date:</b>	06/29/2006
		<b>Closing Date:</b>	03/31/2012      03/30/2014
<b>Sector(s):</b>	Sub-national government administration (99%); Other social services (1%)		
<b>Theme(s):</b>	Rural services and infrastructure (25% - P); Rural policies and institutions (25% - P); Decentralization (24% - P); Environmental policies and institutions (13% - S); Participation and civic engagement (13% - S)		
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## 2. Project Objectives and Components:

### a. Objectives:

The Development Credit Agreement (p.15) states that the objectives of the project is "to assist Karnataka in improving the effectiveness of service delivery by Karnataka's Gram Panchayats particularly with respect to the management of public resources and the delivery of relevant services that rural people prioritize". The Project Appraisal Document - PAD (pages vi and 3) states the project development objective (PDO) as to improve the effectiveness of service delivery by Karnataka's Gram Panchayats (village governments) particularly with respect to the management of public resources and the delivery of relevant services that the rural people prioritize. The PAD uses an almost identical wording, adding only the two words within parentheses above.

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

No

### c. Components:

The project had four components. Actual amounts are as of project closing and are expressed in US\$ and/or local currency (expressed in crore rupees or Rs Cr - one crore is equal to 10 million Indian rupees).

**Component 1: Block grants to Gram Panchayats (Original Cost: US\$ 113.33 million equivalent to Rs 510 Cr; Revised amount: Rs 565.44 Cr; Disbursed Amount: Rs 565.13 Cr; Actual Expenditure: Rs. 491.9 Cr).** This component was designed to provide block grants to 1,343 village governments or Gram Panchayats (GPs) in the 39 poorest rural blocks (Taluks) of the State of Karnataka. Taluks are the intermediate level of government in the three-tier local government structure in India, and GPs are the lowest. The Gram Panchayats are expected to implement the decisions of the Gram Sabhas, Grants were to be used for the delivery of services listed in the Panchayats' perspective/participatory plans and budgets. To be eligible, GPs had to have put in place the new Financial Management and Accounting System prepared by the state of Karnataka, implemented the new

planning guidelines, and hold regular Gram Sabha meetings with open participation and publicly display FM and procurement information. The formula for the first year would be based on poverty, costs of service provision and service deficit. From the second year on, an element of performance was supposed to be introduced.

**Component 2: Capacity Building and Information Systems for Constituents (Original Cost: US\$ 1.43 million equivalent to Rs 6.44 Cr; Revised amount: Rs 6.66 Cr; Disbursed Amount: Rs 6.49 Cr; Actual Expenditure: Rs. 6.16 Cr).** This component focused on increasing the ability of rural people to voice their demands to local governments and eliciting responses from them, in particular for the poorest and excluded people such as women, scheduled castes and scheduled tribes. The component was designed to support community organizations (such as women self help groups or SHGs) watershed associations, drinking water committees, and others) in participating in the new Panchayat planning process, voice their demands from government, and access services and programs. as well as in providing relevant and easy-to-understand information to constituents.

**Component 3: Building the capacity of Panchayats (Original Cost: US\$ 14.97 million equivalent to Rs 67.37 Cr; Revised amount: Rs 87.39 Cr; Disbursed Amount: Rs 60.04 Cr; Actual Expenditure: Rs. 48.02 Cr).** The objective of this component was to increase the capacity of all three levels of Panchayats in managing resources, collecting revenues and delivering services. In total about 5,500 local governments and 100,000 elected representatives were supposed to benefit through (a) the creation of GP resource cells at the Taluk level; (b) service delivery monitoring system; (c) training programs for Panchayats through the State Institute of Rural Development; (d) computerized financial management system for GPs; and (e) environmental guidelines for Panchayats.

**Component 4: Building the capacity of the State (Original Cost: US\$ 3.0 million equivalent to Rs 13.50 Cr; Revised amount: Rs 87.39 Cr; Disbursed Amount: Rs 60.04 Cr; Actual Expenditure: Rs. 48.02 Cr).** This component aimed at putting in place systems at the state level to enable it to oversee, facilitate and manage the Panchayat system in general and the Karnataka Panchayats Strengthening Project ((KPSP) in particular. It supported, inter alia, the establishment of a Decentralization Analysis Cell (DAC) responsible for analysis, evaluation, monitoring of fiscal flows to panchayats, own revenues and service delivery and provide inputs for the development of the intergovernmental fiscal system.

The original project design included unallocated funds for US\$0.6 million equivalent to Rs 2.69 Cr.

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

##### *Cost*

Total project costs at appraisal were US\$133.33 million equivalent to Rs 600 Cr. Amounts in local currency were later revised due to the appreciation of the US\$ to Rs 674 Cr. A total of Rs 644 Cr were disbursed, of which Rs 565 Cr as block grants. The amounts of expenditures were lower (Rs 558 Cr) as there is a time lag between release to GP and actual expenditure.

##### *Financing*

The project was funded through an IDA credit of US\$120 million. US\$ 127 million were disbursed, with the difference was due to appreciation of the US\$ vs SDRs over the life of the project.

##### *Borrower Contribution*

There was a borrower contribution of US\$13.33 million that was fully paid in.

##### *Dates*

Approved by the Bank's Board on June 29, 2006, the project became effective on October 4, 2006. A mid-term review was carried out in November 2009. The project closing date was extended three times from March 31, 2012 to December 31, 2012, then December 31, 2013 and finally to March 30, 2014, when the project eventually closed.

### **3. Relevance of Objectives & Design:**

#### **a. Relevance of Objectives:**

The objective of the project was to improve the effectiveness of service delivery by Karnataka's Gram

Panchayats (village governments) particularly with respect to the management of public resources and the delivery of relevant services that the rural people prioritize.

This objective is:

- consistent with the Government's 12<sup>th</sup> 5-Year Plan (2012-2017) where inclusive growth is a key priority and 25 percent of the total Central Budget Plan provision is devoted to rural development. Devolution to GPs is recognized as important for example in water and sanitation where the Ministry of Drinking Water and Sanitation has devised a Management Devolution Index (MDI) to track and incentivize more substantive devolution of functions, funds and functionaries to the Gram Panchayats (see 12<sup>th</sup> 5 Year Plan, volume II, p. 301). Both the GOI and the Bank plan to support public-private participation schemes in the delivery of social services in rural areas between GPs and the private sector.
- consistent with the latest Bank's Country Partnership Strategy - CPS (FY13-17). In particular, the Strategy's third strategic engagement area (Inclusion) has a strong focus on providing better services (e.g., health, education, electricity) to the rural areas where an overwhelming majority of the nation's poor people (four out of every five) still live. Under the Strategy's second area (Transformation), the CPS recognizes that transformation calls for further empowering local governing bodies in rural and urban areas across India so that 'they are able to identify and respond to local needs and to plan long-term for a more systematic rural-urban transformation' (page 31). This area also includes outcome 2.3 (improved access to water supply and sanitation services) that will be the aim of two Bank projects using, *inter alia*, new performance for results instruments in GPs.
- consistent with the Bank's Country Assistance Strategy at appraisal which highlighted 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.
- consistent with the decentralization strategy of the Government of Karnataka, a state characterized by a long history of rural local governments, more than any other state in India, dating back to the early 1980's that made it an ideal candidate for a model of decentralized service delivery that could set an example for the rest of India (see PAD, p. 1).
- sufficiently ambitious given country conditions, as reaching the rural poor is one of the most difficult challenges India is still facing.

The relevance of objectives is therefore rated as **substantial**.

#### b. Relevance of Design:

The design did present a convincing causal chain between inputs, outputs and outcomes, although it lacked several baseline data. The actions supported by the project were expected to improve the capacity of Gram Panchayats to deliver services prioritized by local people. The project assumed that the provision of untied funds alongside capacity development in a context where most planning decisions would be made by Gram/Ward Sabha would result in construction of assets and provision of services that address the above local needs and priorities. The choice of lending instrument (Sector Investment Credit blending programmatic support for the block grants and investment lending for capacity building) was appropriate.

The relevance of design was therefore **substantial**.

#### 4. Achievement of Objectives (Efficacy):

The project's objective was to improve the effectiveness of service delivery by Karnataka's Gram Panchayats (village governments) particularly with respect to the management of public resources and the delivery of relevant services that the rural people prioritize (objective 2).

**Objective 1.** Improved the management of public resources by improving the financial health and systems of village governments.

The increase in own source revenue and financial health of village governments was substantial as own source revenues more than doubled between FY07 and FY13 from a baseline of US\$6 million to US\$14 million (target:

US\$16 million). However, unconditional grants remained a small share of village governments' revenues (9 percent of total GP revenues in FY13) thus providing limited planning autonomy to village and ward meetings, and reducing the potential for an even higher project's impact on effective local participation and ownership.

At the same time, the project contributed to improved financial systems, as by the Project close 5629 GPs (100 percent against a baseline of 0 percent and a target of 89 percent) had adopted Panchatantra, a web-based application for GP's to feed in their accounts, meeting proceedings, Gram/Ward Sabha details, Jamabandi / Social Audit, and make all necessary information related to the GP accessible to the public. This review rates the efficacy of this PDO substantial.

**Objective 2.** Improved the delivery of services that rural people prioritize as shown by increased participation in planning and rising satisfaction of village residents with service delivery.

The number of Gram or Ward Sabhas with high and representative participation and relevant participatory plans reflecting community preferences of local population as measured by the project, grew by 72 percent between FY07 and FY12 (target: 60 percent). In addition there was a 33 percent increase of participation by women, and a 21 percent increase in household members' participation. 1341 Most Backward GPs developed 5-year perspective plans and annual plans based on priorities of their community members. However, these plans were never revised over the 5-year period they covered and might have not captured changing constituents' priorities, as noted in the ICR (p. 16).

The village residents' satisfaction with service delivery by GP's also grew from 48 percent in 2009 to 55 percent by project's closing (target: 60 percent, while baseline was missing). The project disbursed block grants that were used to develop 25,212 roads; 8,029 drainage lines; 1,652 community toilets; 2,947 drinking water facilities; 1,537 Anganwadi Buildings; and other assets in the 1,341 "most backward" GPs of the State of Karnataka. In addition, 172 Taluk centers had been built by the project's closing date. Information on GP revenues, expenditures, and procurement decisions of were publicly disclosed, and the share of GPs doing so reached 94 percent by the end of the project. The end-of-project impact evaluation found that assets that were constructed under the Project were rated better in terms of quality of design and construction in Project GPs compared to non-Project GPs, by both engineers and focus groups.

Based on the above, the project contributed to stronger and more transparent financial management, and improved services through the implementation of small projects responding to the priorities set by these communities. This review therefore rates the efficacy of the PDO as substantial.

## 5. Efficiency:

The project appraisal did not include an economic analysis determining an NPV or an ERR, and the ICR did not carry out such an analysis either. The ICR points out that 100 percent of the block grants were disbursed, and that utilization by the project GPs was 95 percent of the total disbursement. However, the ICR team should have been able to provide information on unit rate norms for construction or technical assistance that IEG cannot calculate in the absence of detailed data on units (e.g., type and kilometers of roads, days of technical assistance), and their cost.

Nevertheless, implementation delays of 24 months and the high turnover of staff at the project's implementation unit all point to significant inefficiencies in project implementation.

The efficiency of the project is therefore rated as **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	No		
ICR estimate	No		

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

## 6. Outcome:

The project contributed to significant investments at the village level according to plans developed by local residents of the poorest districts of the State of Karnataka. The project also supported improvements in village governments' financial management and transparency. However, the planning autonomy of village governments remains limited. While the relevance of the project's objectives and design as well as its efficacy were all substantial, there were moderate shortcomings in the project's efficiency rated as modest. The combination of these elements leads IEG to an overall outcome rating of "**moderately satisfactory**".

**a. Outcome Rating:** Moderately Satisfactory

## 7. Rationale for Risk to Development Outcome Rating:

IEG concurs with the ICR rating of the risk to development outcome as **substantial**. The main achievements of the project (e.g., community-planned investments and improved FM capacity in the most backward GPs) could be reversed unless: (a) the share of unconditional grants over total block grants is increased beyond the current level of 9 percent, thus making local participation more meaningful; (b) capacity building efforts are sustained over time and well trained staff retained by the GPs; and (c) weaker members of local communities are supported so that their voices can be better heard during village or ward meetings.

**a. Risk to Development Outcome Rating :** Significant

## 8. Assessment of Bank Performance:

### a. Quality at entry:

The project addressed relevant development challenges, and its design was simple, flexible and realistic. The project benefitted from substantial prior research carried out by the Bank on local governments in Karnataka and other Indian states including "Overview of Rural Decentralization in India", "Fiscal Decentralization to Rural Governments", "Punchuyats and Resource Allocation in South India", and "Local Organizations for Decentralized Development in India". However, the project's results framework lacked several baseline indicators, some indicators were not well defined, and disbursement procedures were not well designed. As noted in the ICR (page 8), implementation gaps emerged immediately after project start (2007-2008), primarily in the planning process and the information to constituents, as these activities related to the disbursement of block grants and their utilization. Such design weaknesses, combined with frequent changes in political and technical leadership, caused a delay in project implementation of 24 months. Finally, the PAD did not include an economic analysis either through traditional measures or cost-effective analysis.

Given such shortcomings, the Bank's performance on quality at entry is rated as **moderately unsatisfactory**.

**Quality-at-Entry Rating:** Moderately Unsatisfactory

### b. Quality of supervision:

The Bank spent substantial resources on supervision, with a total of eleven supervision missions over seven years. The Bank team immediately identified the implementation challenges faced by the project and described above, rating the project as moderately unsatisfactory in both supervision missions in 2008. Once such gaps in the monitoring framework and disbursement procedures were identified, the Bank team and the Implementing Agency addressed them, leading to a significant improvement in project performance. However, the process of identifying weaknesses and solutions took over two years, a relatively long period of time.

Given the above, the Bank's performance on quality of supervision is rated as **moderately satisfactory**.

**Quality of Supervision Rating :** Moderately Satisfactory

**Overall Bank Performance Rating :** Moderately Satisfactory

## 9. Assessment of Borrower Performance:

### a. Government Performance:

The Government supported project's activities at design and was initially keen to strengthen decentralization. However, pace of reform slowed down due to changes in political leadership over the first two years of the project that reduced the attention paid to decentralization. After the Mid-Term Review, Government provided strong support to the project, and its commitment is also proven by its request for a follow-on project.

**Government Performance Rating**

Moderately Satisfactory

### b. Implementing Agency Performance:

Frequent changes in project leadership over the period 2006-2009 affected project performance. The performance of the implementing agency, thanks to a new management team, improved drastically after Mid-Term Review, leading to the completion of all project activities by project closing.

**Implementing Agency Performance Rating :**

Moderately Satisfactory

**Overall Borrower Performance Rating :**

Moderately Satisfactory

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

### a. M&E Design:

The original project design included a monitoring and evaluation framework that lacked baseline values - determined only in 2009, three years after project's start-up - which even then had not adequately defined a few indicators

### b. M&E Implementation:

Most outcome and intermediate indicators were easy to measure and their values were included in several ISRs. Data was mostly produced by Taluk Panchayats and GPs, and aggregated by the Decentralization Analysis Cell measuring fiscal flows, own revenues and performance in service delivery. An impact evaluation was carried out in 2013, as envisaged at the design stage and provided useful information on attribution of improvements in service delivery in particular.

### c. M&E Utilization:

Data gathered through the M&E framework were used to monitor progress. The Bank used supervision missions and interviews to fill any gap and properly monitor progress.

**M&E Quality Rating:** Modest

## 11. Other Issues

### a. Safeguards:

The project was classified as environmental category B. The project required an environmental assessment and an environmental review carried out by the Bank in 2013 found that the works carried out under the project did not have any negative environmental impact. However, the implementation of the Environmental Management

Framework was weak due to lack of awareness among GP officials, as well as limited training and mentoring. The project also triggered OP 4.20 on Indigenous People, as the project was active in areas that contain tribal groups. To address the latter, the project design ensured that indigenous peoples affected had a voice in project design and implementation by facilitating their participation and inclusion in Gram Sabhas.

**b. Fiduciary Compliance:**

While there was no significant fiduciary issue during the project's implementation that could be identified through the documents reviewed by IEG, the fiduciary assurance mechanisms up to Mid-Term review were unsatisfactory as annual external audits did not cover the entire GP account but only GP block grant accounts, and there was no incentive for transparency. These pitfalls were addressed during the Mid-Term Review that extended audits to the entire GP account and made their publication a pre-condition for accessing project's block grants.

**c. Unintended Impacts (positive or negative):**

The Project contributed to the roll-out of, and capacity building for, a financial management software - 'Panchatantra'.

**d. Other:**

12. Ratings:	ICR	IEG Review	Reason for Disagreement / Comments
<b>Outcome:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Risk to Development Outcome:</b>	Significant	Significant	
<b>Bank Performance:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Borrower Performance:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Quality of ICR:</b>		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:**

There are four main lessons that can be drawn from the experience of this project

- **Political commitment is key in a project that aims at supporting decentralization** , where some degree of resistance from central authorities is to be expected.
- **The combination of capacity building and block grants can provide powerful support for meaningful decentralization provided the focus is on all 3 F's** (i.e., functions, funds and functionaries) as noted in India's 73rd Constitutional Amendment providing for formal processes of decentralized governance by empowerment of the Panchayat Raj Institutions.
- **Monitoring & Evaluation systems are key for success** , as decentralization programs by definition multiply the number of administrative units involved in implementation. M&E systems must include well-defined and easy to measure indicators and the ability to access them in real-time to inform project management.
- **Capacity building gains can be easily reversed if they are not protracted over time** , and there should be a stronger focus on longer-term efforts and incentives for participation . Unconditional grants are key in this

respect, as their importance underpins meaningful participation (e.g., if grants whose destination can be determined by village or ward meetings are minor, there is no reason to take part in such meetings).

**14. Assessment Recommended?**  Yes  No

**Why?**

The project was a significant attempt to support decentralization in India and might lead to a follow-on operation. Its lessons might be significant for Bank activities in the region and worldwide.

**15. Comments on Quality of ICR:**

The ICR was candid and provided useful information to assess project performance. It also presented relevant data in a clear and effective manner.

**a. Quality of ICR Rating:** Satisfactory