1. Country and Sector Background

Tamil Nadu is India’s seventh largest state with a population of about 62 million, and it ranks sixth out of the fifteen major states in per capita income. It has achieved significant development outcomes, with a higher economic growth rate and faster poverty reduction than the national average in the 1990s. The Gross State Domestic Product (GSDP) growth rate was 6.3% during the 1990s, ahead of the all India average of 6.1%. It is also one of the most industrialized states, ranking only next to Maharashtra in terms of the manufacturing sector’s contribution to GSDP. Tamil Nadu’s performance with respect to the Human Development Index (HDI) is also impressive, it ranks third among 29 states. This is especially true for human development indicators like female life expectancy, female mortality rate, and access to safe drinking water etc.

Notwithstanding these achievements, Tamil Nadu is still a low-income state and has a relatively high incidence of poverty of about 20%. The state has one of the higher unemployment rates in the country at 14%. There are intra-state disparities in key poverty and social indicators. About 12 million people live in poverty, and inequality in Tamil Nadu is higher than the all-India average, and is in fact, the highest among the fifteen major states. This uneven improvement in the quality of life has left a large section of the population which has consistently failed to benefit from the economic and social development that the state has achieved. Sixty-five percent (65%) of the States population is living in rural areas, and about eighty percent (80%) of poor live in rural areas (8.5 million). Scheduled Castes (SCs) and Scheduled Tribes (STs) are highly represented among the poor along with a few other backward castes and minority population. Rural poverty is concentrated among those with marginal landholdings and dependent on rain-fed agriculture. A significant proportion of the population is employed as agriculture workers, which has been affected by drought, increasing their vulnerability due to income variations. There is a growing demand for non-agriculture jobs especially in the non-farm sector (factory) which are largely with the non-poor due to poor skill and resource base of the poor. Landlessness is high both among the SCs and STs. The tribal situation is worse - poor educational and health outcomes, high dependence on wage
labour, poor social capital formation, poor asset ownership and high dependence on money lenders with poor access to institutional credit.

The Government of Tamil Nadu (GoTN) has committed to addressing inequity in poverty through a broad reform program designed to accelerate economic growth by achieving fiscal correction and sustainability, promoting private sector development, and strengthening public administration and service delivery. The priority across the board will be to focus on reducing poverty among women, children and vulnerable people through the instruments of empowerment and self and wage employment.

GoTN’s Tenth Five Year Plan identifies “improvement in quality of life of rural poor” as the prime goal of rural development. The Plan also outlines some of the strategies to reducing rural poverty in the implementation of the reform agenda. A strong emphasis is placed on developing and empowering women and transforming ongoing micro-credit initiatives to micro-enterprise through training, credit linkages and market support; to sustain success in non-farm employment and enterprise, and to strengthen the social audit roles and responsibilities of the Gram Sabhas, the governing body of village assemblies in the implementation of rural poverty reduction programs. The primary challenge for policy makers and practitioners is to narrow the goals of inequity across the board by removing impediments that have constrained the poorest to participate and gain from such development interventions.

The State allocates about 30 percent of its planned budget to social welfare and rural development programs towards assisting vulnerable people, a strong indication of the commitment of GoTN to poverty reduction. However, these interventions have not been able to reduce poverty substantially in Tamil Nadu due: (i) ineffective targeting of the poor and vulnerable groups; (ii) limited success in creating economic opportunities and reducing high vulnerability; (iii) lack of ownership and commitment by primary stakeholders especially among the poor and vulnerable groups; (iv) lack of adequate effort in helping the communities to graduate economically; (v) lack of capacity of local communities and local governments; and (vi) ineffectual approach of present rural poverty programs.

A successful program of the GoTN, implemented by the Tamil Nadu Corporation for Development of Women (TNCDW - Corporation), is Mahalir Thittam - a statewide program of organizing SHGs for the social and economic empowerment of poor women. As of today 193,000 SHGs having a membership of about 3 million women have been organized. The amount of savings mobilized by these groups are to the tune of Rs 5,457 million (US$121 million). The amount of credit extended to these groups through bank linkages is to the tune of Rs. 9110 million (US$202 million). In addition to the Mahalir Thittam program, Department of Rural Development is also implementing poverty reduction programs by organizing poor into groups to access credit funds allocated through various Government of India and state programs. These programs have shown good results in empowering women and providing them credit linkages. However, the success achieved in social empowerment could not be capitalized into economic empowerment.

The proposed project would address the above constraints and assist GOTN’s agenda of development by focusing on reducing the disparity in poverty through strengthening the social capital and resource base of the ultra poor and reducing their exclusion from development and by transforming SHGs to enterprise-facilitating initiatives and graduating them economically. The project provides strategic support to the state to identify and understand the poverty of its vulnerable populations, to pilot strategies for improving the livelihoods of the marginalized and facilitating their participation and inclusion in the planned economic development and growth strategies of the State.

2. Objectives
The proposed project is closely aligned with the Government of India’s (GOI) and GOTN’s strategic priorities as reflected in Tenth Plan and Human Resource Development Report. GOTN’s strategy focuses on more effective targeting of the poor, building and strengthening local grass-roots organizations and Panchayat level institutions and building local level partnerships, increasing livelihood opportunities and access to economic activities, and mainstreaming gender into development programs.

The Country Assistance Strategy (CAS) discussed in July 2004, indicates a strong focus on pro-poor development and decentralization. The proposed project would particularly focus on strengthening local organizations, improving governance and developing human, organizational and social capital. The project would contribute to these goals by using a Community Driven Development (CDD) approach focused on enhancing livelihood opportunities, empowering the poorest and most vulnerable and strengthening the organizations of the poor.

The proposed project also supports the MDGs of: (i) improving incomes of the poorest – reducing the proportion of the people living on less than US$1 a day (Goal 1, Target 1); and (ii) promoting gender equality and empowering women (Goal 3, Target 4).

3. Rationale for Bank Involvement

GOTN has requested IDA to assist in addressing the above challenges of reaching out to the poorest and most vulnerable groups and improving their livelihood and employment opportunities. It believes that IDA’s support will trigger a strong demonstration effect state-wide. IDA is uniquely positioned to support GOTN’s long-term poverty reduction program, and can make available to GOTN its considerable knowledge of national and international best practices. Currently, IDA has experience from similar projects in other countries and in India, where it is already supporting five other similar programs called District Poverty Initiative Projects (DPIPs) in Andhra Pradesh, Madhya Pradesh, Chattisgarh and Rajasthan. By serving as a facilitator, IDA can play a catalytic role in promoting local institutions and local governments as key partners in the local development process, helping to improve and rationalize targeting of the poor, consolidating the participatory and transparent resource allocation at the local level, and ensuring that these processes continue beyond the life and scope of the project.

4. Description

The proposed project would include the following three components:

Component 1 - Village Livelihood Component (US $124.6 million) - This component would be the most important component of the project and consists of all activities involving the village community. The bulk of the project budget (90%) would be earmarked for this component. The Village Livelihood Component would consist of the following sub-components:

(A.1) Formation and strengthening of local institutions to support and develop inclusive, self-reliant, self-managed and sustainable, Community Organizations and their Federations for livelihoods improvement.

(A.2) Village Fund to improve the livelihoods of the poor, especially women and unemployed youth by linking them with potential productive investments capable of generating employment and income opportunities and provide support for the specialized programs for the disabled and vulnerable. The fund would consist of the following two windows:
(i) **VPRC Fund** - This sub-component would include those activities for which the village poverty reduction committee (VPRC) would be directly responsible and funds would be released directly to the VPRC. The funds could be utilized for: (a) Capacity Building of Village Institutions/groups to plan and implement sub-projects; (b) Seed Fund for New self-help groups and existing groups that have not previously received seed funding from any donor; (c) Skills Development Training and (d) Special Assistance to the Disabled and Vulnerable to identify and assist the most vulnerable, disabled and destitute in the village community and mainstream them socially and economically in the project activities and benefits.

(ii) **Community Productive Investment Fund (CIF)** – This sub-component would focus on productive investments on a matching grant basis. The community groups would develop the business proposals and implement the productive investment activities. The District Unit would appraise the investment proposals, and release funds directly to the Community Economic Groups (CEGs) in installments after signing Financing Agreement with the CEGs; and

(A.3) **Gram Panchayat Incentive Fund** to provide incentive to GPs (additional 10% of the Village Fund) to improve their governance by becoming more effective, pro-poor, accountable and responsive to the needs and demands of the village community especially the poorest, the vulnerable, the women and youth in the village.

**Component 2 - Institutional Strengthening (US$7.0 million)** - This component would support and strengthen the project teams at the state and district levels and also provide value added services for livelihoods and business support for establishing linkages and partnerships at the district and state level.

**Component 3 - Project Management (US$-8.4 million)** This component will facilitate overall coordination, implementation, monitoring and learning of the project at state and district levels. It would include setting up and strengthening state level and district level project management units, and providing office infrastructure and logistical support.

5. **Financing**

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<th>Source:</th>
<th>($m.)</th>
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<tr>
<td>BORROWER/RECIPIENT</td>
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<tr>
<td>INTERNATIONAL DEVELOPMENT ASSOCIATION</td>
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<tr>
<td>LOCAL COMMUNITIES</td>
<td>7</td>
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<td>Total</td>
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6. **Implementation**

**Project Implementation Arrangements:** The implementation arrangements at various levels are described below. (a) **Community and Village Level**: At the village level, an inclusive and autonomous Village Poverty Reduction Committee (VPRC), accountable to the Gram Sabha, would be responsible for implementation of the project. Each hamlet in the village would be represented in the VPRC through a women member selected from the target population. 30% of the members of the VPRC would be from SC and ST communities. The mode of election of the members of the VPRC would be tested with the pilot villages. The release of funds to the VPRC would be linked to its performance.
The Gram Sabha would approve the list of poor and the overall livelihood plan for the village. All eligible beneficiaries - currently excluded SHGs - would be constituted into new SHGs or inducted into existing SHGs. The planning and implementation responsibility would be entrusted with the Sub-project Committee appointed by the VPRC. The Economic Activity Groups (EAGs) carrying out similar business from the same village and/or different villages would be federated at the appropriate level to attain economies of scale and institutional linkages. The VPRC would engage the services of technical service providers as and when required.

(b) Cluster Block Level: At the Cluster level, the project would set-up a block level Project Facilitation Team (PFT) to provide handholding and capacity building support to the village level institutions. The detailed description of the services to be provided by these Project Facilitation Teams, skill and job description of team members, performance linked payment systems, arrangements for monitoring their performance etc. would have been elaborated in the PIP.

(c) District Level: At the District level, a District Poverty Reduction Society would be set up under the District Collector, and a small team would support the Society in executing the project. The District team would have specialists mainly in the area of Livelihood and Business Support. The District team in addition to the co-ordinating and guiding roles would also have responsibility of appraising the Livelihood and Business Development Sub-projects forwarded by VPRC to check compliance with project rules and technical and financial feasibility and sustainability.

(d) State Level: An autonomous Society set-up at the state level would be the state level agency responsible for implementation of the Project. The Memorandum of Association of the Society would cover the entire target beneficiaries of the Project and focus on the livelihood aspects. A multi disciplinary team of specialists would be constituted within the broadened Corporation to assist the Project Director in co-ordinating and guiding project implementation.

7. **Sustainability**

The Project will focus on ensuring sustainability of investments and institutions. An effort would be made to create participatory mechanisms to involve all sections of the community in the prioritizing of investments. For Livelihood support investments, the project would provide technical assistance, information and exposure to economic activity groups to ensure that viable activities are undertaken as business opportunities and that the products and services chosen by the communities receive proper value additions and have markets.

Strengthen the capacity of organizations of the poor – SHGs and their federations, economic activity groups and their federations, VPRC, Gram Sabha, so that they can demand services, have voice in their development and hold the local government and service providers accountable. This will lead to institutional sustainability. The project would also strengthen capacity of Gram Panchayats to become pro-poor and provide public expenditures and services in a transparent and accountable manner directly to community will lead to institutional sustainability.

8. **Lessons Learned from Past Operations in the Country/Sector**

Extensive lessons are available from the experience from the implementation by GOTN of poverty alleviation programs like, Integrated Rural Development Program (IRDP), Swarna Jayanthi Gram Swarozgar Yojana (SGSY), Training for Rural Youth and Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), and Tamil Nadu Women’s Development Project (Mahalir Thittam). Recent experience with the CDD approach under the DPIP projects supported by IDA, as well as with similar programs in other countries, has also provided extensive lessons and
generated beneficiary expectations with regard to sustainable results in poverty alleviation. The proposed program seeks to build on the following lessons:

- **Better Targeting of the Poor:** The poorest and ultra poor are largely left out and are not yet part of SHGs. Better targeting and identification of the poor needs to be done to reach out to these left out poor.
- **Listening to the Poor:** Best results on the ground are obtained by listening to the people and enabling them to participate in the design and implementation of projects based on self-identified needs and priorities.
- **Flexibility and Simplicity:** Experience has shown that the CDD approach can reduce bureaucracy, eliminate administrative bottlenecks and reinforce accountability for proper outcomes by placing decision making and funds closer to beneficiaries.
- **Direct Financing:** Direct financing to community groups has shown to improve cost effectiveness of investments, builds community confidence and capacity to manage, and increases accountability of service providers to communities.
- **Willingness to Contribute:** Target communities are willing to contribute in cash, labor and materials provided there are clear roles for them in the management and control of resources, they perceive benefits and have autonomy and freedom in selecting technology options, procuring goods and services.
- **Proper Facilitation and Handholding:** Target communities need facilitation and hand holding support for mobilization, institution development and technical assistance including, linkages and partnerships.
- **Clarity of Needs and Effective Dissemination:** There needs to be clear and complete dissemination of information on guidelines, non-negotiables and other aspects of the project among everyone in the target community.
- **Specialized Assistance to Vulnerable Groups:** The disabled, the ultra poor and other vulnerable groups require differential and supportive approaches for enabling their mainstreaming.

9. **Safeguard Policies (including public consultation)**

**Environmental safeguards:**

The employment generation and livelihood improvement activities to be funded under the project would be demand-driven sub-projects, and will be proposed by the community Self Help Groups (SHGs) based mostly on the analysis of their livelihoods in terms of their skills, resources, income-expenditure patterns and value-chains and the opportunities for new and innovative livelihoods.

Since the sub-project proposals are demand-driven, exact information on the sub-projects that will arise out of TNEPRP is not available *a priori*. While the nature and the scale of the sub-projects are not expected, the project has developed a framework to ensure that:

1) Sub-project proposals with severely adverse and unmanageable environmental impacts are not approved.
2) Sub-projects are designed and implemented with adequate and appropriate environmental mitigation measures.
3) Cumulative environmental impacts of sub-projects are addressed.
4) Environmental benefits of sub-projects are enhanced and, environment-enhancing livelihood activities are promoted.
5) Long-term sustainability of the benefits from the sub-projects is assured by securing the natural resource base on which they are dependent.
In order to achieve these objectives in a comprehensive and coordinated manner, an Environmental Management Framework (EMF) has been developed for the project. The framework approach has been adopted so that the environmental aspects can be adequately addressed for a vast range of sub-project activities that could be potentially proposed by the communities under the project. The EMF lays out the organization process for ensuring that the environmental safeguards are followed through all the stages, starting from sub-project proposal submission by the community groups, through the implementation of the sub-projects. The specific activities at each step are delineated, along with the assignment of the responsibilities for them. The EMF includes an environmental monitoring and evaluation plan, as well as an environmental consultancy/audit to periodically evaluate the adequacy of the EMF and to modify it as required.

**Indigenous People**

The project is developing a comprehensive strategy to work with the vulnerable community that includes destitute, disabled, women in special circumstances and people suffering from disabilities. The project has also developed a comprehensive Tribal Development Plan as envisaged under OD 4.20, to ensure that the Tribal community, which is very poor and disadvantaged in the state, not only participates in the project but also derives social and economic benefits from project interventions. The project has also prepared a gender strategy focusing on mainstreaming gender concerns in the project including institutional development, economic activities, project management and Monitoring and Learning.

In case of land requirement for creating productive infrastructure, it is envisaged that land will be voluntarily donated by either the Gram Panchayat or even individuals. The voluntariness of land contributions will be documented based on criteria of (i) open and transparent consultations and decision-making; (ii) the possibility for people to say “no”; and (iii) that there is no coercion of poor or vulnerable groups. Sub-projects wherein Involuntary Resettlement (OP/BP 4.12) is likely to be triggered would be disallowed.

10. **Contact point**

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