



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-Mar-2020 | Report No: PIDC28293



BASIC INFORMATION

A. Basic Project Data

Country India	Project ID P170521	Project Name The Second Resilient Kerala Development Policy Operation (P170521)	Parent Project ID (if any) P169907
Region SOUTH ASIA	Estimated Board Date Oct 12, 2020	Practice Area (Lead) Urban, Resilience and Land	Financing Instrument Development Policy Financing
Borrower(s) Republic of India	Implementing Agency State of Kerala		

Proposed Development Objective(s)

To enhance the State of Kerala's resilience against the impacts of natural disasters and climate change

Financing (in US\$, Millions)

SUMMARY

Total Financing	250.00
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DETAILS

Total World Bank Group Financing	250.00
World Bank Lending	250.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. While **India remains one of the fastest growing major emerging market economies**, Gross Domestic Product (GDP) growth has slowed markedly in the past three years. The current slowdown is due to the combined effects of (i) unresolved domestic issues (impaired balance sheet issues in the banking and corporate sectors, compounded by stress in the non-banking segment of the financial sector) and (ii) significant external headwinds following the COVID-19 outbreak. These have not only prevented a sustainable revival in private investment, but also affected private consumption in FY19/20. As a result, growth is expected to reach 5 percent in FY19/20. Assuming that the COVID-19 outbreak does not extend significantly to India, growth should pick up gradually from FY20/21 onwards. On the fiscal side,



the general government deficit is expected to widen to about 6.8 percent of GDP in FY19/20, owing to tax cuts and weak economic activity. The current account balance is expected to improve in FY19/20, reflecting mostly a sizeable contraction in imports and a dramatic decline in oil prices. Given this, in spite of recent portfolio capital outflows, India's foreign exchange reserves remain comfortable (equivalent to about 11 months of imports as of end-February-2020).

2. **Since the 2000s, India has made remarkable progress in reducing absolute poverty.** Between FY11/12 and 2015, poverty declined from 21.6 percent to an estimated 13.4 percent at the international poverty line (US\$1.90 per person per day in 2011 Purchasing Power Parity (PPP), continuing the earlier trend of rapid poverty reduction. Owing to robust economic growth, more than 90 million people escaped extreme poverty and improved their living standards during this period. Despite this success, poverty remains widespread. In 2015, 176 million Indians were living in extreme poverty, while 659 million—half the population—were below the higher poverty line commonly used for lower middle-income countries (US\$3.20 per person per day in 2011PPP). With the recent growth slowdown, the pace of poverty reduction may have moderated.

3. **With a steady decline in poverty since 1994 and the highest level of human development in India, Kerala's challenges are increasingly about the quality of public services and infrastructure.** At 8 percent poverty levels in the State are among the lowest in the country. After 2005, Kerala grew and reduced poverty faster than many other states, with growth being driven mainly by services. Kerala has 99 percent literacy, the highest life expectancy, and the lowest rates of infant mortality in the country. Although Kerala is home to a small share of India's poor, pockets within the State record a high incidence of poverty. While the level of economic and human development is high in Kerala, the State lags in development of quality infrastructure. Existing infrastructure is highly vulnerable to disasters risks and climate change. Low level of investments in infrastructure due to fiscal constraints coupled with inefficiencies in the allocation of scarce resources and inadequate quality of management in public institutions have led to poor quality of infrastructure.

4. **In two consecutive years, 2018 and 2019, Kerala faced unprecedented floods and landslides that led to widespread loss of life, property, and habitats.** The main vulnerabilities associated with the floods—emblematically—follow the course of the river, starting from the basins and reservoirs upstream, to the intense developments in the cities and towns midstream, all through to farms and livelihoods downstream. Addressing the underlying drivers of floods and landslides and better preparing the State for future disasters, therefore, follows the course of the river: upstream, through integrated water resources management; midstream, through improved land use planning and management, infrastructure and services; and downstream, through ecologically sound agriculture and irrigation practices. Addressing these systemically require building the capability of the State to carry out an integrated and coordinated set of policy, institutional and budgetary changes, over time. They demand political will, institutional capacities, public support, and a continuous and iterative change process. Recognizing this, the Government of Kerala (GoK) has sought to use the floods as *"a challenge and an opportunity to rebuild the State to ensure better standards of living to all sections of the society"*¹.

5. **Following the 2018 floods, the World Bank stepped in to support the GoK through a Post Disaster Needs Assessment (PDNA),** which opened the way for a deeper engagement to build the foundations of multidimensional resilience. The first phase of this engagement, involved the PDNA; strengthening ongoing Bank-supported programs in the State; the first sub-national *masala bond* that raised US\$300 million in foreign markets to finance rebuilding; the approval of the Rebuild Kerala Development Programme (RKDP), the State's strategic roadmap for recovery, rebuilding and resilience; the approval of US\$250 million Resilient Kerala Development Policy Operation (DPO1) from the World Bank; and the RKDP Development Partners Conclave that elicited pledges from development partners, the private sector and civil society. Building on DPO1, a close working relationship has developed between GoK and the World Bank at multiple levels. This has led to deep technical contributions across many sectors and strategic thinking on policy, institutional and

¹ The policy statement of GoK as per Government Order G.O.(P)No.16/2018/P&EA, dated November 9, 2018.



investment agenda to advance multidimensional resilience. Working closely with GoK, the Bank is now finalizing a State Partnership Framework (SPF), which will support the depth and breadth of this engagement by using several tools at the World Bank's disposal, including policy dialogue, technical programs, collaboration with development partners and the civil society, as well as bringing in IDA, IBRD and IFC resources. The State Partnership aims to bring about systemic changes in state capabilities through policy shifts and institutional transformations.

6. **A programmatic series of two DPOs form the foundation of the SPF.** This proposed US\$250 million Resilient Kerala DPO2 will deepen sectoral engagement and impacts in strategic areas initiated under DPO1, as well as include emerging foundational and cross-cutting priorities that address multidimensional resilience in the state. This is a long-term agenda, and it will bring with it challenges of political economy, implementation, and capacity. The flexible SPF will allow the World Bank to better understand, support, articulate, and mitigate these risks over time, while the DPOs will provide the foundation to effect transformative change.

Relationship to CPF

7. **The proposed operation is fully aligned with the objectives and approaches of the World Bank Group's CPF for India for FY18–22.** The CPF has three focus areas: (i) Resource Efficient Growth; (ii) Enhancing Competitiveness and Enabling Job Creation; and (iii) Investing in Human Capital. The CPF recognizes that improving DRM and resilience to climate change (Objective 1.5) and improving living conditions and sustainability of cities (Objective 1.2) are critical for facilitating resource-efficient growth and poverty reduction. For enhancing India's ability to create more and better jobs, the CPF supports enablers such as increasing resilience of the financial sector and financial inclusion (Objective 2.2) and improving connectivity and logistics by making the transport systems more climate and disaster resilient (Objective 2.3). As a cross-cutting theme, the CPF pursues climate smart engagement to support India's climate change mitigation and adaptation efforts across the portfolio. The CPF notes that addressing complex challenges requires reforms and engagement in multiple sectors to achieve success. The proposed DPO contributes to achieving the abovementioned objectives through policy and institutional reforms in an integrated fashion. The proposed operation adopts the four catalytic approaches outlined in the CPF to achieve the objectives: (i) leveraging the private sector, (ii) engaging a Federal India, (iii) strengthening public sector institutions, and (iv) supporting a Lighthouse India² by leveraging experience and lessons learned from the other states where the World Bank has supported post-disaster recovery and reconstruction. The proposed operation directly contributes to the World Bank's twin goals of ending extreme poverty and promoting shared prosperity by supporting Kerala's recovery from the floods and aiming to protect the existing development gains by enhancing the State's resilience against future natural disasters and climate change.

C. Proposed Development Objective(s)

8. **The Program Development Objective (PDO) of the proposed operation** is to enhance the State of Kerala's resilience against the impacts of natural disasters and climate change

Key Results

9. **Key results expected for this operation include:** (i) Resilient recovery from 2018 floods implemented in line with RKDP priorities and guidelines, benefiting all communities with emphasis on women and children, (ii) Improved revenue performance, the introduction of guidelines for valuing buildings and a reduction in tax evasion, (iii) Additional public and private financial resources mobilized for resilient recovery, (iv) Improved capacity for emergency, disaster, and climate risk management with outreach to vulnerable communities, (v) Improved efficiency of post-disaster assistance to vulnerable households, (vi) Improved river basin planning and water infrastructure operations management for climate

² 'Lighthouse India' stands for analyzing, curating, and disseminating the country's vast experience and knowledge internally between states as well as externally with the rest of the world and by doing so positioning India as a lighthouse.



resilience at the State level, (vii) More resilient and sustainable agriculture based on agroecological zones and enhanced agriculture risk insurance, (viii) Improved physical and institutional resilience of the core road network, including in hilly areas where most tribals are located, (ix) Unified and more up-to-date gender-disaggregated land records in high risk areas, (x) Risk-informed master plans are notified and funds for multi-year municipal infrastructure investments are allocated in annual plans by urban local bodies, and (xi) Resilient and improved water supply and sanitation services.

D. Concept Description

10. **The proposed operation will support policy reforms for mainstreaming long-term resilience to disaster risks and impacts of climate change.** The programmatic series of Resilient Kerala Program DPOs is closely aligned with the vision, priorities, and programs of the RKDP and driven through GoK's Rebuild Kerala Initiative (RKI). The World Bank's support to the RKDP, using resilience and sustainability as overarching themes, aims at assisting the GoK in integrating the most critical cross-cutting and sectoral policy and institutional actions that will put the State on a pathway toward a Green and Resilient Kerala. While the RKDP has a larger mandate, World Bank support will focus on cross-cutting areas and on critical impacted sectors, where the impact on enhancing resilience will be most significant and World Bank's support would provide the greatest value addition.

11. **The development objective of the proposed operation, as the second in a programmatic series of DPOs and as the primary platform for the State Partnership, is to enhance the State of Kerala's resilience against the impacts of natural disasters and climate change.** This objective will be achieved through policy and institutional reforms under the two pillars below, and priority areas include: increasing revenue performance, maximizing finance for development, Disaster Risk Management, Disaster Risk Financing and Safetynets, Water Resource Management, Agriculture, Roads, Land Records, the Town and Country Planning, and Water Supply and Sanitation.

- Pillar 1: Enhancing Kerala's Institutional and Financial Capacity for Managing Disaster Risks and Climate Change
- Pillar 2: Mainstreaming Disaster and Climate Resilience into Critical Natural Capital, Infrastructure and Services

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

12. **The activities to be undertaken under this DPO are expected to benefit and support vulnerable groups.** An initial Rapid Poverty and Social Impact Assessment (RPSIA) was conducted in March 2019, under DPO1, as a good practice considering that the RKDP itself would involve significant infrastructure development and rehabilitation. RPSIA analysis of GoK's policies and programs to address the needs of vulnerable groups indicate that the State has adequate capacities and systems in place to manage social risks and enhance positive effects of DPO2. Pillar 1 of this DPO2 operation will enhance the State's institutional and financial capacity to protect the assets and livelihoods of poor and vulnerable groups through an inclusive and participatory approach. The RKDP is gender informed and will integrate women's needs and their knowledge as resilience champions. Further, the proposed parametric risk insurance will likely have significant positive impacts on groups like fisher families. Mainstreaming resilience into critical natural capital, infrastructure and services under Pillar 2 will contribute to improving the livelihoods of poor and vulnerable groups. The shift to agroecological farming is expected to improve agricultural productivity, thereby directly improving the livelihood of small and vulnerable farmers, especially women who mostly work for sowing and post harvest. Enhanced resilience of road networks especially in hilly areas will mitigate disruptions to emergency transportation services for Scheduled Tribe (ST) communities. Improving the State's land records and maintenance will help the GoK obtain gender-disaggregated data on land ownership and transactions in the State. Gender-diasagragated data will support systems that would enable enhanced financial inclusion for women such as adaptive social safety nets, disaster risk insurance, establishing businesses and supporting livelihoods. The revised annual planning guidelines will mandate ULBs to implement plans in a socially sustainable manner that are



sensitive to the needs of vulnerable groups. Additionally, the World Bank has been providing support to the GoK through a technical assistance program since DPO1. The technical assistance provided during the implementation phase of DPO2 will include two deep dive studies: (i) assessment of the impact of the 2018 and 2019 natural disasters on vulnerable groups such as SCs, STs, elderly and women and (ii) strengthening the Construction Workers Welfare Board to support migrant workers.

Environmental, Forests, and Other Natural Resource Aspects

13. **The policy and institutional reforms under the programmatic series of DPOs set the direction for generating positive environmental effects as the State proceeds with their implementation in the water resources, agriculture, disaster management and transport sectors.** These were identified as the priority sectors to deal with climate-induced disasters. In the water resources and agriculture sectors, a fundamental shift in the development approach has been ushered; the approaches of river basin management and agro-ecological management address environmental issues and climate risks holistically and intrinsically. In the disaster management and transport sectors, the introduction of climate resilience policies and principles in order to enhance the capacity to withstand disasters contribute towards protecting natural ecosystems, and in reducing the post-disaster environmental implications. While strengthening the capacity of line departments and the Directorate of Environment & Climate Change (DOECC) in managing environmental risks was identified as a critical gap, there has been progress in selected sectors - water resources, agriculture, disaster management and transport - wherein the policy reform towards integrated approaches and integrating climate resilience considerations are bound to progressively lead to building the sector capacity, which will have positive environmental effects. However, the responsibility for managing environmental issues within the State lies with the Department of Environment in general and the DOECC in particular. The institutional capacity of the DOECC is inadequate with limited environmental specialists and thin field presence. The Department of Environment has recently introduced a statewide ban on single use plastic, which will contribute significantly to addressing plastic waste disposal and urban flood management. To assist the State in implementing this ban, technical assistance is being provided to LSGD and supported by the state's environmental organizations. As part of the DPO1 preparation, a rapid policy strategic assessment of the RKDP was conducted. As follow-up, a focused environmental analysis on the various prior actions of DPO2 will be conducted. The analysis will deepen the understanding on the environmental and natural resources implications of these reforms and will include the following: (i) assessment of the proposed reforms, results and targets; (ii) assessment of the Borrower's systems (national and State laws and the effectiveness of their implementation) in the context of these reforms; and (iii) identification of gaps and determine how to best address these before and/or during the implementation.

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APPROVAL

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