1. Key development issues and rationale for Bank involvement

The Panchayati Raj Institutions (PRI) or local government system in rural and peri-urban West Bengal constitutes a three-tier structure comprising 3354 Gram Panchayat (GP) at the village level, 333 Panchayat Samiti (block), and 18 Zilla Parishad (district) institutions. Pursuant to the 73rd Constitutional Amendment, the Government of West Bengal (GoWB) - which has become a leader among Indian states in respect of devolution and local government reform - has been moving ahead incrementally with decentralizing service delivery and governance responsibilities and resources to PRIs. In recent years, aggregate funding flows to these entities have increased significantly, funding from certain State Departments (e.g. Public Health) has been devolved to PRIs, and GPs now have the authority to directly employ limited numbers of workers in key sectors. The process is guided by two key policy documents - the “Activity Map” and “Devolution Roadmap”. On the fiduciary side, a number of important initiatives have also been taken e.g. West Bengal is one of the few states in India where all GPs are subject to an effective annual financial audit under the auspices of the Auditor-General.

GoWB, specifically the PRI and Rural Development Department (PRDD), is committed to expanding and deepening this process through providing local governments with the resources, capacities and incentives to improve service delivery and governance. In particular, GoWB wishes to focus on GPs as critical delivery and governance units within the overall PRI system. This objective is currently constrained by two key factors: (a) GPs have insufficient funding – in particular, they lack funding over which they have real discretion, to meet their service-delivery mandates; (b) GPs have insufficient capacity to execute their responsibilities effectively.

2 See “West Bengal: Fiscal Decentralization to Rural Governments”, World Bank, June 2007. Subsequent analysis undertaken by the Bank has shown that GPs have discretion over less than 20% of their current revenues, or the equivalent of only $1.50/capita/annum.
In order to address these problems, the GoWB has to introduce a fiscal transfer to GPs to provide resources for GPs to invest in public services and infrastructure in line with local preferences whilst improving institutional performance. GoWB also has to provide GPs with the necessary capacity-building support. The overall strategic vision is to institute a block (i.e. discretionary) grant system which incentivizes local governance and service-delivery performance throughout the state as an integral and ongoing element of the broader PRI fiscal framework in West Bengal. As a first step, in 2005 GoWB initiated a pilot, DFID-funded initiative, Strengthening Rural Development, which provides enhanced discretionary funding to about 600 GPs and supports a PRI capacity building program. A well-capacitated agency has been established by GoWB to implement these activities.

Building on this foundation, the GoWB now proposes to introduce the GP fiscal transfer outlined above for about a quarter of GPs in the state (approximately 800), while consolidating and expanding the PRI capacity-building programme. Simultaneously the PRDD plans to expand its PRI oversight and performance monitoring capabilities. Ultimately, GoWB intends to expand the transfer to all GPs in the state, funding it on a regular and sustained basis. Initial fiscal analysis indicates that this is a feasible goal. The World Bank will provide support for this initiative as a transitional measure to establish and fund the system in the early years, simultaneously rationalizing previous donor-funded efforts, while allowing GoWB to consolidate its capacity-building program and monitoring and oversight mechanisms. The proposed program will make a valuable contribution to the objectives of the current India Country Strategy under pillar 3, “Increasing the effectiveness of public service delivery” both as a result of the nature of the local services infrastructure that would be funded and by virtue of its focus on “supporting institutional arrangements that promote an enabling environment for results”. It is anticipated that the program may be integrated with a broader program of World Bank support for local governance in West Bengal at a later point.

2. Proposed objective(s)

The project development objective is to help support the development of stronger, better capacitated and performing GPs delivering enhanced local services and infrastructure.

3. Preliminary description

The proposed project will support and provide the foundation for a long-term, sustainable improvement in the local governance and service-delivery system in West Bengal, focused on PRIs. It will support the expansion of discretionary fiscal resources flowing to these entities, thus giving them the wherewithal to deliver improved local services and infrastructure in line with local needs, create incentives for improved institutional performance, and support building of GP capacities in the areas of human resources and operating systems. The project will have four main components (estimated cost $150m):

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3 The Strengthening Rural Development (SRD) terminates in 2011. This results from a wider DFID decision to disengage from West Bengal.
4 The West Bengal State Rural Development Agency, registered as a Society under the Registration of Societies Act, 1961.
• **Component 1: Block grant to GPs.** A block (untied) grant flow from the state government directly to a significant fraction of GPs (around 800, which is roughly a quarter of all GPS in the state) to support local development and service delivery activities. While GPs would have significant discretion over the use of this funding, the focus would be on the production and delivery of public goods and services. The universe of targeted GPs will be selected on the basis of criteria related to need, risk management, and the importance of leveraging off the foundations established by other programs. The grant flow will be structured in such a manner as to provide a performance-oriented incentive for the strengthening of the institutional capacities and capabilities of the targeted GPs, and the deepening of bottom-up accountability;

• **Component 2: Capacity-building for PRIs.** The GoWB (PRDD) has initiated a PRI capacity-building program using funds from its own and donor sources. The project will supplement this program in areas where additional resources are necessary and with a focus on linkages to the block grant component. While there will be a focus on linkages to the block grant component, this component will not be limited to local governments benefiting from Component 1;

• **Component 3: State government oversight and monitoring of PRIs.** The GoWB’s systems of performance monitoring of PRIs within the state are inadequate and do not provide sufficient information for proper oversight and management of the PRI system overall. The project will support the development of a comprehensive performance monitoring system, focused on the institutional performance of PRIs, for the PRDD;

• **Component 4: Program Management and Implementation.** This component will support the management and implementation of the project. Overall implementation responsibility for the project will lie with PRDD, which will execute the project through the West Bengal State Rural Development Agency.

4. **Safeguard policies that might apply**

An Environmental and Social Management Framework (ESMF) for use by GPs in implementing sub-projects will be prepared. Indigenous People’s policy may apply and this will be verified; if needed an Indigenous People’s Development Plan will be prepared.

5. **Tentative financing**

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<tr>
<td><strong>Total</strong></td>
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6. **Contact point:**

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