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IN THE AMOUNT OF SDR 79.4 MILLION
(US\$120 MILLION EQUIVALENT)

TO THE

REPUBLIC OF INDIA

FOR THE

TAMIL NADU EMPOWERMENT AND POVERTY REDUCTION "PUTHU VAZHVU"
PROJECT

June 7, 2005

Agriculture and Rural Development Sector Unit
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective {June 6, 2005})

Currency Unit = Indian Rupees
Rs. 43.68 = US\$1
US\$1 = Rs. 43.68

FISCAL YEAR
April 1 – March 31

ABBREVIATIONS AND ACRONYMS

ACRS	Audit Compliance Reports System	MFI	Micro Finance Institutions
BPL	Below Poverty Line	MoU	Memorandum of Understanding
CA	Chartered Accountants	NGOs	Non Governmental Organizations
C&AG	Comptroller and Auditor General	PFM	Public Financial Management
CBO	Community Based Organization	PFT	Project Facilitation Team
CDD	Community Driven Development	PIP	Project Implementation Plan
COM	Community Operational Manual	PLF	Panchayat Level Federation
DEA	Department of Economic Affairs	PRI	Panchayati Raj Institution
DPIP	District Poverty Initiatives Project	Rs./INR	Indian Rupees
DPMU	District Project Management Unit	SAC	Social Audit Committee
DPO	District Project Officer	SC	Scheduled Caste
EA	Environmental Assessment	SGSY	Swarnajayanti Gram Swarajgar Yojana
EAG	Economic Activity Group	SHG	Self Help Group
EMF	Environmental Management Framework	SOs	Support Organizations
FMM	Financial Management Manual	SPMU	State Project Management Unit
FMR	Financial Monitoring Report	ST	Scheduled Tribe
GoI	Government of India	TDP	Tribal Development Plan
GoTN	Government of Tamil Nadu	TNCDW	Tamil Nadu Corporation for Development of Women – Women’s Corporation
GSDP	Gross State Domestic Product	ToR	Terms of Reference
HDI	Human Development Index	VLP	Village Livelihood Plan
IEC	Information, Education and Communication	VP	Village Panchayat
IDA	International Development Association	VPRC	Village Poverty Reduction Committee
ME&L	Monitoring Evaluation and Learning		

Vice President:	Praful Patel
Country Director	Michael F. Carter
Sector Director:	Constance A. Bernard
Sector Manager:	Adolfo Brizzi
Task Team Leader/Co-TTL:	Meena M. Munshi/Varalakshmi Vemuru

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INDIA

Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project

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Map:

IBRD No. 33983

INDIA

**TAMIL NADU EMPOWERMENT AND POVERTY REDUCTION "PUTHU VAZHVU"
PROJECT**

PROJECT APPRAISAL DOCUMENT

SOUTH ASIA

Rural Development Sector Unit

<p>Date: June 7, 2005 Country Director: Michael F. Carter Sector Director: Constance A. Bernard</p> <p>Project ID: P079708</p> <p>Lending Instrument: Specific Investment Loan</p>	<p>Team Leader: Meena M. Munshi Sectors: Other social services (20%); General Agriculture and Fishing sector (20%); General Industry and Trade Sector (20%); Agricultural marketing and trade (20%); Sub-national government administration (20%) Themes: Small and medium enterprise support (P); Rural policies and institutions (P); Decentralization (S); Other human development (S); Gender (S) Environmental screening category: Partial Assessment Safeguard screening category: Limited impact</p>
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Project Financing Data			
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
For Loans/Credits/Others: Total Bank financing (US\$m.): 120.00 (SDR 79.4 million) Proposed terms: Standard IDA Credit terms			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
BORROWER/RECIPIENT	27.00	0.00	27.00
INTERNATIONAL DEVELOPMENT ASSOCIATION	118.00	2.00	120.00
LOCAL COMMUNITIES	12.00	0.00	12.00
Total:	157.00	2.00	159.00
Borrower: Government of India/Government of Tamil Nadu			
Responsible Agency: Tamil Nadu Puthu Vazhvu Society, Ministry of Social Welfare, Government of Tamil Nadu, 100 Anna Salai, Guindy, Chennai, India Phone/Fax: 91-44-25675183, tneprp@yahoo.com			

Estimated disbursements (Bank FY/US\$m)									
FY	2006	2007	2008	2009	2010	2011	2012		
Annual	2.00	6.00	22.00	40.00	35.00	10.00	5.00		
Cumulative	2.00	8.00	30.00	70.00	105.00	115.00	120.00		
Project implementation period: Start: October 1, 2005 End: March 31, 2011									
Expected effectiveness date: September 30, 2005									
Expected closing date: September 30, 2011									

Does the project depart from the CAS in content or other significant respects? Ref. PAD A.3	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project require any exceptions from Bank policies? Ref. PAD D.7	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Does the project include any critical risks rated "substantial" or "high"? Ref. PAD C.4	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the project meet the Regional criteria for readiness for implementation? Ref. PAD D.7	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Project Development Objective Ref. PAD B.2, Technical Annex 3

The project supports Government of Tamil Nadu's (GoTN's) strategy for reducing poverty among the rural poor and other vulnerable groups, currently outside the reach of most development interventions, through assistance for productive livelihood activities, in a more enabling village environment, using the Community Driven Development (CDD) approach. The objective of the project is to empower the poor and improve their livelihood through: (a) developing, strengthening and synergizing pro-poor local institutions/groups (including Village Panchayats); (b) enhancing skills and capacities of the poor (especially women and the vulnerable); and (c) financing productive demand-driven subproject investments related to livelihoods for the target poor.

Project description [one-sentence summary of each component] Ref. PAD B.3.a, Technical Annex 4

Component 1: Village Livelihood Program: Building institutional capacity and funding productive livelihood related investments, at the village level.

Component 2: District and State level Support to Village Livelihood Program: Strengthening project teams at the state and district levels to extend support to the village level and support monitoring, evaluation and learning.

Component 3: Project Management: Capacity to facilitate coordination and strengthen implementation.

Which safeguard policies are triggered, if any? Ref. PAD D.6, Technical Annex 10

Indigenous Peoples (OD 4.20, being revised as OP 4.10)

Environmental Assessment (OP/BP 4.01); Pest Management (O/P 4.09); Cultural Property (OPN 11.03, being revised as OP 4.11)

Significant, non-standard conditions, if any, for: **Ref. PAD C.7 No**

Board presentation:

None

Loan/credit effectiveness:

None

Organization and Structure of State Society and District Societies

(a) GoTN to ensure that the State Society shall be responsible for management and coordination of Project activities and shall maintain: (i) a General Body consisting of broad representation from all key stakeholders, including community, civil society and other outside members; (ii) an Executive Committee which shall include members from civil society and the corporate sector and shall meet and function in accordance with quorum and frequency as described in the Bylaws; (iii) State Project Management Unit (SPMU) and District Project Management Unit (DPMU) with staffing responsibilities as agreed with IDA; (iv) staff with skills, qualifications and experience, and in sufficient number, all as set out in the Project Implementation Plan (PIP); and (v) at all times a State Project Director (PD), appointed for a minimum of 3 years, on satisfactory terms of reference and with acceptable qualification

and experience and in accordance with the State Society's Memorandum of Association

Project Implementation and Management

(b) The State Society shall (i) implement the project in accordance with the Project Implementation Plan (PIP) and Community Operational Manual (COM) as agreed with IDA; (ii) shall take necessary measures to ensure that District Societies carry out activities in accordance with the procedures, rules and principles as agreed and set forth in COM and in accordance with terms and conditions of the district Participatory Agreement and (iii) not amend or waive any provision of PIP or COM without IDA concurrence.

(c) The State Society shall prepare an annual plan and budget for implementing the Project for the financial year by January 31 of each year, starting from 2006 and finalize the Annual Plan by March 31 of each year;

(d) GoTN shall appoint by December 31, 2005, and thereafter maintain during the project implementation period, internal and external auditors, with qualifications and experience satisfactory and acceptable to IDA.

Village Grants

(e) The Society shall ensure that: (i) each District Society enters into a Financing Agreement with the beneficiaries in the form of model set forth in the COM; (ii) beneficiaries are selected in accordance with participatory identification of poor methodology; (iii) cause each District Society to release funds (including IDA Credit) to Village Poverty Reduction Committee (VPRC), Economic Activity Groups (EAGs) and Village Panchayats (VPs) participating in the project in a timely manner and in the form of grants to finance investments and activities on terms and conditions acceptable to IDA, and in accordance with rules, procedures and guidelines as agreed in the COM; and (iv) ensure that the funds transferred for subprojects would be used exclusively to finance goods, works and services in accordance with agreed subproject proposals, financing agreements and procedures specified in COM.

Support Organization Selection

(f) The State Society to ensure that Support Organizations (Non-Governmental Organizations (NGOs), Community Based Organizations (CBOs), Research Institutions, Micro Finance Institutions (MFIs), etc) are selected in accordance with criteria and procedures as agreed with IDA.

Social and Environmental Safeguards

(g) GoTN and each of the Society (State and Districts) shall ensure that the Project shall (i) be carried out in accordance with the agreed Environmental Management Framework (including cultural property plan and pest management plan); (ii) ensure that the environmental and social screening criteria are updated regularly and consistently applied; (iii) ensure that all subprojects are carried out in accordance with the policies of EMF; and (iv) implement the Tribal Development Plan (TDP) as agreed with IDA, to ensure that the tribal population in Tamil Nadu benefit from the activities under the Project;

(h) In carrying out of the Project, the State Society and District Societies shall ensure that there would be no involuntary land acquisition under the projects, and the Project shall be implemented as far as reasonably possible on publicly owned land. Any acquisition of private land, if needed, would be through mutually agreed sales transactions or voluntary donation and in accordance with guidelines and

procedures set forth in the PIP, including establishment of appropriate grievance redress mechanisms.

Project Monitoring

- (i) The Society shall submit to IDA, six monthly progress reports giving status of project processes, financial and technical progress;
- (j) The Society shall carry out a mid-term review of the achievement of the project objectives no later than December 31, 2008; and an impact evaluation of the project at the end of project implementation; and furnish the reports to IDA.

A. STRATEGIC CONTEXT AND RATIONALE

A.1 Country and sector issues

1. Tamil Nadu is India's seventh largest state with a population of 62 million. It has achieved significant development outcomes, with economic growth higher, and urban and rural poverty reduction faster, than the national average in the 1990s. The state ranks sixth out of fifteen major states in per capita income. The Gross State Domestic Product (GSDP) growth rate at 6.3 percent during the 1990s, was ahead of the all India average of 6.1 percent. Tamil Nadu is one of the most industrialized states, next only to Maharashtra in terms of the manufacturing sector's contribution to GSDP. Tamil Nadu's Human Development Index (HDI) is also impressive; it ranks third among 29 states. This includes achievements above national indices for gender development and planned opportunities for women in education, self-employment and training.

2. Notwithstanding these achievements, 12 million people or 20 percent of the total population is living in poverty. Poverty rates are higher in rural areas and intra-state disparities are noteworthy, with the coastal North having highest poverty incidence. Inequality among the population within Tamil Nadu is striking: it is higher than the all-India average, and is indeed the highest among the fifteen major states. Disparities relating to gender and caste are evident in key poverty and social indicators. Scheduled Castes (SCs), Scheduled Tribes (STs) and women feature prominently among the poor along with certain other backward communities. According to the 1991 census, while 14 percent of the non-SC and ST population did not have access to any of the three key amenities – safe drinking water, toilet facilities and electricity; 38 percent of the SC households and 43 percent of ST households respectively did not have access to these amenities. Agricultural growth and productivity, though higher than the national average, has been affected by increased vulnerability to drought. This has resulted in devastating consequences for marginal landholders dependent on rainfed agriculture and for over 44 percent of the rural population employed as agriculture laborers (mostly landless), increasing their vulnerability to income variations. While non-agriculture jobs, especially in the non-farm sector (factory) are now growing in numbers, the low levels of skills and resource base, and lack of access to credit and markets have kept the poor out of the non-farm sector. Thus, the exclusion of a large section of the rural population from the progressive achievements of the state is the challenging agenda for development. Compounding this situation, Tamil Nadu has an estimated disabled population of 1.6 million, of which 60 percent live in the rural areas.

3. Government of Tamil Nadu (GoTN) is committed to addressing inequity and 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 geared to social outcomes. GoTN's Tenth Five Year Plan identifies "improvement in quality of life of rural poor" as the prime goal of rural development. The main challenge for policy makers and development practitioners is to narrow inequity across the board by removing impediments, including those described above, that have constrained the poorest from participating and gaining from development interventions. In this context, GoTN has stressed the symbiotic relationship between empowerment of the poor and women, on one hand and the creation of viable livelihoods for them in the villages, on the other. Empowerment is to be facilitated through the creation of an enabling institutional environment at the village level; and livelihoods which contribute to security, incomes and self-esteem for the poor, generated through investment and access to credit, technology and markets. The Village Livelihood Program, spearheaded by the Tamil Nadu "Puthu Vazhvu"¹ Society, is designed to fulfill these objectives.

4. 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

¹ Puthu Vazhvu in Tamil means "new life".

reduction. A brief description of some of the key interventions, such as support to women through self help groups, follows.

5. Savings and Credit Groups (mostly referred to as Self Help Groups (SHGs)) have been a major coping strategy for the poor in Tamil Nadu. In SHGs, 15-20 women meet and save periodically and use their savings for internal loaning and leveraging external finances. SHGs were initially pioneered by a few NGOs in the early 1990s with the support of the National Bank for Agriculture and Rural Development (NABARD). Since the late 1990s, several state governments, particularly Andhra Pradesh and Tamil Nadu, have supported the formation and strengthening of SHGs. In 1999, the Government of India (GoI) launched the Swarnajayanthi Gram Swarojgar Yojana (SGSY) program merging many existing rural development programs to be implemented through SHGs.

6. A successful program of GoTN, implemented by the Tamil Nadu Corporation for Development of Women (TNCDW – Women’s Corporation), is Mahalir Thittam - a statewide program of organizing and strengthening SHGs for the social and economic empowerment of poor women. By the end of 2004, Tamil Nadu had over 200,000 SHGs with membership of 3 million women and good results on women’s empowerment. Savings mobilized by these groups was about Rs 5.5 billion (US\$121 million). It was for the first time that most SHGs were linked to banks and accessed credit. Credit accessed from bank linkages was about Rs. 9.1 billion (US\$202 million) which has resulted in reduced dependence on the “kandhuvatti”(compound interest) money-lenders, and increased credit worthiness of SHGs.

7. Other innovative interventions of GoTN to empower the communities and activate village institutions include: (a) Clean Village Campaign that has been recognized as a best practice example in sanitation and has triggered a change in village environment and substantially increased the sanitation coverage in the rural areas; (b) “empowerment and poverty reduction” initiative to provide shelter, nutrition and health security to 25 poorest of the poor households as a demonstration of better targeting of the poor in each VP; (c) model village training centres and internet kiosks for SHGs through “computerization and internet connectivity” to encourage flow of information between the VPs and local governments at block and district level; and (d) the recently introduced “Namadhu Gramam”² program to provide incentives to Panchayats to improve people’s participation and develop holistic village development plans to improve quality of life. Each of these programs has promoted local leadership within the communities and helped them take charge of their developmental issues.

8. While Mahalir Thittam and other initiatives, have been successful in mobilizing and forming SHGs of the poor and empowering the village institutions, more efforts are required to: (a) reach the ultra poor (the bottom 50% of the poor) and vulnerable groups³. It is evident that mobilizing the ultra poor and vulnerable people into SHGs and ensuring institutional sustainability will require concerted efforts, enhanced skills and increased resources; (b) strengthen existing SHGs to enhance their skills, capacities and resources to make them self sufficient and self reliant. About 25 percent of SHGs older than 3 years are still dependent on promoter agencies for routine activities (conduct of meetings, writing accounts, routine bank transactions) and nearly 75 percent are dependent for special activities (auditing and credit linkages); (c) provide financial resources and linkages required to make investments necessary for generating significant increase in incomes of SHG members. Nearly 70 percent of SHGs that have been in existence for over 3 years have obtained only one loan or none. On an average, only about Rs.4000 (US\$90) per family has been mobilized through bank linkages; (d) focus on enhancing livelihoods of the poor by encouraging, facilitating and providing the necessary input (skills development, technology, etc.) and output linkages (markets, price information, etc.) to use their own resources and funds from SHG-bank linkage for income generating investments. The absence of this support has prevented SHG

² Namadhu Gramam” in Tamil means “Our Village”

³ A recent study finds that nearly 36 percent of the rural poor have been left out of the SHG fold

members from graduating to using credit for income generating investments after it has been used to pay off their high cost debts. SHGs will thus need access to continued and higher levels of credit as well as other input and output linkages to graduate to higher economic activities; and (e) finally, promote greater interaction and stronger linkages among the SHGs, local governments and other agencies to help the poor access existing programs, safety nets and services that will lead to long term institutional sustainability and economic viability. Strengthening linkages with local governments and existing programs is part of empowering the poor and their responsiveness to the poor can be productive in the long run.

9. Thus, the project would build on GoTN's existing programs and good practice initiatives, and promote empowerment and create an enabling institutional environment at the village level required to achieve "Village Livelihood Program". The focus of the Village Livelihood Program would be on: (i) organizing 'left out' poor including the ultra poor, women and other vulnerable groups into SHGs and including them in the benefits and decision making stream and providing special assistance for disadvantaged sections, such as STs and disabled; (ii) building linkages and partnerships with VPs (local governments), credit and financial institutions and corporate sector; and (iii) supporting institutional development of SHGs through capacity building and development of strong federations that are institutionally and financially sustainable. On livelihood creation, the project would shift the focus of SHGs from group formation to livelihoods; provide support in skill building, marketing, technology transfer, and promote sustainability by making higher investment per family. Thus at the village level, it would help transform both existing and new SHGs into sustainable and independent organizations, by linking them to resources, information, and partners, and identifying opportunities that will lead to viable activities. Besides direct support to the Village Livelihood Program, the project would strengthen project teams at the state and district levels that extend support to the village level and establish project management capacity to facilitate coordination, strengthen implementation, and support monitoring, evaluation and learning statewide. The project would thus assist GoTN's agenda of development by focusing on reducing poverty through building social capital and the resource base of the poor and the vulnerable, and including them in the mainstream of development.

A.2 Rationale for Bank involvement

10. GoTN has requested IDA to assist in addressing the twin challenges of improving livelihood opportunities for the poor and vulnerable groups and building an enabling environment at the village level that would, inter alia, promote empowerment of this disadvantaged population. IDA is uniquely positioned to support GoTN's long-term poverty reduction program, and can become a partner in bringing its knowledge of national and international best practices, particularly in regard to CDD, to bear upon strengthening the program in a sustainable manner. Currently, IDA has experience from similar projects in other countries and in India, where it is already supporting similar programs called District Poverty Initiatives Projects (DPIPs) in four states - Andhra Pradesh, Madhya Pradesh, Chattisgarh and Rajasthan. Such experience includes building inclusive local organizations, strengthening local institutional capacities, improving accountability and transparency in local initiatives and facilitating effective linkages between local communities and key partners in economic growth i.e., local governments, private sector and public financial institutions. This will contribute to better targeting of the poor, consolidating participatory and transparent resource distribution at the local level, and ensuring that these processes continue beyond the life and scope of the project.

A.3 Higher level objectives to which the project contributes

11. The project is closely aligned with the GoI and GoTN priorities reflected in the Tenth Five Year Plan and the Human Development Report. GoTN has envisioned development of society at the village level where multiple organizations and groups fully represent the poor and the vulnerable, work synergistically on shared development goals, are accountable to the Gram Sabha where collective social

responsibility is nurtured and provide the poor and disadvantaged with a voice as they grow out of their present situation through improvements to their livelihoods. GoTN's project strategy focuses on effective targeting of the poor, building and strengthening local grassroots organizations and Panchayat (local government) level institutions and building local level partnerships, increasing livelihood opportunities and access to economic activities, and mainstreaming gender into development programs. The project will contribute to the overall empowerment of rural population, especially women, SC, ST and other vulnerable groups, to actively participate in their own economic well-being.

12. The Bank Country Strategy for India (CAS August 2004), is in line with Tamil Nadu's reform agenda to focus on pro-poor development and decentralization. The project would contribute to these goals by strengthening local organizations, improving governance and developing human, organizational and social capital. The CDD approach will aim for targeted interventions to the poor and socially marginalized groups and build up and scale up successful community initiatives, in support of GoTN's goals of empowering the poorest and most vulnerable, and strengthening organizations of the poor.

13. The project supports the Millennium Development Goals 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).

B. PROJECT DESCRIPTION

B.1 Lending instrument

14. The lending instrument selected for the proposed project is a Specific Investment Loan (SIL). The Project is underpinned by a Letter of Implementation Policy from the Government of Tamil Nadu. The Project would support Village Livelihood Program in about 2300 VPs in 70 most backward blocks of 15 districts (of a total of 29 districts). The project will cover approximately 350,000 households and is expected to benefit about 1.75 million persons directly and about 6.6 million persons indirectly i.e., nearly 14% of the total population of Tamil Nadu.

B.2 Project development objective and key indicators

15. The goal of the project is to support GoTN's strategy for reducing poverty among the rural poor and other vulnerable groups, currently outside the reach of most development interventions, through targeted assistance for productive livelihood activities, in a more enabling village environment, using the CDD approach. The development objective of the project is to empower the poor and improve their livelihood through: (a) developing, strengthening and synergizing pro-poor local institutions/groups (including Village Panchayats); (b) enhancing skills and capacities of the poor (especially women and the vulnerable); and (c) financing productive demand-driven sub-project investments related to livelihoods for the target poor. The target poor are defined as the poor including the ultra poor (bottom 50 percent of the poor), and special groups that include disabled and the vulnerable – destitute, widows, deserted women, aged, orphans and tribals.

16. The key performance indicators to measure the achievement of project activities would be the following: (i) number and percentage of target poor who are organized into SHGs that are credit rated; (ii) percentage increase in household incomes of the beneficiaries and/or income sources diversified; (iii) percentage of the poor having increased access to credit linkages and other financial resources measured through number of poor linked to the banks and other financial resources; and (iv) local governance improved through number of VPRCs functioning in accordance with project rules and number of VPs accessing Incentive Fund in accordance with the eligibility criteria.

B.3 Project components

17. The proposed project would include the following three main components:

18. *Component 1: Village Livelihood Program (US\$142.5 million)* – This component will build institutional capacity, synergize and strengthen pro-poor local institutions and fund productive livelihood related investments at the village level. This component will have two sub-components.

- *A.1 Formation and strengthening of village institutions (US\$14.0 million)* to support and develop inclusive, self-reliant, self-managed and sustainable community organizations such as SHGs, EAGs and their federations, VPRCs and VPs for livelihood improvement;
- *A.2 Village Fund (US\$128.5 million)* would consist of the following: (i) VPRC Fund – to mobilize the poor into SHGs, build capacity of both existing and new SHGs to plan and implement sub-projects; provide seed fund to new SHGs and skills development and training; and provide special assistance to the disabled and vulnerable; (ii) Livelihood Fund – to enhance livelihoods of the poor and vulnerable by financing productive investments on a matching grant basis; (iii) Village Panchayat Incentive Fund – provides incentives for local government institutions to become pro-poor and support targeted activities for the ultra-poor and other vulnerable groups such as the disabled. Release of installment of the incentive fund has been linked to the VP measurable performance indicators including involvement in social mobilization of the left out poor and their participation in the VPRC; and (iv) Federation Fund – to provide start-up capital to federations of community organizations to become self-reliant and self sustainable.

19. *Component 2 – District and State Support to Village Livelihood Program (US\$6.0 million)*: This component would support and strengthen the project teams and support organizations at the state and district levels to respond to the needs of the poor and build institutional linkages and livelihood options for enhanced sustainability of the livelihoods of the poor and vulnerable.

20. *Component 3 - Project Management (US\$10.5 million)*: This component will facilitate overall co-ordination, 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 provision of office infrastructure and logistical support.

B.4 Lessons learned and reflected in the project design

21. Extensive lessons are available with GoTN from the implementation of various poverty alleviation programs like Integrated Rural Development Program (IRDP), SGSY, Training for Rural Youth and Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), and Mahalir Thittam. Recent experience with the CDD approach under the IDA-assisted DPIP projects, as well from other countries, also provide extensive lessons and generate insights into beneficiary expectations with regard to sustainable results in poverty alleviation. The project has incorporated the following lessons in to the project design.

<i>Lessons Learned</i>	<i>How lessons have been integrated into Project Design</i>
Better targeting of the poor	The project has adopted the Participatory Identification of Poor approach that is simple, verifiable and based on objective criteria. It will foster transparency and minimize political interference in project resource allocation.
Expansion of successful initiatives focused on women, to the general population	Linkage between the Tamil Nadu “Puthu Vazhvu” Society and the Women’s Corporation to scale up existing women’s programs without jeopardizing benefits already achieved.
Specialized Assistance to Vulnerable Groups	The project has developed specific strategies for the disabled, ultra poor and other vulnerable groups such as Tribals including institutional arrangements for enabling their mainstreaming.
Listening to the poor and encouraging their participation	The project has adopted a CDD approach wherein the poor will participate in the selection, financing, execution, operation and maintenance of investment activities. This will ensure that investments meet genuine community needs, generate savings and increase community “ownership and accountability”; thus improving sustainability of investments.
Focus on Business Development and Partnerships	EAGs of the target poor will be facilitated and supported with technical assistance, including information on local resources, potential income earning opportunities, effective linkages and partnerships.
Formation of EAGs separate from SHGs	While SHGs will continue to undertake savings and credit activities, for economic activities, EAGs will be formed by interested members from same or different SHGs.
Need for Federations	Federations of SHGs and EAGs will be promoted under the project to allow them to become institutionally and financially sustainable and receive services, which Federations can offer owing to economies of scale.
Intensive supervision of and support to CDD Projects	The project has incorporated social accountability, self-assessment and participatory monitoring and learning across different levels of project implementation. Among the key non-negotiable principles adopted by the project are participation, transparency, accountability and facilitating style as well as inclusion and equity. PFTs will be responsible only for 10-15 VPs, thus providing intensive support to the communities.
Clarity of needs and effective dissemination	The project’s Information, Education and Communication (IEC) strategy is aimed at clear and complete dissemination across the project management, administration and target poor of the guidelines, non-negotiable principles and operational aspects of the project.
Linkage with local governments	The project has not only provided an important role for the VPs under the project but has also provided incentives for the VPs to be pro-poor, inclusive and supportive of the efforts of the poor under the project.

Project Design Elements

22. Based on these lessons, the following key principles have been incorporated into the project design:

- *Transferring control over decision making and resources* to the community and local institutions (to identify, plan, implement, monitor, and evaluate sub-projects);
- *Focusing on the poorest* by including the ultra poor (bottom 50 percent of the poor), and special groups that include disabled and the vulnerable – destitute, widows, deserted women, the aged, orphans and tribals;
- *Building and empowering community institutions and local government organizations* to take full responsibility for sustaining activities in the future;

- *Developing simple and transparent rules of engagement* and building accountability (downward and upward) and transparency at all levels;
- *Developing a facilitating and enabling style and culture* at all levels of project management; and
- *Ensuring independence and autonomy of the “Guardian of the Rules”* to ensure that the project and technical teams have total independence and autonomy to appraise and monitor the project in accordance with the agreed rules and procedures.

B.5 Alternatives considered and reasons for rejection

23. In designing the project, various alternative approaches and options were considered:

- *Traditional –Line Department Approach:* The proposal of using a line department (instead of the Society) as the main implementing agency was rejected because: (i) the Society model will establish linkages with the Women’s Corporation, which has a rich experience in implementing empowerment programs and high membership access of rural women across the State, (ii) multi-sectoral approaches can be coordinated better through a Society model, (iii) the autonomous status of the Society will enable it to attract and retain competent and motivated professionals, (iv) the use of an independent Society to initiate a process to strengthen local governments might reduce and help mitigate political interference and (v) the ethos (decentralization, transparency and accountability) and cultural (village societal norms) dimensions of the project are easier to establish in a new organization than transplanted into an existing government agency.
- *Social Fund Approach:* The traditional social fund approach to deliver basic services was rejected as this approach generally by-passes local governments and is less likely to build capacity of local institutions and therefore less likely to achieve long term institutional sustainability. It also contradicts the state's decentralization goals.
- *The alternative of working solely with local governments and not with SHGs/EAGs:* This was rejected because of lessons learnt which demonstrate that local governments are not the best vehicle for delivering private goods and achieving income generation. In contrast, SHGs/EAGs demonstrate relative success in achieving social and economic empowerment of women. This project supports CDD by enhancing the independence of community groups and federations from local elected bodies and aims in a broader context to establish mutual accountability and transparency in decision-making and program intervention between community groups and local governments.

C. IMPLEMENTATION

C.1 Institutional and implementation arrangements

24. **Project Implementation Process:** The project would be implemented according to rules and procedures agreed in the PIP and COM. These documents outline roles and responsibilities of individual agencies and provide details of project processes and project cycle. The PIP and COM are based on the experiences gained during the implementation of similar projects and the outcome of various workshops, studies and analyses that were carried out as part of project preparation. The COM will be subject to periodic reviews conducted jointly by GoTN and IDA, with stakeholder participation - to ensure flexibility and to promptly address any constraints to the successful implementation of the program. Any changes in the PIP and COM will require IDA’s prior approval.

25. **Project Implementation Arrangements:** The implementation arrangements at various levels are described below (and details provided in Annex 6).

(a) **Community and Village Level:** The proposed institutional arrangements would ensure that communities are in the driving seat in terms of organizing themselves, identifying the target poor, prioritizing their investments, allocating resources, preparing and implementing livelihood subprojects, and maintaining their assets. The following community organizations would play an important role: (i) Gram Sabha, (ii) Village Assembly, (iii) Village Panchayats, (iv) VPRC and (v) EAGs and their Federations.

- (i) The *Gram Sabha*, consisting of all voting households in a village, would be the supreme body and will approve the list of eligible beneficiaries (identified through participatory identification of the poor), the Capacity Building and the Village Livelihood Plans, formation of Village Poverty Reduction Committee and appoint a *Social Audit Committee* (SAC). The SAC members would undertake institutional and financial audit of the project activities, compliance with the project's "non-negotiable" rules and would report their findings and recommendations directly to the Gram Sabha.
- (ii) The *Village Assembly of Key Stakeholders* consisting of all identified target population eligible for project benefits and other key stakeholders will play an important role as a participatory forum. All major project decisions including approval of investment proposals, utilization of funds, achievement of milestones and release of project funds would be shared in this participatory forum, and the VPRC would be accountable to the Village Assembly. All critical decision meetings will need to have at least two-thirds of the target poor participating with women contributing to 50 percent of the attendance.
- (iii) The *Village Panchayats* (VP) would be responsible for kick-starting project implementation and facilitating the start up activities including formation of the VPRC as well as for implementing VP Incentive Fund. The VP representation in the VPRC is expected to bring in synergy within the village institutions and develop a relationship of trust between the elected representatives and community members.
- (iv) *Village Poverty Reduction Committee (VPRC)* would be an inclusive and autonomous institution at the village level, accountable to the Gram Sabha and Village Assembly, and would be responsible for implementation of the project. Each hamlet in the village would be represented in VPRC through a woman SHG member elected from the target poor. The existing village level institutions - VPs and SHGs- will also be represented in VPRC to ensure convergence and partnerships. VPRC will also have representation from the SC and ST communities and the disabled. At least 50 percent of the representatives will be women.
- (v) *Economic Activity Groups:* The EAGs would be responsible for planning and implementing livelihood/income generating activities under the EAG Fund.

(b) **Cluster Level:** At the cluster level, a Project Facilitation Team (PFT), covering about 10-15 Gram Panchayats (2,000 to 2,500 target families), will be set up with the key responsibility of forming and strengthening local institutions of the poor in the village. The PFT's would be accountable to the District Project Management Unit (DPMUs) as well as to the beneficiaries that they serve, and their continuation would depend on the satisfactory report cards from the beneficiaries and evaluation from the DPMUs. The success of the project would depend on the capacity of the cluster level institutional arrangements, and thus the selection of PFTs will be done on a competitive basis through a specialized Human Resource Agency. The detailed description of services to be provided by the PFTs, task descriptions of team members and norms and indicators to be used for monitoring their performance etc. have been elaborated in the PIP.

(c) **District Level:** At the District level, the responsibility for guiding and facilitating the implementation of the project will be vested with the District “Puthu Vazhvu” Society (district Society) registered under the Tamil Nadu Societies Registration Act, 1975, and will have a 15 member General Body chaired by the district collector. The District Project Officer (DPO) would be the Member-Secretary of the district society and the team leader of the District Project Management Unit (DPMU). DPMU will have a dedicated multi-disciplinary team of specialists mainly in the areas of Livelihood and Business Support. DPMU, in addition to coordinating and guiding, would also have the overall responsibility for appraisal and checking compliance of investment proposals to agreed rules and procedures. The District Society would also constitute district level Advisory Groups on various livelihood issues, as and when required, which would assess the potential and opportunities for livelihood and business development.

(d) **State Level:** Given the larger mandate of the project to address livelihood issues of both women and men amongst the vulnerable and disadvantaged, an autonomous Society has been set-up at the state level to provide overall guidance, vision and direction to the program; and manage, coordinate and monitor project implementation. The State “Puthu Vazhvu” Society has been registered under the Tamil Nadu Societies Registration Act, 1975, and has a 15 member General Body chaired by the Development Commissioner and Finance Secretary. The management of the Society will be entrusted with an Executive Committee chaired by the Secretary, Social Welfare, GoTN, and will include representatives from government, non-governmental, corporate and civil society organizations. The Project Director will be the Member-Secretary of the Society and will be assisted by a multi-disciplinary team of specialists to coordinate, guide and monitor project implementation.

26. **Fund Flow Arrangements:** The institutional framework for the implementation of the project entails adequate levels of staffing of the financial management and accounting functions at the state, district and village levels which have been documented in Annex 7.

27. **Disbursement Procedures:** Disbursements from IDA credit would initially be made in the traditional system (reimbursement with full documentation and against statement of expenditure (SOE)) and could be converted to report based disbursements at the option of GoTN and GoI after successful demonstration of regular, timely and adequate Financial Monitoring Reports (FMRs).

28. A Special Account would be opened in the Reserve Bank of India and would be operated by the Department of Economic Affairs (DEA) of GOI. The authorized allocation of the Special Account would be US\$6.5 million that represents about four months of average estimated eligible disbursements from the IDA Credit. The Special Account would be operated in accordance with IDA’s operational policies.

29. **Retroactive Financing:** GoTN has requested for retroactive financing of US\$1.5 million to meet the expenditures incurred since February 28, 2005, including those that are anticipated up to the Credit signing. The activities to be covered under the retroactive financing are consistent with the financing categories as agreed with IDA.

C.2 Monitoring, Evaluation and Learning of outcomes/results

30. Monitoring, Evaluation and Learning (ME&L) activities are integral to the project, and will be directly undertaken by the communities, VPs, PFTs, DPMUs and SPMU, as outlined in the COM and PIP. Principles guiding the ME&L system are: (a) only relevant information required for the decision making process is generated, (b) there is involvement of all stakeholders in the process to ensure quick feedback and to link it with the decision making process, and (c) learning forums are created at various levels to continuously monitor the results on the ground and adjust and refine the model and approach as

required. In particular, it will support information gathering and analysis by primary users, thus contributing to the capacity building of the poor and other stakeholders involved in the process of planning and implementation of the project. The project results framework with the indicators elaborated in the PIP will form the basis for monitoring results. An assessment of project status will be submitted six-monthly by the State Society. Other ME&L activities will include a baseline study; village profile and baseline for each village livelihood plan; performance tracking of inputs, outputs and outcomes for administration and resource accountability; annual process and institutional performance audits; internal learning for the project to be responsive and flexible to the changing context; beneficiary assessment before mid-term review and an independent impact assessment. Appropriate institutional mechanisms will be in place across all operational units of the project including cluster, district and state for the implementation of ME&L system. In addition to internal staff, the services of external expert agencies will be hired for certain components of ME&L.

31. The project would promote and set-up social accountability mechanisms and systems within and between community organizations and service providers, and between the Society and the communities. Among other instruments, social audits, Gram Sabha and Village Assembly meetings, report and score cards, will be used to ensure accountability of village institutions, service providers, and project teams to the communities. The project would promote transparency by openly displaying all financial and physical information in accessible form.

C.3 Sustainability

32. 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 prioritization of investments. For livelihood investments, a detailed study will be carried out in each region to help identify possible economic resources and opportunities. The project would provide investment and technical assistance, information and exposure to EAGs to ensure that viable activities are undertaken as business enterprises and that the products and services chosen by the communities have added market worth and value. Sustainability models will be developed which will help establish self-sustaining activities. Special emphasis will be paid to establishing market linkages and private sector partnerships.

33. Institutional sustainability will be ensured by strengthening capacity of organizations of the poor – SHGs and their federations, EAGs and their federations, Village Assembly so that they can demand services, have voice in their self-development and hold the local government and service providers accountable. The project will provide incentives and support to strengthen the capacity of VPs to become pro-poor and provide public expenditures and services in a transparent and accountable manner.

34. The contribution of EAGs towards economic activities and the repayment of SHG loans will lead to financial sustainability. This will be made feasible by linking SHGs to banks and private sector financing, and market enterprises beyond the community level.

C.4 Critical risks and possible controversial aspects

<i>Risks</i>	<i>Risk Mitigation Measures</i>	<i>Risk Rating</i>
To Project Development Objective		
<ul style="list-style-type: none"> Society's operations and targeting of the poorest are subject to political interference 	(i) The Society will have adequate autonomy and would maintain an independent Executive Committee, a competent Project Director and supporting staff to ensure professionalism; (ii) continuous monitoring of the status of compliance of the agreed rules of the business between the Society and IDA; and (iii) well defined criteria and a transparent process for selection of clusters and target families.	S
<ul style="list-style-type: none"> The project teams are not committed to the CDD principles of devolution of decision making powers to the communities 	(i) Intensive IEC campaigns on CDD principles followed by capacity building and support to implement CDD approach; (ii) using exposure visits to best practices to build capacity and confidence of the staff; (iii) fund releases conditional on the principle of inclusion and transparency; (iv) 90 percent of resources flow to the organizations of the poor, and (v) information on widely accessible rural websites	M
To Component Results		
<ul style="list-style-type: none"> Vulnerable peoples' voice is not heard and their interests are sidelined in the VPRC 	(i) Participatory identification of the poor will be done to target the eligible beneficiaries; (ii) VPRC has representation from the different vulnerable groups e.g., tribals and disabled; and each habitation (an SHG woman from target poor).	S
<ul style="list-style-type: none"> EAGs are not able to select appropriate livelihood activity, negotiate and access adequate support, with no impact on incomes 	(i) Village Livelihood Plan will be developed to understand various opportunities, skills and resources; (ii) findings from the Resource Mapping and Opportunities study will be widely disseminated among the target poor and promoters of livelihoods for the communities; (iii) PFTs will provide adequate information and exposure to the community to negotiate and bargain with suppliers and private sector; and (iv) EAGs will be federated, wherever necessary to enhance their bargaining power.	M
<ul style="list-style-type: none"> PFTs at the cluster level do not have capacity to respond to the community needs and priorities 	(i) Selection of PFTs will be done on a competitive basis through a specialized agency; (ii) a well thought through Human Resource Development strategy has been included to build capacity and skills of PFTs; and (iii) the PFT's will be accountable to the DPMU and the Village Assembly.	S
<ul style="list-style-type: none"> VPRC and EAGs, may not be able to maintain the books of accounts for the project funds as per rules and requirements. 	(i) A clearly articulated strategy for facilitating and enabling book-keeping capacity building at the village level has been prepared; and (ii) PFTs will have designated staff with specific responsibilities in monitoring quality and accountability arrangements and providing support to the master trainers and book keepers.	S
<ul style="list-style-type: none"> Communities may not be able to mobilize funds for their contribution to livelihood activities 	(i) Project teams will actively facilitate networking of community groups with banks and other financial resources; and (ii) all project teams - state, district and cluster - include a person fully dedicated to microfinance and linkage with banks and other partners.	M
<ul style="list-style-type: none"> Fund releases to VPRC, VPs and EAGs may not be timely and could delay implementation 	(i) Simple and community friendly procedures in place and the project teams to be fully oriented to key steps involved in planning, appraising and transferring funds to the communities; (ii) up-front actions by DPMU and PFTs on supply side inputs (like directory of service providers, rate banks, technical expertise); and (iii) service standards have been agreed and will be monitored.	M

N - Negligible Risk; L - Low Risk; M - Medium Risk; S - Substantial Risk; and H - High Risk;

Overall Risk Rating: **Medium**

C.5 Credit Conditions and Covenants
Effectiveness - None

35. **Credit/Project Agreements:** The following are the main Credit Covenants:

Organization and Structure of the State Society and District Societies

(a) GoTN to ensure that the State Society shall be responsible for management and coordination of Project activities and shall maintain: (i) a General Body consisting of broad representation from all key stakeholders, including community, civil society and other outside members; (ii) an Executive Committee which shall include members from civil society and the corporate sector and shall meet and function in accordance with quorum and frequency as described in the Bylaws; (iii) State Project Management Unit (SPMU) and District Project Management Unit (DPMU) with staffing responsibilities as agreed with IDA; (iv) staff with skills, qualifications and experience, and in sufficient number, all as set out in the Project Implementation Plan (PIP); and (v) at all times a State Project Director (PD), appointed for a minimum of 3 years, on satisfactory terms of reference and with acceptable qualification and experience and in accordance with the State Society's Memorandum of Association.

Project Implementation and Management

(b) The State Society shall (i) implement the project in accordance with the PIP and Community Operational Manual (COM) as agreed with IDA; (ii) shall take necessary measures to ensure that District Societies carry out activities in accordance with the procedures, rules and principles as agreed and set forth in COM and in accordance with terms and conditions of the district Participatory Agreement and (iii) not amend or waive any provision of PIP or COM without IDA concurrence.

(c) The State Society shall prepare an annual plan and budget for implementing the Project for the financial year by January 31 of each year, starting from 2006 and finalize the Annual Plan by March 31 of each year.

(d) GoTN shall appoint by December 31, 2005, and thereafter maintain during the project implementation period, internal and external auditors, with qualifications and experience satisfactory and acceptable to IDA.

Village Grants

(e) The Society shall ensure that: (i) each District Society enters into a Financing Agreement with the beneficiaries in the form of model set forth in the COM; (ii) beneficiaries are selected in accordance with participatory identification of poor methodology; (iii) cause each District Society to release funds (including IDA Credit) to Village Poverty Reduction Committee (VPRC), Economic Activity Groups (EAGs) and Village Panchayats (VPs) participating in the project in a timely manner and in the form of grants to finance investments and activities on terms and conditions acceptable to IDA, and in accordance with rules, procedures and guidelines as agreed in the COM; and (iv) ensure that the funds transferred for subprojects would be used exclusively to finance goods, works and services in accordance with agreed subproject proposals, financing agreements and procedures specified in COM.

Support Organization Selection

(f) The State Society to ensure that Support Organizations (Non-Governmental Organizations (NGOs), Community Based Organizations (CBOs), Research Institutions, Micro Finance Institutions (MFIs), etc) are selected in accordance with criteria and procedures as agreed with IDA.

Social and Environmental Safeguards

(g) GoTN and State Society and District Societies shall ensure that the Project shall (i) be carried out in accordance with the agreed EMF (including cultural property plan and pest management plan); (ii) ensure that the environmental and social screening criteria are updated regularly and consistently applied; (iii) ensure that all subprojects are carried out in accordance with the policies of EMF; and (iv) implement the TDP as agreed with IDA, to ensure that the tribal population in Tamil Nadu benefit from the activities under the Project.

(h) In carrying out of the Project, each of the Society shall ensure that there would be no involuntary land acquisition under the projects, and the Project shall be implemented as far as reasonably possible on publicly owned land. Any acquisition of private land, if needed, would be through mutually agreed sales transactions or voluntary donation and in accordance with guidelines and procedures set forth in the PIP, including establishment of appropriate grievance redress mechanisms.

Project Monitoring

(i) The Society shall submit to IDA, six monthly progress reports giving status of project processes, financial and technical progress;

(j) The Society shall carry out a mid-term review of the achievement of the project objectives no later than December 31, 2008; and an impact evaluation of the project at the end of project implementation; and furnish the reports to IDA.

D. APPRAISAL SUMMARY

D.1 Economic and financial analyses

36. The project will provide direct benefits to the poor in the state by improving their livelihood strategies and increasing incomes. The project is expected to have both positive and negative fiscal impacts. The positive impacts include: (i) a more cost-effective approach to implementing anti-poverty program that would provide fiscal savings and allow the state to broaden its anti-poverty programs; (ii) the cost sharing principle would encourage both greater ownership and commitment of the beneficiaries and also rigorous evaluation and monitoring of implementation activities at the community level as well as changing the culture at the village level; (iii) support to strong and sustainable institutions of the poor which have greater decision making power, a voice to demand services and accountability; it will contribute to the strength and legitimacy of the Gram Sabha; and make the VP more responsive to the poor peoples' needs and aspirations; (iv) improved transparency, accountability and governance of the village institutions including VPs; and (v) generate incomes for the poor and lead to local economic growth that could potentially improve revenues at the local and state levels. The project would also lead to a wide array of social, institutional and economic benefits, mostly long term, that are

not easily quantifiable. Because of the inherent difficulties associated with the measurement of these benefits, no attempt will be made to quantify these benefits resulting from the project.

37. The costs would arise from GoTN's expenditure on counterpart funding. The total Government contribution for the project is US\$27 million for the 6 year period - approximately US\$5 million (Rs. 22.5 Crores) per year. For the current year (2005/06), this would be 0.24% of the total annual outlay of Rs. 9100 Crores, which would not have a major fiscal impact. This amount is additional to GoTN's substantial spending on women's empowerment and poverty reduction programs. GoTN's counterpart funding would finance recurrent costs, mostly salaries and allowances of the PFTs and Government staff at the SPMU and DPMUs. GoTN would bear only incremental cost for Government staff after project closure with no liability for all other contractual staff. Further, all recurrent expenditures for the subprojects will be met by the communities. But given that these expenditures would be on a demand driven basis they are expected to have high returns.

D.2 Technical

38. Support to economic activities will include grants to partially finance these activities and facilitate access to backward and forward linkages for successfully implementing the activities - both farm and non-farm. Only activities that are technically, financially, and managerially feasible (particular care would be given to ensure managerial feasibility), will be supported. Livelihood activities will be chosen based on key inputs identified under the opportunities assessment/mapping study that explores detailed value-chain analysis, appropriate technology and linkages with the corporate sector for turnkey support and buy-back arrangements; to ensure sustained and increased incomes from major identified activities. Of the 50 percent equity for the subprojects, EAGs will contribute 10 percent – at least 5% as an upfront cash contribution from their own savings, loans from SHGs and Federations and 5% as labour. However for the remaining 40 percent, the project will facilitate establishing strategic linkages with Banks, MFIs, Finance companies, and insurance agencies. The project will also enhance poor peoples' access to financial services, particularly savings, credit, and insurance.

39. The basis of support for economic activities would be investment proposals prepared by EAGs and with assistance from PFTs and other technical assistance support agencies, which will have expertise in finance and business development. PFTs would be responsible for institutional development of SHGs and EAGs, and for facilitating linkages with other institutions that provide backward and forward linkages (credit, insurance, material inputs, technology, training, processing, marketing, etc.) necessary for ensuring sustainability of economic activities supported. The project will work closely with NABARD and other major banks to ensure loans for economic activities either directly to EAGs or through SHGs and federations. National and Global best practices will be used for strengthening SHGs and EAGs and federating them at appropriate levels for economies of scale. Measurable indicators would be used to monitor the quality of services provided to the organizations supported, and their outcomes.

D.3 Fiduciary

Financial Management Issues

40. The financial management systems can be considered adequate to meet IDA's fiduciary requirements of OP/BP 10.02. The financial management framework envisages that initially the project will maintain accounts at SPMU and DPMUs using accounting software which is currently used at Women's Corporation called EX software. However, there will be a review of the system which will result either in strengthening of EX system or in procuring another suitable 'off the shelf' system, to be completed within six months of the effectiveness of the project. Manual accounts will be prepared at the

level below DPMU. The design of Chart of Accounts will allow project expenditures to be classified as per project components/activities and disbursement categories and prepare monthly/quarterly/annual reports required for project management at the state and district levels.

41. The Financial Management Manual (FMM) and COM along with the Financing Agreements to be entered into between the SPMU, DPMU and VPRC/EAG/VP on approval of investment proposals and village action plans would include detailed guidelines on the agreed financial management arrangements.

42. The main challenges to satisfactory financial management arrangements are the ability of newly-formed societies to develop accounting and reporting systems to handle significantly large sums of money and inadequate capacity at the newly formed village institutions to account and manage project funds. The financial management arrangements set in place have consequently focused on: (a) identifying the potential challenges in setting up efficient accounting and financial reporting mechanisms and putting in place an operational strategy for the same; and (b) ensuring that the project invests substantially in building the capacity of local communities in book keeping and accounting through trainings to office bearers and developing a cadre of para professional book keepers. Important lessons learnt from implementation experiences in other DPIPs/CDD projects have been incorporated into the design of the financial management system. The financial management arrangements would emphasize on providing local level transparency, social audit and self-accountability.

43. *Audit:* As per the statutory requirements of Tamil Nadu Societies Registration Act, a CA firm will be appointed as statutory auditors for the State and District Societies. The auditor will also provide a consolidated annual audit report for the project. The project may also be subject to audit by AG (Externally Aided Projects). The State and District Societies will also appoint internal auditor for the societies.

44. In addition to audit of the societies, the project will also need to ensure that village level activities financed under the project are subject to regular financial audits. The project will engage CA firms at the district level or at regional level, to conduct a six monthly audit of the VPRCs and VPs (the separate account for the project funds), and a one-time audit of the EAGs on completion of the subprojects.

45. The District Society will maintain an updated database of the audit reports received and take follow-up action on delayed or inadequate reports, audit observations, etc.

D.4 Social

46. The social capital, income opportunities and risk mitigating abilities of the target poor will be enhanced by the project. Under the project's participatory approach, the wide inclusion of all potential beneficiaries would be ensured through an information campaign designed to create awareness regarding the project's objectives, rules and guidelines, and how to access project benefits. The project also includes incentives and rewards (such as the Village Panchayat Incentive Fund) for the VPs to include target poor in project benefits, thereby strengthening responsiveness and accountability to the community. During preparation, consultations were held with community groups, representatives of VPs and SHGs, both state- and district-level functionaries of various line departments, members of the academia, research institutions and a number of NGOs. The project has developed a comprehensive approach to addressing needs of the vulnerable including the disabled. The project has a gender strategy focusing on mainstreaming gender concerns in the project including institutional development, economic activities, project management and monitoring and learning.

D.5 Environment

47. The project is classified as category B. No significant impacts are perceived on any critical ecosystems or culturally or socially sensitive areas. GoTN had carried out an Environmental Assessment (EA) of possible activities that could be proposed by the EAGs. Considering the demand-driven nature of this project, specific village investments cannot be identified during preparation. As part of the EA, an Environmental Management Framework (EMF) has been developed, which will serve as a template for ensuring that village investments are conducted in an environmentally sound manner. The EMF identifies: (i) tools for screening of activities at the village level, including a negative list that would be excluded from project funding; (ii) guidelines for mitigating adverse environmental impacts associated with sub-project activities; (iii) organizational structure and procedures for implementation of the EMF at all levels (village, district and state); and (iv) capacity building to ensure effective implementation of the EMF at various levels. All village investments will be subject to environmental screening based on the tools as identified in the EMF and referenced in the COM. A pest management plan and cultural property plan have also been developed as part of the EA.

D.6 Safeguard policies

48. Indigenous People (OD 4.20): The project has developed a comprehensive TDP to ensure that the Tribal community, which is very poor and disadvantaged in the state, not only participates in the project but also derives sustainable social and economic benefits from project interventions.

49. Involuntary Resettlement (OP/BP 4.12): Very little land will be required for creating small productive infrastructure and this will be on public land donated by the VP. The project will ensure that there would be no involuntary land acquisition. Any private land needed for the project would be acquired through outright purchase at market rates or through voluntary donation and in accordance with guidelines and procedures set forth in the PIP and COM. Subprojects wherein involuntary resettlement is likely to occur would be disallowed.

<i>Safeguard Policies Triggered by the Project</i>	<i>Yes</i>	<i>No</i>
<u>Environmental Assessment (OP/BP/GP 4.01)</u>	[Y]	[]
<u>Natural Habitats (OP/BP 4.04)</u>	[]	[N]
<u>Pest Management (OP 4.09)</u>	[Y]	[]
<u>Cultural Property (OPN 11.03, being revised as OP 4.11)</u>	[Y]	[]
<u>Involuntary Resettlement (OP/BP 4.12)</u>	[]	[N]
<u>Indigenous Peoples (OD 4.20, being revised as OP 4.10)</u>	[Y]	[]
<u>Forests (OP/BP 4.36)</u>	[]	[N]
<u>Safety of Dams (OP/BP 4.37)</u>	[]	[N]
<u>Projects in Disputed Areas (OP/BP/GP 7.60)*</u>	[]	[N]
<u>Projects on International Waterways (OP/BP/GP 7.50)</u>	[]	[N]

D.7 Policy Exceptions and Readiness

50. The project complies with all applicable Bank policies and there are no policy exceptions requiring management approval.

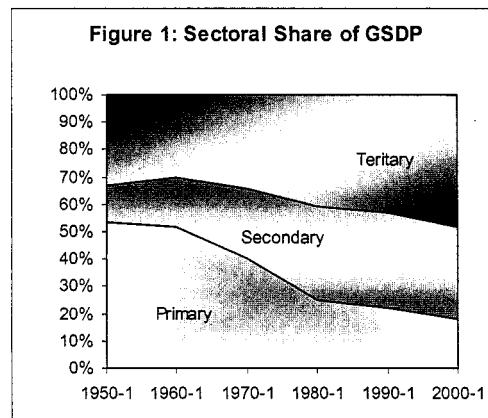
* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

51. The project is well advanced, and will be ready for implementation prior to effectiveness:
- The PIP and COM detailing project activities, processes, time schedule for implementing various activities, rules and guidelines for transferring funds to various community organizations, fund flow arrangements, have been finalized and agreed with GoTN;
 - Institutional arrangements for project implementation have been agreed and many of the key operational and financial staff needed are already in place. Agreement on remaining staff recruitment at the field and district level and their roles and responsibilities has been agreed with GOTN (see Annex 6);
 - The financing for the project is available; and GoTN has allocated Rs. 380 million (US\$8.4 million) for the project in the Annual Outlay of 2005/06;
 - Fiduciary (financial management and procurement) arrangements have been agreed (see Annexes 7 and 8);
 - Safeguard requirements have been complied with (see Annex 10); and disclosure requirements have been met;
 - The procurement plan for first eighteen months has been finalized and rules and procedures for community procurement have been agreed and incorporated in the COM; and
 - A participatory monitoring, evaluation and learning system is being put in place and will be ready for testing in the pilots supported by the Japan Social Development Fund (JSDF) pilot by July 2005.

Annex 1: Country and Sector Background

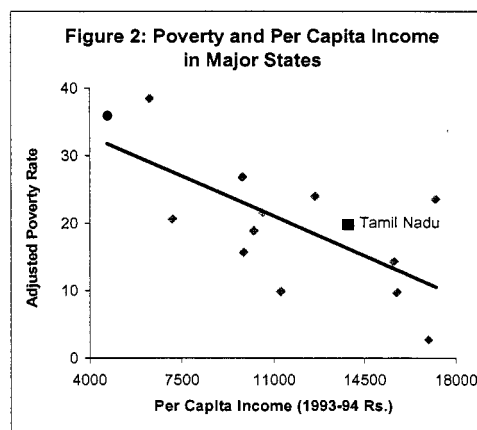
Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project

1. Tamil Nadu is the seventh largest State in India and has a population of 62 million. It is one of the better off states in the country in terms of per capita income and economic growth. The GSDP growth rate was 6.3 percent during the nineties, ahead of the all India average of 6.1 percent. It is also one of the most industrialized States, ranking only next to Maharashtra in terms of the manufacturing sector's contribution to GSDP. The share of the primary sector in GSDP has declined over the decades, and is currently just under 18 percent (Figure 1). Real growth rates in industry and services have been impressive over the 1990s, even as agriculture has recorded growth rates of only about 3.3 percent annually. Tamil Nadu's performance with respect to human and social indicators is better than many other states in India.



2. The States' composite HDI has improved in rank to third in India in 2001. Indicators of health and education also compare favorably with other Southern States. In general, the State has been successful in its overall efforts to address poverty, and the proportion of those living below poverty line fell from over 30 percent in 1993-94 to 19.6 percent in 1999-2000. However, in spite of these impressive results, poverty remains pervasive. Tamil Nadu is still the 8th poorest among the fourteen major Indian States, with more than 12 million of its citizens living in poverty.

3. Inequality in Tamil Nadu is higher than all-India averages as per the latest Gini estimates for 1999-00, and is in fact, the highest among the fourteen major states. This uneven improvement in the quality of life has left a large section of the population (SCs, STs, backward minorities, women) that has consistently failed to benefit from the economic and social development that the State has achieved. However, the poverty rate in Tamil Nadu is somewhat higher than warranted by its level of per capita income when judged against the income-poverty relationship for the fourteen major states (Figure 2). Poverty is particularly pervasive in rural areas. Death, birth, infant mortality and illiteracy rates are all higher in rural areas. Under and malnutrition are persistent phenomena, with 52.1 percent of children under five being underweight (compared to 37 percent in urban areas) and half of all pregnant women being anemic. The rural poor also lack basic services with a high proportion without sanitary infrastructure, sound housing and reasonable access to potable water.



Poverty rates from Deaton and Dreze (2002).

4. Another major vulnerable group is the disabled population. According to the 2001 census, Tamil Nadu has a disabled population of over 1.6 million, of which 0.9 million is in rural areas. Tamil Nadu is among the four states with the highest disability prevalence of over 2.6% of the population. An indicator of high level of poverty among the disabled is the higher proportion of agricultural laborers among the rural disabled – 45 percent compared to 31 percent in the total population.

5. Major causes of poverty among a large proportion of population in rural Tamil Nadu appear to be lack of productive assets, low productivity of assets, inadequate skills needed to allow entry into high-wage market, and lack of access to good markets for their products. Inadequacy of skills for entry into high-wage market (mostly non-agriculture) is particularly an issue for the educated youth. Lack of access to good markets is a critical issue for artisans and occupational groups like weavers, fishermen, and collectors of items like medicinal plants and honey. According to the 2001 census, there are 8.6 million individuals who report their primary occupation as agricultural workers. A significant proportion of these individuals are also likely to be landless. A large proportion of the area under cultivation (2.4 million hectares out of 5.3 million) is not irrigated, thereby making many of the small and marginal landholders, also vulnerable to poverty despite their ownership of land. Other important sectoral issues affecting the rural areas of the State are discussed below.

- **Economic opportunities are limited and vulnerability is high:** The most important sources of income for the rural poor are agriculture and agriculture related activities. However, as most of the rural poor are landless and marginal farmers (44 percent of the rural population), their incomes are generally susceptible to variation in the demand for agriculture wage labor. The overall stagnation of agriculture production, and its vulnerability to frequent droughts and floods, exacerbates income instability. This seasonal dependency on agriculture, and the sector's associated vulnerability to naturally occurring phenomena, is also reflected in the state's underemployment rates, which have trebled in the last decade. The increased vulnerability among the rural poor may also be associated with rural-to-urban migration patterns, particularly in the Northern region.
- **Real empowerment has not been achieved:** Exclusion based on gender, caste and ethnicity is one of the particularities of the poverty scenario in Tamil Nadu, influencing decision making at the household, village and local government level, as well as access to many development opportunities. Educational indicators for females are inferior to that of males and the differential is higher in rural areas and among the poor. Around 15 percent of the households in the state are headed by women, and females in Tamil Nadu are more likely to be involved in agricultural labour than other occupational choices. Female infanticide and foeticide are high, and sex ratios are skewed in favor of males-particularly in rural areas. Salem district in Tamil Nadu recorded the lowest juvenile sex ratio in the country at 849 in 1991. The overall sex ratio, which was decreasing until 1991, has increased since that time (2 percent, from 974 in 1991 to 986 in 2001).
- **Local governments are weak:** Despite the commitment to decentralization expressed by GoTN in the Tamil Nadu Panchayats Act, 1994, existing programs have in general by-passed the local elected governments - Panchayati Raj Institutions (PRIs), which have not yet been fiscally or administratively empowered to deliver services to the poor. In addition, there are still some barriers to the development of strong and inclusive PRIs. The most relevant of these barriers, as indicated in a study of rural decentralization recently completed are: (i) lack of capacity and resources with Panchayats for management and delivery of public services, (ii) social discrimination reducing the ability of vulnerable people (and particularly women) to influence the functioning of PRIs and the line departments, and (iii) lack of sensitization and incentives for the PRIs to function in a pro-poor and inclusive manner.
- **Risks faced by the poor have not been addressed:** Rural poor in the state are subject to a variety of risk factors which limits their ability to escape from poverty. The Social Assessment cum Livelihoods Analysis has shown that the risks with more devastating effects in the economy of the rural household are (i) agriculture related risks - affecting income from both production and wage labor opportunities, (ii) disability, and (iii) health and death events.

Rural poverty programs are not effective: The State allocates 30 percent of its planned budget to social welfare and rural development programs seeking to assist vulnerable people. Although this is an indication of the commitment of the government to poverty reduction, the impacts of these programs are not so clear. Key issues limiting the effectiveness of these programs include: (i) proliferation of schemes, (ii) uncoordinated sectoral approach, (iii) poor governance and transparency, (iv) poor targeting and (v) limited incentives to government staff to address the needs of the real poor (tied funds, supply driven investments, complex procedures, dubious sustainability of benefits, no client accountability).

Government Strategy and Reform Program

6. The salient features of the Tamil Nadu Government's rural poverty reduction efforts are described in the Tenth Five Year Plan and the recently completed Human Development Report. Priorities can be summarized as follows:

- **Increasing livelihood opportunities and access to economic activities** by promoting new chances for employment in the fast growing manufacturing and service sectors, and at least one agro-industry activity in each block to strengthen employment in the non farm sector and improve value addition in the farming sector. This would be done by vocational training programs, development of micro and meso enterprises, and enhancement of linkages with credits and markets. Tamil Nadu intends to reduce unemployment to 6 percent by 2007.
- **Consolidating gains in empowerment of women and grassroots institutions** includes an increased awareness of the need to address (together with economic empowerment), the social and democratic dimensions of empowerment as other key elements for poverty reduction. The government strategy for empowerment recognizes the importance of collective action and the formation of local organizations of the poor (and particularly self help organizations). These are regarded as a means of providing the poor and vulnerable with opportunities to participate in the decision making process about governance and resource allocation, and as a mechanism to address inequality and discrimination.
- **Mainstreaming gender into development programs** and promoting a gender sensitive poverty strategy aims to improve the attitude of present institutions to make them pro-women, especially towards the needs of very poor women. GoTN's strategy also aims at combining the efforts in increasing livelihood opportunities with strengthening services on welfare, health care, nutrition, child welfare and literacy.
- **Strengthening local organizations and panchayat level institutions** to make them more responsive to the needs of the poor. GoTN's strategy seeks to enhance the planning, public administration and overall management capacity of the PRIs for a more effective delivery of services to the rural poor. In addition, the strategy re-emphasizes its support to the formation of SHGs and federation of SHGs and their democratic empowerment as organizations of poor people that provide micro finance and other services demanded by their members and as a means of building accountability of local governments and making them more efficient and responsive to the needs of the poor.
- **Renewing the emphasis on human resource development** with a more targeted and efficient public distribution system to reduce food vulnerability, a strengthened Integrated Child Development Services (ICDS) program, and an expanded group of para professionals at the village level to improve the delivery of key services. The state is in the process of formulating a

new health policy to encourage private sector participation and ensure quality and affordable health services. In addition, and by the end of the Tenth Plan Period, the states' overall goal aims at declaring Tamil Nadu malnutrition free, increasing literacy rate to 75 percent, reducing gender gaps in literacy rates by 50 percent and universalizing elementary education.

- **Encouraging partnerships** particularly with financial institutions and NGOs to reach the rural poor more effectively.
- **Revitalizing efforts to target the most vulnerable** envisages a more effective targeting, not only in the formation of local organizations, but also in the areas, regions and social groups that need this support the most. In addition, GoTN's strategy considers that this targeting should not necessarily exclude those poor not falling in the poorest of the poor category, but other vulnerable members of the society as well.

Sector issues to be addressed by the project and strategic choices

7. The GoTN requested IDA's assistance for a project to improve the livelihood and the quality of life of the rural poor in the state through economic and social empowerment. To achieve this, the project would focus on building and consolidating the individual and collective assets of the poor. The project would also focus on improving the efficiency and fairness of the organizational context which enable the use of these assets by the poor and vulnerable. This framework, and the overall project design has been, developed from the following strategic choices:

- First, from the need to adopt an integrated livelihood approach, emphasizing the synergistic and complementary nature of the economic, social and human dimensions of poverty. These relationships become critical in the context of Tamil Nadu, where social disparities and exclusion by caste, gender and ethnic groups is a dominant feature of the poverty scenario. The project would therefore focus on vulnerable people who are disadvantaged socially and economically.
- Second, from the recognition of collective action and self-organization of vulnerable people as an important mechanism to enhance their bargaining position. Together with Andhra Pradesh, Tamil Nadu has taken a lead in India in pioneering and developing women's SHGs, which have proven to be an effective strategic principle for improving rural incomes. Currently, there are nearly 200,000 SHGs in the State that have savings of over US\$121 million equivalent. The project would assist in the formation of new groups, strengthen existing ones, and organize them into federations.
- Third, from acknowledging the critical role that PRIs can play as the primary organization for delivering services to the rural poor.
- Fourth, and based in the multidimensional nature of poverty, the need to achieve a better convergence among organizations, PRIs and public and private sector service providers in the areas of rural development, social welfare and human development.
- Fifth, from recognizing the importance of maintaining a healthy microfinance system, and the need to design project activities (particularly support for income generation) in a way that creates synergy with existing micro finance initiatives. The project would support activities to strengthen linkages between SHGs and financial institutions and alternative means for EAGs to access required credit and insurance.

- Sixth, from the need to promote linkages with civil society and civil society organizations. The GoTN long ago recognized the limitations of operating solely within the public sector, and has built partnerships with more than 350 NGOs and private sector providers to act as facilitators with community groups and Panchayats. Following the principles of empowerment, vulnerable people and local governments would have a choice to seek support from NGOs, government, the private sector or any other civil society organization, either through contracting or otherwise availing the services of these facilitators directly. These facilitating agents would help organize and mobilize the poor to take collective action, and collaborate in planning and capacity building efforts. This strategic choice is expected to introduce flexibility and diversity, be more responsive to the needs of the poor, and work holistically in a site specific manner. The project would assist in improving the guidelines and processes for selecting, monitoring and expanding these partnership arrangements.

**Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project**

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-Financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank Financed			
Poverty Reduction	Andhra Pradesh District Poverty Initiatives project (Cr.3430-IN)	S	S
	Rajasthan District Poverty Initiatives Project (Cr.3339-IN)	S	S
	Madhya Pradesh District Poverty Initiatives project (Cr.3430-IN)	S	S
	Chhattisgarh District Poverty Initiative Project (Cr.3749-IN)	S	S
	Andhra Pradesh Rural Poverty Reduction Project (Cr.3732-IN)	S	S
	Sri Lanka Community Development and Livelihood project (HO780-LK)	S	S
Social and Gender Specific programs	Rural Women’s Development and Empowerment Project (Cr.2942-IN)	S	S
Other Development Agencies			
DFID	Rural Livelihoods Programs in Andhra Pradesh, Madhya Pradesh, Orissa, West Bengal, Chattisgarh, Gujarat, Himachal Pradesh, Karnataka and Rajasthan		
IFAD	Orissa Tribal Empowerment and Livelihoods Programme Jharkhand-Chattisgarh Tribal Development Programme Livelihood Improvement Project in the Himalayas		

Annex 3: Results Framework and Monitoring
Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhu” Project

Project Development Objective	Outcome Indicators	Use of Outcome Information
Improved livelihoods and empowerment of the poor, ultra poor and vulnerable	<ul style="list-style-type: none"> • At least 20% increase in incremental income against base year for 50% of the target households by end of project (EOP) • At least 70% target households have increased their incomes • At least 80% of the CBOs (VPRCs, EAGs, VPs and Federations) have accessed and managed project funds according to rules and procedures 	
Intermediate results one per component	Results indicators for each component	Use of Results Monitoring
<p>Component One: Village Livelihoods Program</p> <p>Inclusive and self reliant institutions of the poor created and accountable for planning, mobilizing resources, implementing and managing productive investments</p>	<p>Component One</p> <p><u>Inclusion</u></p> <ul style="list-style-type: none"> • At least 70% of the identified vulnerable population e.g., disabled and tribals are organized into SHGs and have accessed special assistance funds • At least in 90% of CBOs poor/ ultra poor women are occupying decision making positions in VPRC and EAGs <p><u>Self Reliance</u></p> <ul style="list-style-type: none"> • At least 70% of SHGs are members of federations whose performance is independently rated as good in a classification of good, average and poor. • At least 50% VPs having 5 para professionals identified, trained and offering services • At least 70% of the SHGs/EAGs of the poor have accessed funds through linkage with banks and other financial resources • At least 15 % of cluster based EAGs are federated and functioning as business enterprises and are financially viable. 	<p>Component One</p> <p>Indication of lack of understanding of project principles and rules, ineffective IEC and capacity building strategies.</p> <p>Need for greater support, more appropriate trainings and capacity building programs</p> <p>Necessary to understand the constraints being faced and conditions necessary for groups to federate</p> <p>Failure to establish the credibility of community organizations with the Bankers</p> <p>Indication on lack of clarity on subproject processing standards and guidelines, technical assistance for sub project identification not adequate, no value addition during</p>

Intermediate results one per component	Results indicators for each component	Use of Results Monitoring
	<p><u>Accountability</u></p> <ul style="list-style-type: none"> • At least 70% of all VPRCs consistently get satisfactory performance scores in report card • At least 30% of the total VPs have accessed both tranches of incentive fund. 	<p>appraisal and ineffective planning and linkages</p>
<p>District and State Support to the Village Livelihood Program Project Teams at various levels – State, District, Cluster; other service providers and private sector working with target poor are responsive to the poor and have capacities to promote CDD</p>	<ul style="list-style-type: none"> • At least 70% of VPRCs and EAGs receive support for livelihood plans in accordance with agreed service standards conducted through Report Card • At least 70% of EAGs working in partnership with private sector organizations or other institutions 	<p>Inadequate capacity and ineffective functioning of the community, cluster, district and SPMUs and service providers</p> <p>Lack of skills and knowledge to engage and establish linkages</p>
<p>Project Management The Project is well managed and coordinated at the State, District and Cluster levels</p>	<ul style="list-style-type: none"> • At least 70% of State and DPMUs, and PFTs receive positive scores through community/report scorecards • At least 4 annual COM revisions based on feedback and learning from the field, independent reviews and Supervision Missions 	<p>Measuring progress against the indicated results and developing suitable strategies and initiatives to achieve the desired results.</p>

Arrangements for Results Monitoring

<i>S.No</i>	<i>Outcome Indicators (Related to PDO)</i>	<i>Baseline</i>	<i>Target Values</i>					<i>Data Collection and Reporting</i>		
			<i>Year-I (End)</i>	<i>Year-II (End)</i>	<i>Year-III (End)</i>	<i>Year-IV (End)</i>	<i>Year-V (EOP)</i>	<i>Frequency and Reports</i>	<i>Data Collection Instruments</i>	<i>Responsibility for Data Collection</i>
1.	At least 20% increase in incremental income against base year for 50% of the target households by end of project	To be included after the baseline survey is completed	0%	0%	20%	40%	50%	Twice – Mid-term and EOP	Impact Evaluation – HH survey and PRA	External
2.	At least 70% target households have increased their incomes		0%	0%	40%	50%	70%	Twice – Mid-term and EOP	Impact Evaluation – HH survey and PRA	External
3.	At least 80% of the CBOs (VPRCs, EAGs, VPs and Federations) have accessed and managed project funds according to rules and procedures		10%	30%	50%	70%	80%	EOP		External

S. No.	Results Indicators for each Component	Baseline	Target Values					Data Collection and Reporting		
			Year-I (End)	Year-II (End)	Year-III (End)	Year-IV (End)	Year-V (EOP)	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
(1)	At least 70% of the identified vulnerable population e.g., disabled and tribals are organized into SHGs and have accessed special assistance funds		0%	30%	50%	60%	70%	Monthly	MIS	M&L staff at district and state level
(2)	At least in 90% of CBOs poor/ ultra poor women are occupying decision making positions in VPRC and EAGs		50%	75%	90%	90%	90%	Monthly Six monthly	MIS Process Monitoring Thematic study	M&L staff at district and state level External agency
(3)	At least 70% of SHGs are members of federations whose performance is independently rated as good in a classification of good, average and poor.		0%	0%	20%	50%	70%	Monthly/ Quarterly Twice -- Mid-term & EOP	MIS Impact Evaluation	M&L unit district & state External
(4)	At least 50% VPs having 7 para professionals identified, trained and offering services		25%	40%	50%	50%	50%	Annual Once/ Twice	Performance Appraisal Institutional performance indicators MIS Thematic study	M&L unit district & state PFT External

S. No.	Results Indicators for each Component	Baseline	Target Values					Data Collection and Reporting			Responsibility for Data Collection
			Year-I (End)	Year-II (End)	Year-III (End)	Year-IV (End)	Year-V (EOP)	Frequency and Reports	Data Collection Instruments		
(5)	At least 15 % of cluster based EAGs are federated and functioning as business enterprisces and are financially viable		0%	0%	5%	10%	15%	Twice Mid-Term and EOP	<ul style="list-style-type: none"> MTR and Impact Evaluation 	<ul style="list-style-type: none"> External 	
(6)	At least 70% of the SHGs/EAGs of the poor have accessed funds through linkage with banks and other financial resources		10%	30%	50%	60%	70%	Quarterly	<ul style="list-style-type: none"> MIS 	<ul style="list-style-type: none"> M&L unit district & state 	
(7)	At least 70% of all VPRCs consistently get satisfactory performance scores in report card		0%	0%	30%	50%	70%	Quarterly	<ul style="list-style-type: none"> FMS/MIS 	<ul style="list-style-type: none"> M&L unit district & state 	
(8)	At least 30% of the total VPs have accessed both tranches of incentive fund		0%	0%	10%	20%	30%	<ul style="list-style-type: none"> Quarterly Monthly 	<ul style="list-style-type: none"> MIS 	<ul style="list-style-type: none"> M&L unit district & state 	

S. No.	Results Indicators for each Component	Baseline	Target Values					Data Collection and Reporting					
			Year-I (End)	Year-II (End)	Year-III (End)	Year-IV (End)	Year-V (EOP)	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection			
B													
(1)	At least 70% of VPRCs and EAGs receive support for livelihood plans in accordance with agreed service standards conducted through Report Card		0%	25%	50%	60%	70%	Quarterly	Performance Appraisal	<ul style="list-style-type: none"> ▪ M&L unit district and state 			
(2)	At least 70% of EAGs working in partnership with private sector organizations or other		0%	25%	50%	60%	70%	Quarterly	MIS	<ul style="list-style-type: none"> ▪ M&L unit district and state 			
C													
(1)	At least 70% of State and DPMUs, and PFTs receive positive scores through community/report scorecards		10%	20%	30%	50%	70%	Annual	Performance Appraisal	<ul style="list-style-type: none"> ▪ M&L unit district and state 			
(2)	At least 4 annual COM revisions based on feedback and learning from the field, independent reviews, and supervision missions		0	1	2	3	4	Annual	Process Monitoring	<ul style="list-style-type: none"> ▪ M&L unit district and state 			

Annex 4: Detailed Project Description

Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project

Project Area

1. The Project would be implemented in about 2300 Village Panchayats in 70 blocks of 15 districts (of a total of 29 districts). Basic information on the project districts is given in Table 1. The first phase districts are Theni, Tiruvarur, Vellore, Salem, Namakkal, Tiruvannamalai and Coimbatore.

Table 1: Basic Information on the 15 Project Districts

<i>No.</i>	<i>Districts</i>	<i>Selected Blocks</i>	<i>No. of Panchayats in the blocks</i>	<i>No. of Villages</i>	<i>No. of Families (total)</i>	<i>Total Population</i>
1.	Coimbatore	5	102	290	131804	458751
2.	Cuddalore	4	207	761	115844	493083
3.	Kancheepurum	4	186	1097	87689	479352
4.	Nagapattinam	5	187	1224	109980	481611
5.	Namakkal	6	114	1006	130416	337989
6.	Ramnad	3	94	676	52687	199994
7.	Salem	6	140	1213	140489	512214
8.	Theni	4	80	538	100671	494943
9.	Thiruvallur	5	182	782	87043	558385
10.	Thiruvannamalai	4	183	893	78531	369100
11.	Thiruvarur	4	159	702	87584	380107
12.	Tirunelveli	6	187	633	122354	465205
13.	Tuticorin	4	200	541	73384	330748
14.	Vellore	5	198	1004	141275	662037
15.	Villupurum	5	130	825	112497	453493
	Total	70	2300	12185	1572248	6677012

Target Population and Selection

2. The project will cover approximately 350,000 households and is expected to benefit about 1.75 million persons directly and about 6.6 million persons indirectly. The target poor include:

- Ultra poor and poor households
- Most vulnerable – destitute, widows, deserted women, aged, orphans
- Marginalized communities including Tribals, and
- Disabled

3. A two-stage selection process has been developed for selecting the blocks and then VPs. In the first stage, all the 385 blocks in the state were ranked in a descending order, with a combined weighted score, based on the following criteria:

Table 2: Criteria for Block Selection

<i>No.</i>	<i>Selection Criteria</i>	<i>Weight</i>
1.	percent population Below Poverty Line (BPL)	0.5
2.	Weaker Sections – SC and ST population	0.5

4. To target the poorest and the most vulnerable areas, the districts with at least three of the most backward 150 blocks, were identified for project implementation. For project interventions, the number of blocks in a district will be limited to five and the number of VPs to a maximum of 225 per district. All VPs in the selected blocks will be eligible for participation. In the second stage, a self-selection process based on willingness criteria will be adopted by the eligible VPs. The willingness criteria basically reflect the VPs acceptance and agreement to follow project rules, processes and non-negotiable principles of inclusion, equity, participation, transparency, accountability and facilitating style (Box 1 provides the details). VPs that are agreeable to the willingness criteria and have a Gram Sabha resolution to this effect would apply for the project and be included.

BOX 1. "NON-NEGOTIABLE" PRINCIPLES OF THE PROJECT

The project staff, the facilitating teams and the community will adhere to the following "non-negotiable" principles of the project:

1. **Inclusion** – Inclusion of the poorest and poor women, and disadvantaged sections of the community (disabled, widows, destitute and other vulnerable) will be the key guiding principle of the project. 90% of the project benefits will flow to poor women and the disadvantaged sections of the community.
2. **Equity** – Women will play a determining role in all community organizations promoted and in decision-making processes related to project activities and funds.
3. **Participation** - All project activities and programmatic decisions of the project at the village shall be based on participatory processes involving all primary stakeholders and representation of at least 60% of the target poor.
4. **Transparency** – All project decisions will be made in a transparent manner and the project will ensure that all project information, details of funds and benefits is available to all stakeholders.
5. **Accountability** – Village institutions and project teams will be accountable to the community and will ensure display of information, beneficiary lists and funds disbursed in public places.
6. **Facilitating Style** – The project shall have faith in the capacity of the poor to undertake, control and decide on all the activities of the project. The project teams, resource organizations and support staff will adopt an enabling style so as to ensure self help and transfer of control to the community.

5. Within the selected VPs, the project will focus on the target poor. Beneficiaries will be identified using participatory identification of the poor method and specific tools such as social mapping and wealth ranking will be used to prepare the list of target poor. The Below Poverty Line (BPL) list of 1999 prepared by the Rural Development Department, GoTN, will be used as a reference list. The list of target poor will be approved by the Gram Sabha and displayed in public places in the village.

6. The budget envelope for a VP would be based on the total target poor in the VP by a weighted average of total population, and ST population. The allocation will be adjusted for Tribal population as the allocation for STs will be 50 percent more than that for the poor.

Project Phasing

7. The overall coverage of the blocks and VPs would depend on the capacity of SPMU and DPMU to field and orient PFTs and be ready with the start up activities. The 15 selected districts would be

initiated into the project in 2 phases of 7 and 8 districts with a gap of 6 months and in four phased but overlapping batches. The first batch would constitute 480 VPs from 15 blocks of the first 7 districts. The second batch would consist of 480 VPs from 15 blocks from 8 districts. The third and fourth batches consisting of 20 blocks and 670 VPs each, would be inducted into the project by the end of twelve months and fifteen months, respectively. This however, is a tentative scheduling and actual implementation will be based on an evaluation of implementation performance of the district teams and PFTs, and progress made towards meeting the key agreed targets in the 30 blocks during the first two phases. Depending upon the performance, capacity and speed of the project teams in reaching out to VPs and meeting targets, the time-table for start-up of the subsequent batches (third and fourth) in the remaining 40 blocks, would be determined. Tentatively, the first batch would begin by July 31, 2005 and the fourth batch would begin by October 31, 2006. The summary of the general phasing of the project VPs would be as shown in Table 3.

Table 3: Overall phasing of project districts, blocks and VPs

Batch No	No. of Districts	No. of Blocks	No. of VPs	2005		2006				2007				2008				2009				2010			
				3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
I	7	15	480	480																					
				[Hatched]																					
								[Horizontal Lines]																	
												[Solid Black]													
II	8	15	480					480																	
								[Hatched]																	
												[Horizontal Lines]													
																[Solid Black]									
III	15	50	670					670																	
								[Hatched]																	
												[Horizontal Lines]													
																[Solid Black]									
IV	15	70	670									670													
												[Hatched]													
																[Horizontal Lines]									
																				[Solid Black]					
Total	15	70	2,300	Initiation Phase				Capacity Building Phase				Livelihoods Implementation Phase				Consolidation Phase									

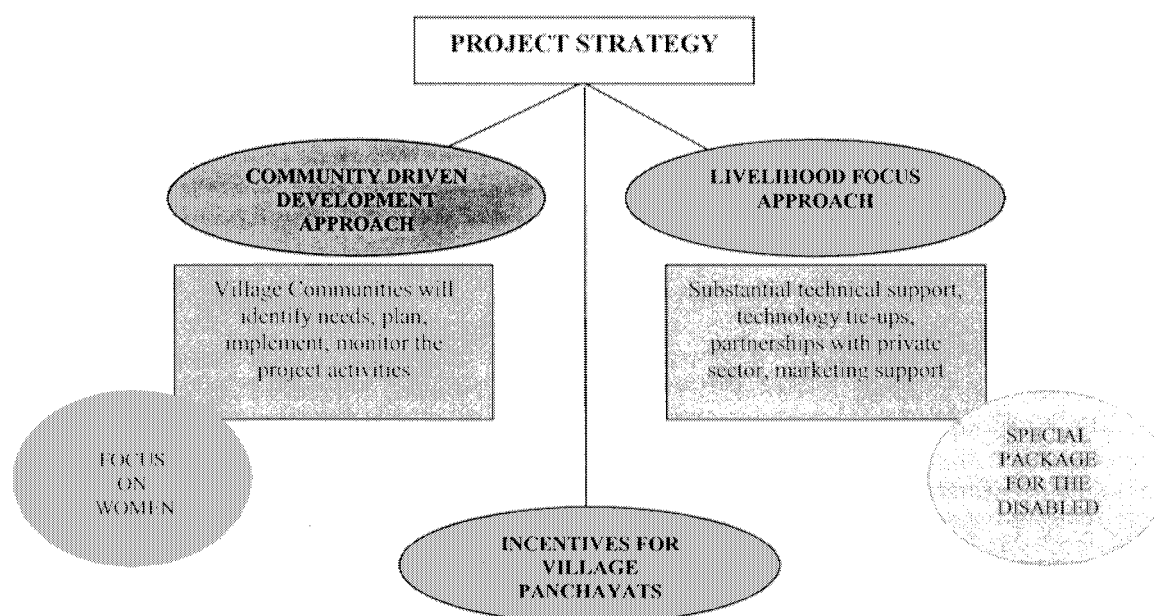
8. The first batch of blocks would be identified based on their ranks in the stage one selection process reflecting the poverty ratios and SC and ST population percentages. The project would conduct block level campaigns on project principles in all the identified blocks. The VPs would apply to the DPMU for inclusion in the project, and would be selected if they satisfy willingness criteria. The willingness criteria would include VPs submitting along with their application a resolution of the Gram Sabha attended by representatives from at least 50 percent of the households (out of which at least 50 percent should be women) agreeing to adopt project principles, rules and “non-negotiable” principles. In case the number of applications is more than what could be accommodated in the first batch, VPs would be ranked based on poverty ratio and population of SCs and STs.

Project Strategy

9. The project aims to achieve its objective of poverty reduction and empowerment through three strategic interventions (Figure 1).

- (i). *Community Driven Development Approach (CDD)*: The project will follow the CDD approach wherein village communities will identify their own needs, design and plan interventions, and implement and monitor them. The key non-negotiable principles that the process will adopt are equity, inclusion, transparency, accountability, participation and facilitation. The project will have a special focus on women and the disabled.
- (ii). *Livelihoods Focus*: Village communities will be introduced to new income generating opportunities, provided substantial technical and financial assistance so as to improve the productivity of existing skills, assets and businesses, and reduce vulnerability. Partnerships and tie-ups with private sector, research institutes and other agencies will be established to provide technical know-how, product development and market linkages. Access to savings, credit, and insurance services would also be strengthened to help build financial assets and mitigate risks.
- (iii). *Providing VP Incentives for Pro-poor Governance*: VPs will be involved in the project processes and will be provided incentives to (a) improve their governance by becoming transparent and accountable to their community members; (b) respond to the needs of the poor by effective identification of the poor and vulnerable; and (c) provide support to the VPRC for it to implement the VPRC fund efficiently and in accordance with the agreed rules and procedures.

Figure 1: Three Strategic Interventions



Project Components

10. The project will include the following components: (A) Village Livelihood Program; (B) District and State Support to Village Livelihood Program; and (C) Project Management. Detailed descriptions of project components and sub-components, guidelines for sub-components, implementation arrangements,

and component-wise outcome monitoring indicators have been elaborated in the PIP. A brief description is provided below.

11. **Component A: Village Livelihood Program (US\$ 142.5 million).** The Village Livelihood Program is the largest component (90% of total) and will have two sub-components: (i) Formation and Strengthening of Village Institutions; and (ii) Village Fund.

12. **A1: Formation and Strengthening of Village Institutions (US\$14.0 million):** The objective of this subcomponent is to support and develop inclusive, self-reliant, self-managed and sustainable community organizations and their federations for livelihoods improvement. This subcomponent will facilitate and support formation of *Village Poverty Reduction Committee (VPRC)*. The VPRC, which is the most important CBO responsible for project implementation at the village level, will bring together various stakeholders at that level. It would be an inclusive, representative and autonomous institution representing the target poor, the VP and other CBOs – SHGs and EAGs, of the target households. The VPRC will remain accountable to Gram Sabha and beneficiaries of the project.

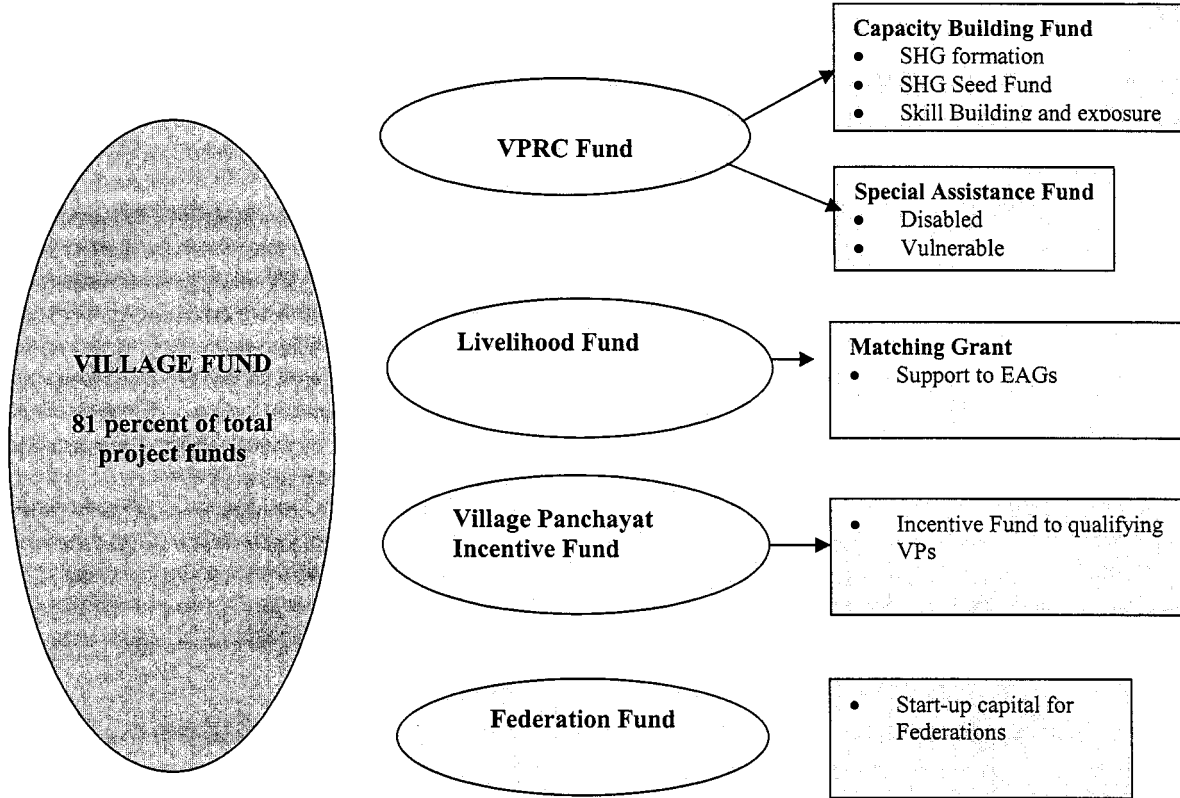
13. The *Village Assembly* will be the critical decision-making body at the village level. A quorum of at least two-third of the target households, with at least 50 percent women, would be necessary for all project related decision making at the Village Assembly. The PFT at the cluster level would be the key implementing agency for this sub-component and will be responsible for: (i) social mobilization, formation and strengthening of village institutions, and (ii) capacity building support to the VPRC and other CBOs of the poor in the village.

14. *Village Panchayat* will initially spearhead the implementation activities at the village level and the VPRCs would take over as and when they are formed and strengthened. The VP would enter into a Memorandum of Understanding (MoU) with DPMU and will be given an Initiation Fund of Rs. 25,000 to (i) commission various promotional and IEC campaigns to spread the messages of key project principles; (ii) undertake participatory identification of the poor; (iii) organize exposure visits for community leaders and members; and (iv) spearhead the formation of groups of the target poor. The VP would enlist the support of existing SHGs, SHG federations, and other CBOs in the village to undertake these activities. The VP will also facilitate the formation of the VPRC in the most inclusive manner possible as per project guidelines and hand over the project implementation responsibility to the VPRC. At the end of the start up phase, the VPs would submit a report on the activities undertaken. The VPs have a critical role in the initiation and continuation of project activities in the village. Demonstration of transparency and accountability by the VP in the utilization of the start up fund, effective dissemination of project principles and formation of the VPRC as per project principles, will be one of the requirements for the village to receive further project support.

15. Key outcomes of this sub-component are integration of the poor, the ultra poor, and the most vulnerable including the disabled into existing or new SHGs and EAGs, and increased participation of women in the decision making at the village level.

16. **A2. Village Fund (US\$128.5 million):** The objective of this sub-component is to enable the communities to prioritize, plan and manage their own funds and access resources for investment. The ultra poor, especially women and unemployed youth will be linked with potential productive investments capable of generating employment and income opportunities. Specialized program support will be provided for the disabled, destitute and vulnerable. As shown in Figure 2, 81 percent of the project funds

Figure 2: Direct Project Investment on Livelihoods



would be transferred directly to the communities and this sub-component will finance four main activities: (i) VPRC Fund, (ii) Livelihood Fund for productive livelihood business plans, (iii) Village Panchayat Incentive Fund, and (iv) Federation Fund. The Village Assembly will adopt rules and guidelines for utilizing the Village Fund based on the overall guidelines developed and included in the PIP and COM. The village community would have autonomy and flexibility in identifying and prioritizing the livelihood improvement needs and opportunities and allocating the funds to address these needs.

17. **A2 (i) VPRC Fund (US\$44.0 million)**: This sub-component will include those activities for which the VPRC would be directly responsible and the funds would be released to the VPRC. The key rules and guidelines for each of the sub-components of the VPRC Fund, the process, procedures and formats of the Financing Agreement are incorporated in PIP and COM. The overall objective of the VPRC Fund is to develop the VPRC as an inclusive, autonomous and accountable village institution that has the institutional and financial capacity to plan, facilitate, and monitor capacity-building of CBOs of the poor such as SHGs and EAGs, and support skill building and other activities to assist disabled and other highly vulnerable people in the village. Specifically, the Fund would enable VPRC to: (a) develop confidence, skills and capacity (management, financial, procurement, etc.) of the office bearers within the village to plan, implement and monitor the VPRC Fund; (b) make the local institutions (VPRC, VP, etc) accountable to the communities (such as Village Assembly and SAC); and (c) provide necessary information and exposure to the community members to develop economic activities for livelihood improvement. The key outcomes of this sub-component are (i) development of the skill base of the community to plan and manage their activities such that they earn additional income; (ii) increased ability of the community based institutions to raise and manage funds independently; and (iii) special assistance to

the identified vulnerable and disabled sections of the community. The VPRC funds would be utilized for the following:

18. **(a) Capacity Building Fund** – The main objectives of the Capacity Building Fund would be to (i) build skills of newly formed village institutions (VPRC and EAGs) in planning, implementing and managing village development and livelihood activities, (ii) empower the newly formed SHGs consisting of left out and marginalized poor women by improving their credit worthiness, and (iii) help the eligible community members, especially youth, acquire critical skills and competencies for gainful employment or starting a business.

19. To achieve the first objective, VPRC will focus on increasing the human resource competency by empowering the office bearers of the village institutions as well as community members to identify, appraise, implement and monitor the livelihood subprojects in an efficient, equitable and sustainable manner. The following activities would be eligible for funding: (i) launching thematic IEC activities focused on livelihoods; (ii) training and orienting office bearers of village institutions in participatory planning, budgeting, appraisal, procurement, implementation, and operation and maintenance aspects; (iii) providing technical support for the preparation of plans and proposals for implementing various sub components of the Village Fund including development of business plans for livelihood investments; (iv) organizing exposure visits and other demand driven capacity building activities; and (v) monitoring progress of village livelihood activities. The VPRC with the support of the PFT would identify capacity building needs for strengthening institutions and livelihoods, and incorporate the same in the Village Livelihood Plan.

20. To achieve the second objective, VPRC will provide *Seed Funds* to the newly formed SHGs consisting of left out and marginalized poor women in the form of one time grant of Rs. 10,000 to each SHG for improving their creditworthiness. These SHGs could then leverage institutional financing by linking up with local banks. The details of Seed Fund guidelines are given in the PIP and COM.

21. To achieve the third objective, VPRC will allocate some funds for *skill development* to help the eligible community members, especially youth, upgrade traditional skills and/or acquire critical skills such as financial accounting, business development, computer literacy etc. that can lead to gainful employment opportunities or starting a business. Community contribution for skill training for individuals would be 10 percent and 5 percent for groups. VPRC with the help of the PFT would identify participants for skill development training, which would be approved by the Village Assembly. The training would be imparted under the overall monitoring of VPRC and the trained members would be helped to link up with employment/placement agency(ies) and/or encouraged to set up business units utilizing the newly acquired skills. Detailed guidelines for the component are included in the PIP and COM.

22. **(b) Special Fund to assist the Disabled and most Vulnerable** - The objective of this Special Fund is to identify and assist the disabled and the most vulnerable in the village (including destitute, deserted women, orphans, aged, widows), to be socially and economically mainstreamed. Groups of the disabled and vulnerable would be promoted, and capacity building and skill development activities will be taken up to enhance their livelihoods. A separate vulnerability plan would be evolved in which the necessary tools, instruments, training and inputs would be identified. VPRC with PFTs would also organize disability assessment, treatment and rehabilitation activities with identified support agencies under this Fund. Training would also be provided to caregivers, activists and para professionals to support the disabled and vulnerable in evolving livelihood activities.

23. The coverage of the disabled and the vulnerable under this sub-component is a critical milestone for release of subsequent installments of funds under other sub-components of the Village Fund. The

guidelines for this component would be more flexible to accommodate the special needs and would be included in the PIP and COM.

24. **A.2 (ii) Livelihood Fund for Economic Activity Groups (US\$65.0 million)**: A substantial portion of the Village Fund would be earmarked as Livelihood Fund for EAGs. The objective of EAGs is to improve the livelihood of the poor, disabled and most vulnerable by financing productive demand driven investments on a matching grant basis. These investments will include funding necessary productive infrastructure, equipments, technical assistance, linkages and partnerships and/or adding value to on-going activities that increase beneficiary incomes. The village community will plan for Livelihood Economic Activity Sub projects based on the total Village Fund earmarked to them under the project and other resources available to them from government programs and financial institutions. The project would provide target poor with: (i) technical assistance for identifying livelihood opportunities, (ii) technical assistance for preparing detailed business plans incorporating measures to reduce various market risks, (iii) linkages with banks and other financial institutions to access financing for business plans, and (iv) fund a maximum of 50 percent of the subproject business plan to bridge the financing gap. Livelihood Fund will be available to EAGs on the basis of sub-project proposals prepared by them with assistance from PFTs. All activities related to use of funds under the Livelihood Fund will be guided by the guidelines. The key outcomes of this sub-component are expanded opportunities for income generation for the communities and enhanced access to formal financial institutions. The EAGs would be the main implementing agency for this sub-component and the funds will flow directly to them.

25. DPMU would prepare a roster of service providers and develop rate banks reflecting prevailing market rates for various goods and services to be procured and other critical information to enable preparation of realistic business plans. This will be updated on a six-monthly basis. The VPRC would ensure compliance with the project rules, and arrange technical appraisal of the business plan, using the roster of technical service providers developed by DPMU. The final responsibility of appraisal and compliance checking with rules and milestones would be with the DPMU and it would ensure that the proposals are appraised as per the appraisal check-list, and in accordance with project rules and guidelines, and agreed service standards. DPMU will sign a Financing Agreement with the EAG, and release funds to the EAGs in installments based on milestones as agreed in the Financing Agreement and approved business plan. The detailed guidelines on livelihood funds, environmental guidelines, format for financing agreements, business plans and other related information is included in the PIP and COM.

26. **A.2 (iii) Village Panchayat Incentive Fund (US\$11.0 million)**: The objective of this Incentive Fund is for the VPs to (a) improve their governance by becoming transparent and accountable to their community members; (b) respond to the needs of the poor by effective identification of the poorest and vulnerable families; and (c) provide support to the VPRC for it to implement the VPRC fund efficiently and in accordance with the agreed rules and procedures. About Rs. 6 lakhs (US\$13,000) will be available as a special reward/incentive to each of those project VPs that have shown good governance and accountability, and have demonstrated that the benefits of the VPRC implementation have satisfied the needs of the poorest in the village. The eligibility criteria for VPs to apply for this Fund are detailed in the PIP and COM. The fund would be an untied fund and the VP could utilize it for any priority of the village that benefits the members of the community especially to improve the lives of the poorest households or individuals and/or improve functioning and governance of the VP as a pro-poor service delivery institution. The detailed guidelines on the Incentive Fund will be disseminated widely to all the participating VPs. The Incentive Fund will be disbursed in two tranches – based on agreed milestones and performance criteria for each tranche.

27. **A.2 (iv) Paraprofessional Development and Federation Development and Strengthening (US\$8.5 million)**: To provide the Village Assembly with technical support beyond the project to assist the functioning of the SHGs and EAGs, local resource persons will be identified and provided training to

develop into para-professionals.

28. The poor, ultra poor, and the vulnerable including the disabled, will be mobilized to become members of existing *Self Help Groups (SHGs)* or form new SHGs. All new SHGs, except the SHGs of the disabled, will be credit rated and linked to formal credit institutions. The project will provide support to the target households interested in starting business activities to *form Economic Activity Groups (EAGs)*. Technical assistance will be provided to them for development of business plans, and to implement and manage business enterprises. The federations will be provided capacity building and start-up capital support based on need and potential viability based on a business plan. The guidelines for federation development, process, procedures and financing agreement will be developed when federations begin to emerge.

29. The project envisages that SHGs and EAGs could federate and the federations could provide or facilitate services demanded by SHG and EAG members like monitoring, capacity building, conflict resolution, internal audits, facilitation of external audits, linkages with banks and insurance companies, facilitation of linkages with Panchayats and other government agencies. Other technical services that could be potentially provided by federations include bulk purchase of inputs, facilitation of access to market information, aggregation of produce for marketing, processing facilities, and other general functions such as monitoring, capacity building and conflict resolution. This would however, be an organic process. Federations that have the potential to be financially and institutionally viable would be provided capacity building and start-up capital support for partially subsidizing initial fixed costs (such as computers) and initial operating costs of SHG federations. Operating costs would be supported for a maximum of three years on a declining basis. To receive the start-up capital support, federations would have to provide a business plan indicating the services to be provided, expected costs, and share of costs to be borne by the member SHGs and EAGs. The key outcome of the federation fund would be the development of paraprofessionals and the facilitation of federation of SHGs and EAGs and ensuring the financial viability of these federations

30. **Component B: District and State support for Village Livelihood Program (US\$ 6.0 million):** The objective of this component is to (i) nurture and develop competent staff, resource persons and agencies with required skills and capabilities at both the district and state levels to support village institutions, (ii) establish service standards to enhance responsiveness and timely support of district and state levels to village institutions, (iii) build linkages and tie-ups with support organizations and service providers to enable communities to broaden livelihood options and improve sustainability of livelihood activities, and (iv) establish monitoring, evaluation and learning systems to monitor project progress. The key outcomes of this component would be (i) timely and effective support to the village institutions for livelihood enhancement, as per agreed service standards, (ii) strong linkages between private sector and other service providers, and village institutions to enhance sustainability of livelihoods, and (iii) modification of processes and procedures for smooth project implementation. The three sub-components are:

31. **B1. Capacity Building of State and District level Teams:** The first objective will be achieved with structured induction for all state and district staff to the key principles and the three pronged strategic intervention of the project. Capacity building agencies will support preparation of modules and delivery of training programs for the district and cluster staff. All partner agencies will be sensitized to the project and its rules and procedures. This sub-component will be implemented by both the SPMU and the DPMUs, who will be provided funds separately for this. A lot of emphasis will be on exposure visits to successful projects and sites, on the job training, experiential learning and synchronizing training with project stage to maximize learning and application. The second objective will be achieved through the design and implementation of social accountability systems like report cards based on agreed service standards. These would enable the tracking of performance – skills, competence, responsiveness and

sensitivity of staff and service providers to village institution. This would also inculcate downward responsiveness and accountability to community needs at the state, district and cluster level teams, and identify critical areas for intensive inputs.

32. **B2. Livelihoods and Business Support for establishing linkages and partnerships at District and State Level:** The third objective will be achieved through this sub-component wherein state and district teams would: (i) establish linkages with financial institutions to improve the quality of financial and other input services available to project beneficiaries; (ii) provide national and international market information on demand, product quality, pricing trends, consumer behavior trends etc.; (iii) network with existing task forces and think tanks at district and state level for working out strategic alliances and partnerships with producers, co-operative federations, private sector, commodity boards, industry confederations, export promotion organizations; (iv) build linkages with technology foundations and other international networks; and (v) provide Innovation Fund to pilot and test innovative livelihood opportunities and livelihood support activities. This sub-component will be managed largely by the DPMUs and in some specific cases by the SPMU.

33. This sub-component would decrease the vulnerability of project beneficiaries to dependence on local moneylenders and traders; augment the viability of livelihood proposals; broad base the livelihood options and enhance the sustainability of livelihood and business development activities. Development of linkages and special arrangements with financial institutions such as commercial banks, rural banks, MFIs, leasing companies and insurance agencies would ensure access to financing and insurance services demanded by project beneficiaries. Livelihood-financing capacity of financial institutions would be strengthened through workshops and exposure visits for bank/MFI staff to innovative models of livelihood financing. The Innovation Fund would provide small competitive grants for institutions for piloting innovative livelihood support activities.

34. **B3. Monitoring, Evaluation and Learning (ME&L):** This sub component will fund the development of the ME&L systems which include (i) development of systems – Management Information System (MIS), Financial Management System (FMS), accounting packages for SHGs and EAGs and community monitoring; (ii) various studies and consultancies, and (iii) ME&L exercises like baseline survey, process monitoring, mid-term review and Impact Evaluation. The SPMU will be responsible for the implementation of the ME&L systems. The system will monitor inputs, outputs and outcomes of various project institutions, project processes and project impact. Some of the key outcomes of this would be the effective use of the learning forums at various levels to review project performance and feedback for corrective action into implementation; and modification in the COM based on learnings from these forums and from other ME&L activities to clarify, simplify and streamline project rules and processes to ensure smooth implementation of the project.

35. **Component C: Project Management (US\$10.5 million).** This component would facilitate overall co-ordination, implementation, monitoring and learning of the project at state and district levels. It would include setting up and strengthening state and district level project units, providing office infrastructure and logistic support, and setting up monitoring, evaluation and learning systems. A state level Human Resource Agency would be contracted to recruit the project staff and help in their performance appraisal. This component will be managed by the DPMUs and SPMUs and the important activities include identification and contracting resource/support agencies, disbursement of salaries and other benefits to staff, procurement and maintenance of vehicles, office and equipment, and liaisoning and convergence with other agencies and government departments. The key outcomes of this component would be the perception of the village institutions on the performance of the state, district and cluster teams which will be captured through report cards and other feedback mechanisms; and the turn around/processing time that these different teams take in responding to requests/applications from the village institutions against agreed norms.

Annex 5: Project Costs
Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project

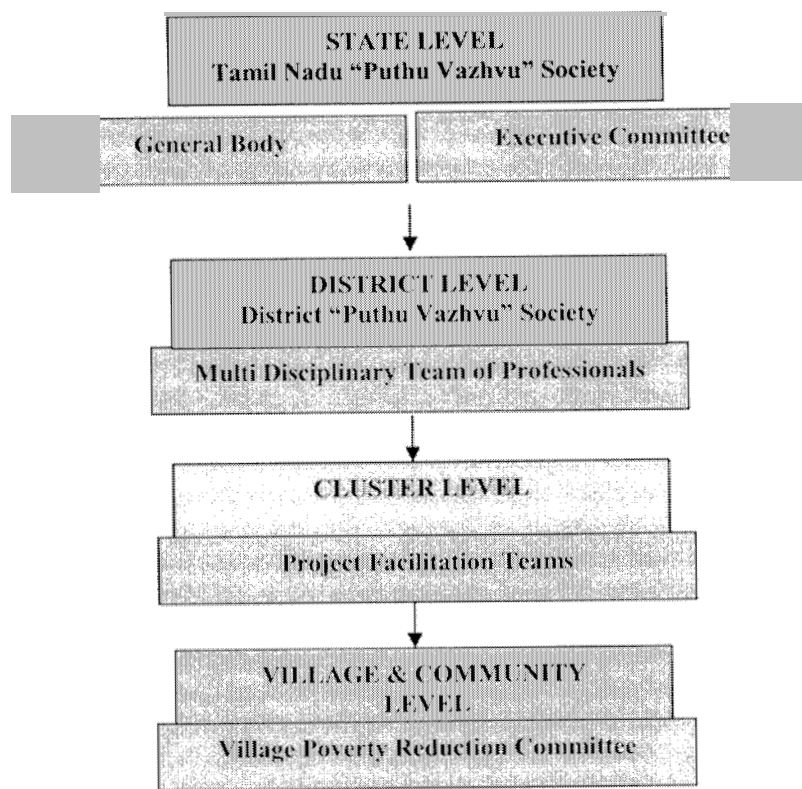
<i>Project Cost By Component and/or Activity</i>	<i>Local US\$ million</i>	<i>Foreign US\$ million</i>	<i>Total US\$ million</i>
A. VILLAGE LIVELIHOOD PROGRAM			
1. Formation and Strengthening of Village Institutions	13.70	0.30	14.00
2. Village Fund	128.50	--	128.50
SUB-TOTAL	142.20	0.30	142.50
B. DISTRICT AND STATE SUPPORT TO VILLAGE LIVELIHOOD PROGRAM	4.80	1.20	6.00
C. PROJECT MANAGEMENT	10.00	0.50	10.50
Total including Contingencies	157.00	2.00	159.00

Annex 6: Implementation Arrangements

Tamil Nadu Empowerment and Poverty Reduction “Puthu Vazhvu” Project

1. The proposed implementation arrangements are based on an institutional model in which : (i) community will be the focal point; (ii) institutions at all levels would enjoy independence and autonomy to ensure compliance with the project rules, and (iii) communities are allowed to participate in a way that ensures their ownership and total independence in taking decisions and managing resources. The model is based on the principles of team effort, devolution of responsibilities, and participation of local community and government for sustainability. Figure 1 shows the Overall Institutional Model of the project.

Figure 1: Overall Institutional Model

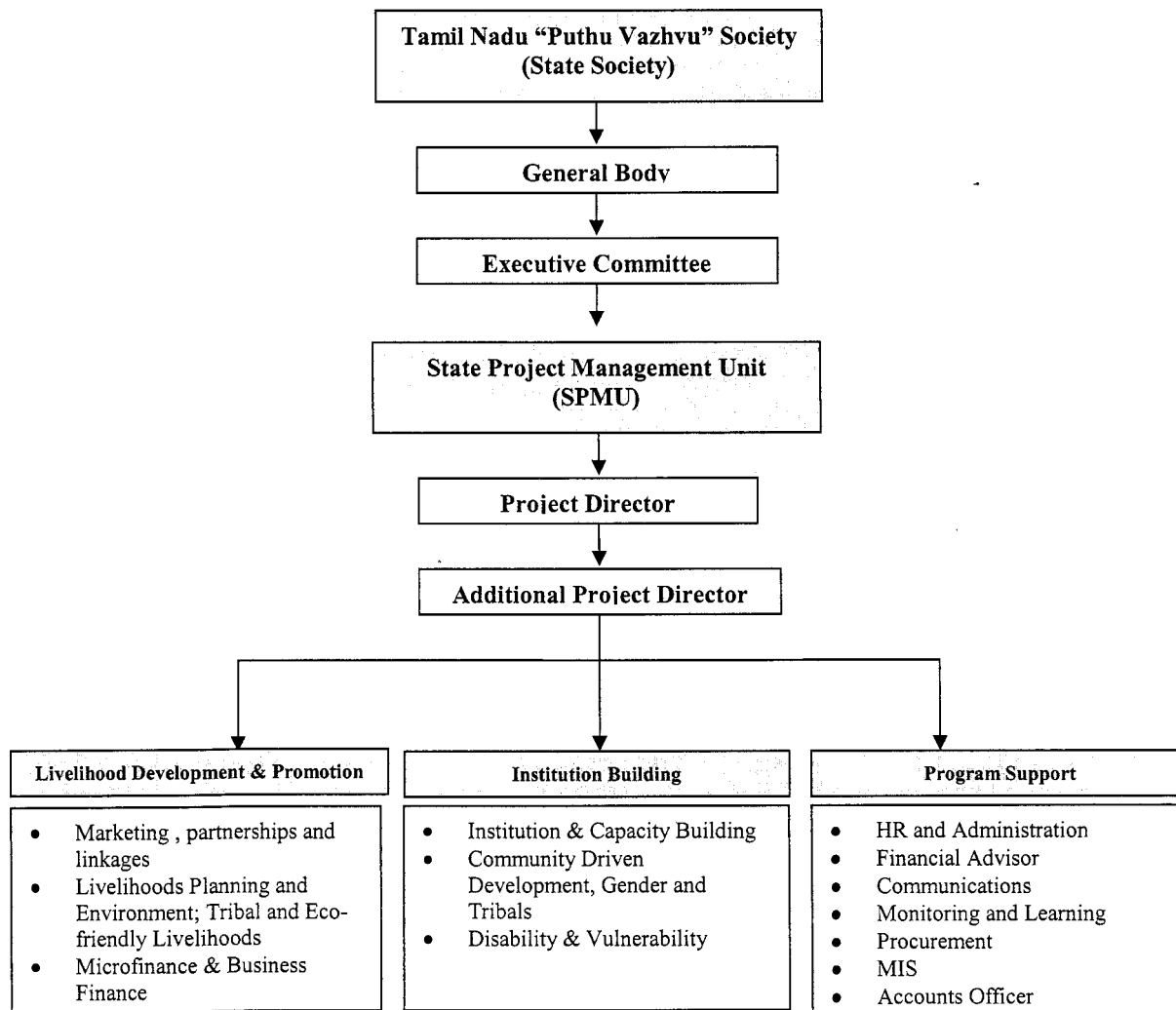


Institutional Arrangements at the State Level:

2. For the implementation of the project, the GoTN has set-up the Tamil Nadu “Puthu Vazhvu” Society” (State Society) at the State level. The State Society has been registered under the Tamil Nadu Societies Registration Act, 1975 (Act 27 of 1975). The key objectives of setting up the State “Puthu Vazhvu” Society are to broaden the scope of empowerment programs in the state to include both men and women from poor and vulnerable households, from just focusing on women, and to create greater synergy between empowerment and poverty reduction by focusing on livelihoods of the poor and vulnerable. The State “Puthu Vazhvu” Society will be responsible for creating an enabling pro-poor policy environment in the state, bring about convergence among various poverty reduction and empowerment projects, and to

provide overall guidance, management, coordination, and monitoring of project's implementation. The details of the state-level institutional arrangements are provided in Fig. 2.

Figure 2: State-level Institutional Arrangement

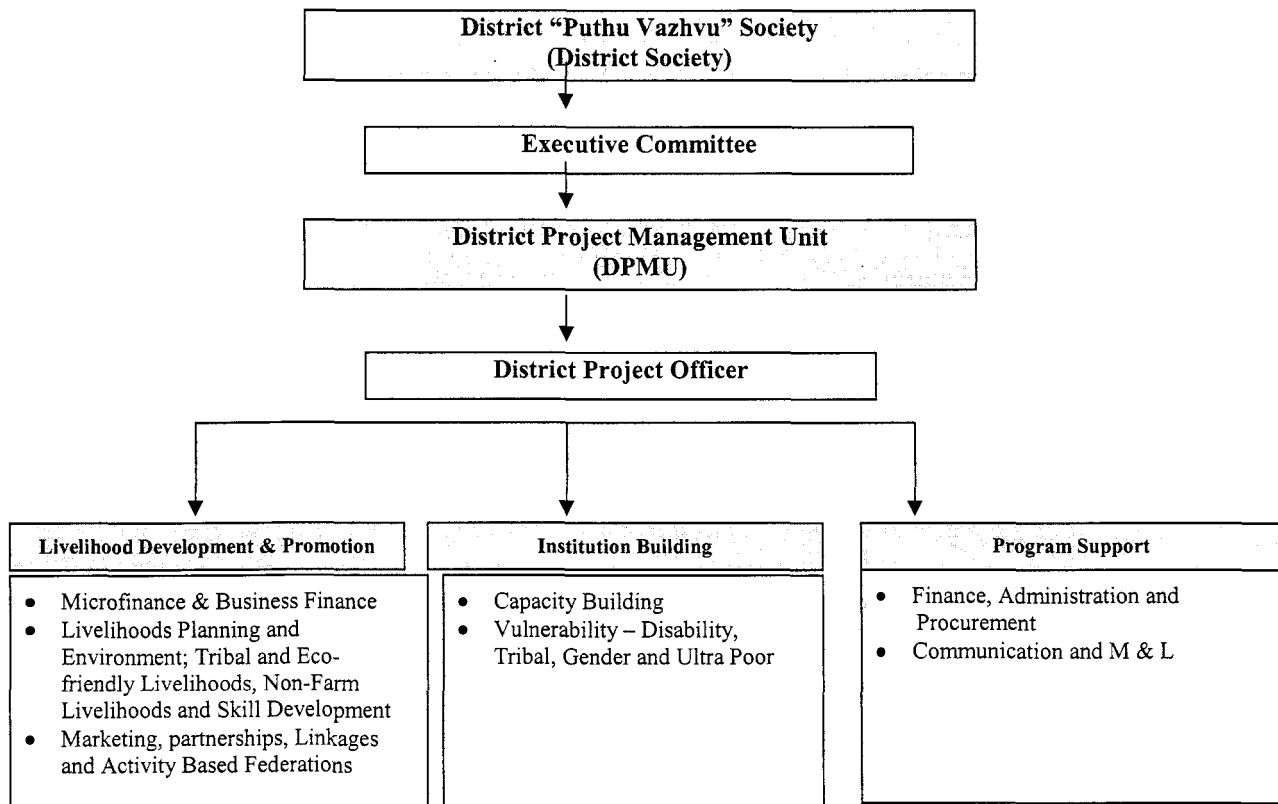


3. **Composition:** The State Society has a 15 member General Body chaired by the Finance Secretary which will formulate policies and guide project implementation. The management of the Society has been entrusted to an Executive Committee chaired by Secretary, Social Welfare, GoTN. The Project Director (PD) is the Member-Secretary of the State Society. The PD will head the SPMU and will work under the guidance of the Executive Committee for day-to-day operations and General Body for policy decisions. At the SPMU, the Additional Project Director will be responsible for operational aspects of the project and a multi-disciplinary team of specialists will provide support in the program areas of (i) Livelihood Development and Promotion, (ii) Institution Building and (iii) Program Support (Fig 2 provides the details of expertise). Roles and responsibilities for each of the Specialists have been detailed in the PIP.

District level

4. At the District level, the responsibility for guiding and facilitating the implementation of the project will be vested with the District “Puthu Vazhvu” Society (District Society) registered under the Tamil Nadu Societies Registration Act, 1975. The District Society will provide district-wide leadership, collaboration and management for the project. The details of the district level institutional arrangements are provided in Figure 3.

Figure 3: District level Institutional Arrangement



5. **Composition:** The District Society will have a 15 member General Body chaired by the District collector. The District Project Officer (DPO) will be the Member-Secretary of the District Society and will be the head of the DPMU. The DPO will be assisted by a dedicated multi-disciplinary team of specialists in the program areas of Livelihood and Business Support, Institution building and Program Support (details in Fig 3). Detailed job descriptions, roles and responsibilities are provided in the PIP. The DPMU, in addition to coordinating and guiding the project implementation in the district, would also have the overall responsibility for appraisal and compliance check of subprojects. The DPMU would ensure that the subproject proposals are appraised as per the appraisal check-list, and in accordance with the project rules and guidelines, and agreed service standards. DPMU will also prepare a roster of service providers and develop rate banks incorporating prevailing market rates for various goods to be procured and other critical information to enable preparation of realistic business plans. These would be updated on a six-monthly basis.

Cluster Level

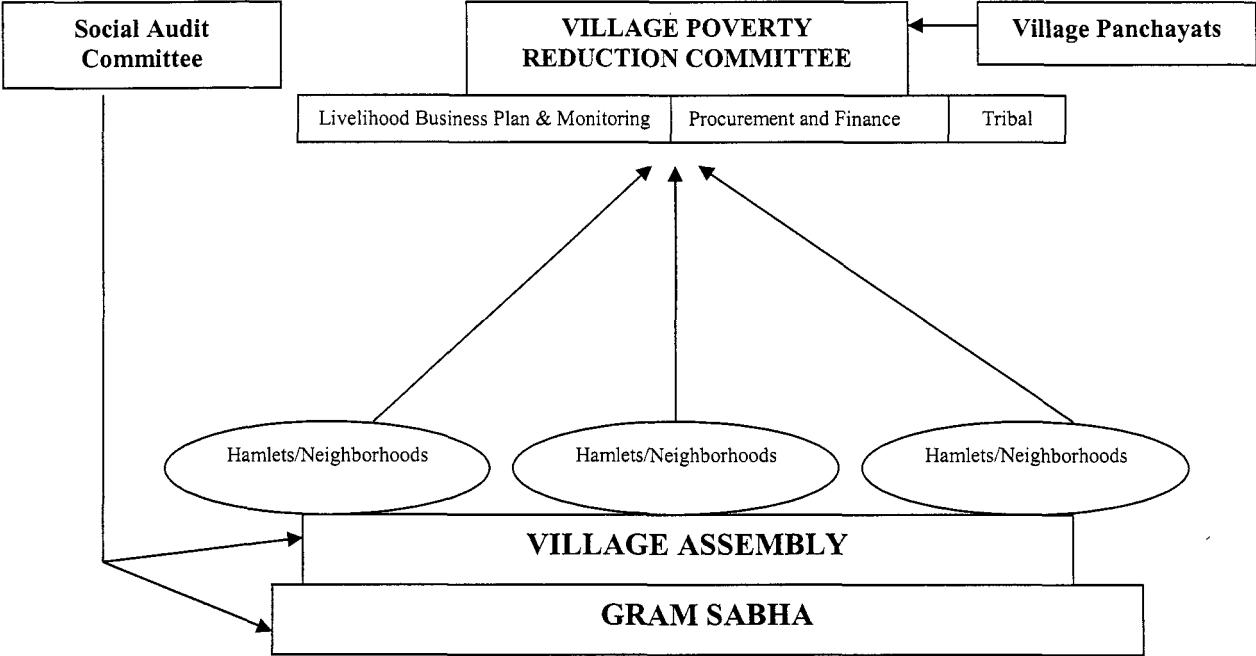
6. At the Cluster level, Project Facilitation Teams (PFTs) will be contracted for providing handholding and capacity building support to village level institutions. While 10 to 20% of the PFTs are to be fielded by NGOs and/or SOs; the remaining PFTs will be constituted by individual specialists selected from Government staff, private sector or from NGOs and SOs through a rigorous selection process, to hire professionals with the right skills and attitude for this critical project implementation level.

7. Composition: The five-member PFT will be a multidisciplinary team consisting of a Team Leader and facilitators for Social Mobilization, Livelihood Development, Business Finance and Accounts and Monitoring. The details of the roles and responsibilities of the individual specialists is provided in the PIP.

Community and Village Level

8. At the village level, the key institutions are the Gram Sabha, Village Assembly, VP, VPRC, SHGs, EAGs, SAC and Federations. Figure 4 presents the institutional arrangements at the Village level. Details on the composition, roles and responsibilities of the VPRC, SHG and EAG are provided in the PIP and COM.

Figure 4: Institutional Arrangements at the Village Level



9. **Gram Sabha:** The Gram Sabha will be the primary decision making body in the village. The VPs’ decision on joining the project, the list of the target beneficiaries selected through the process of participatory identification of the poor and the Capacity Building Plan and the Village Livelihood Plan

will also be approved in the Gram Sabha. The Gram Sabha will also approve selection of VPRC members and Social Audit Committee members.

10. ***Village Assembly of Key Stake Holders:*** The Village Assembly will be the critical decision-making body at the village level. All the project activities will be discussed and deliberated upon in the Village Assembly and it is envisaged that both the Village Assembly and the Gram Sabha will become more vibrant and strong with implementation progress. A quorum of at least two-third of the target households, of which, at least 50% will be women, would be required for the Village Assembly to discuss and take decisions on any project related activity. Appropriate conflict resolution mechanisms will be instituted so as to encourage conflict resolution at the village level itself, for a majority of the cases. The systems for resolving conflicts have been detailed in the COM.

11. ***Village Panchayat (VP):*** The VPs would be responsible for kick-starting project implementation and facilitating start up activities including formation of VPRC. Once VPRC is formed and strengthened, they would take over project activities from VP. The VP President will be the ex-officio chairperson of the VPRC. The performance of VPRCs and role of Chairpersons would be reviewed after first two years of implementation to incorporate lessons into the institutional arrangements.

12. ***Village Poverty Reduction Committee (VPRC):*** At the village level, an inclusive and autonomous VPRC, accountable to the Gram Sabha, will be responsible for implementation of the project. In addition to the VP President who will be the ex-officio chairperson of the VPRC, the VPRC members will also elect SHG women members as Secretary and Treasurer. Release of funds to the VPRC will be linked to their performance. Project support would be cancelled in the event of misuse of funds, violation of project rules, VPRC becoming inactive and poor attendance in meetings etc. Each hamlet in the village would be represented in the VPRC through a woman SHG member selected from the target population. The existing village level institutions – VPs and SHGs – will also be represented in the VPRC to ensure convergence and partnerships. 30 percent of the members of the VPRC will be from the SC and ST communities. The mode of election of the members of the VPRC would be tested in the pilot villages. The VPRC will have two sub-committees (i) Livelihood Business Plan and Monitoring, and (ii) Procurement and Finance. In all VPs with up to 50 tribal families, a tribal sub-committee will be constituted. VPs with 50 or more tribal families will have a separate VPRC responsible for implementing the tribal plan. Village Fund will be allocated to the tribal VPRC proportionate to the number of tribal families in the VP. The allocation will be worked out by the DPMU by providing 50 percent higher per family allocation as compared to the other target poor under the project.

13. ***Self Help Groups (SHGs):*** All the left out poor in the village would be constituted into new SHGs or inducted into existing SHGs. These SHGs will be facilitated to federate, when the need arises.

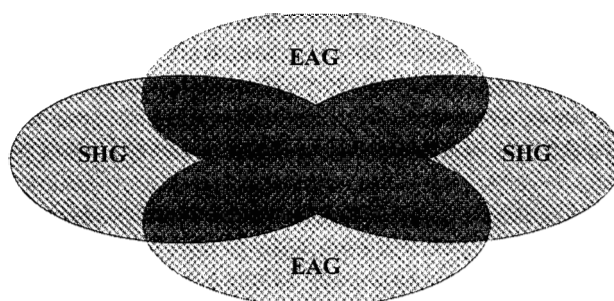
14. ***Economic Activity Groups (EAGs):*** All beneficiaries of a particular livelihood proposal/activity will form into an EAG. The planning and implementation of the livelihood subproject would be the responsibility of the EAG. VPRC will monitor progress of the EAG subproject. The EAGs carrying out similar economic activity from the same village and/or different villages would be facilitated by the VPRCs and the PFTs to federate 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 to support the EAGs and their federations in preparing productive investment subproject proposals, implementing and managing the economic activities. The detailed steps and guidelines in forming EAG's and strengthening their federations are given in the PIP and COM.

15. ***Social Audit Committee (SAC):*** The Gram Sabha and the Village Assembly will appoint a SAC consisting of members who are accepted and trusted by everyone in the village and who have demonstrated honesty and commitment. The SAC members should not be members in any other

committee or closely related to other committee members. The Social Audit Committee would undertake process related institutional and financial audit of the project activities and would report their findings along with recommendations directly to the Gram Sabha and the Village Assembly.

16. **Federations:** The project aims to support viable and sustainable federations of SHGs and EAGs as well as groups of the disabled, when the demand and need arises. The membership overlap between these federations is explained in Figure 5. Towards this objective, the project will support these federations at the block level - a size and scale at which they are likely to be feasible.

Figure 5: Federations of SHGs and EAGs



Key Roles and Responsibilities of Key Institutions

17. Table 1 provides a summary of the roles and responsibilities of project institutions at different levels in the project.

Table 1: Summary of Roles and Responsibilities of project institutions

<i>Levels</i>	<i>Roles and Responsibilities</i>
State Society	<ul style="list-style-type: none"> • Providing overall policy guidance and direction to the project • Approving all annual plans • Representing the project at the state government level • Undertaking advocacy to ensure pro-poor policies are issued by the Government • Formulating policy regarding reducing poverty and enhancement of livelihoods of the poor • Providing strategic support and guidance to program implementation • Monitoring project implementation and achievement of performance indicators • Coordinating with different government departments and agencies • Approving overall Human Resource policies • Redefining and reformulating project strategies based on emergent experience from project implementation
State Project Management Unit	<ul style="list-style-type: none"> • Recruiting core management team at the state level and district level • Developing and issuing service standards, guidelines for various fund use, appraisal checklist and monitoring indicators • Developing strategy and action plan for communication campaigns and capacity building • Preparing and financing annual work plans and budgets, financial management and state-level auditing

<i>Levels</i>	<i>Roles and Responsibilities</i>
	<ul style="list-style-type: none"> • Monitoring, Evaluation and Learning from project implementation and knowledge management activities • Coordinating activities at district, block, cluster and village levels • Converging with other government programs and developing partnership support
District Society	<ul style="list-style-type: none"> • Ensuring project coverage across project districts and blocks • Converging with line departments, external resource agencies and service providers • Monitoring project implementation and achievement of performance indicators
District Project Management Unit	<ul style="list-style-type: none"> • Recruiting PFTs at the cluster level (through an external human resource agency) • Identifying and empanelling technical assistance, technical appraisers and other service providers • Developing rate banks for the district • Ensuring adherence to service standards in support to the communities • Providing technical support to the communities either from public sector agencies or from outside • Carrying out final appraisal and compliance check of livelihoods sub projects • Certifying milestones and releasing funds to VPRCs, EAGs, and VPs • Monitoring, Evaluation and Learning activities and Knowledge Management • Guarding project rules and procedures
Cluster level Project Facilitation Teams	<ul style="list-style-type: none"> • Facilitating village level campaigns and dissemination of project principles • Supporting VPs and PLFs for formation of SHGs, VPRC and EAGs • Facilitating participatory identification of poor • Building capacity of VPRC, SHG, EAGs and Federation members • Undertaking credit rating of SHGs • Supporting VPRCs to develop Vulnerability Plan, Capacity Building Plan and Village Livelihood Plan, and EAGs to develop Livelihood Business Plans • Facilitating linkages and tie ups for input supply, credit, marketing, capacity building, skill development etc. • Arranging and providing technical support • Facilitating the identification and capacity building of para professionals for bookkeeping, accounting and other functions • Guarding project rules and processes • Monitoring performance of the project at the cluster level, creating learning forums and enabling learning across the cluster of VPs
Gram Sabha	<ul style="list-style-type: none"> • Approving VP's proposal of joining the project, PIP list, Village Capacity Building Plan and Village Livelihood Plan
Village Assembly	<ul style="list-style-type: none"> • Ensuring formation of VPRC, Tribal VPRC and VPRC subcommittees • Ensuring proper functioning of all newly formed village institutions • Resolving Conflicts • Creating SAC and being guided by the advice and inputs of the SAC
Village Panchayat	<ul style="list-style-type: none"> • Entering into MOU with DPMU to initiate project in the village • Coordinating IEC, PIP and mobilization of poor into SHGs • Supporting VPRC in discharging its functions in accordance with project rules and procedures • Developing pro-poor plans and service delivery systems
Village Poverty Reduction Committee	<ul style="list-style-type: none"> • Ensuring that all eligible poor in the village are getting benefits from the project • Planning the allocation of village funds among different sub components. • Facilitating formation of SHGs, groups of the disabled and EAGs • Facilitating the functioning of the sub-committees • Appraising and sanctioning VPRC fund proposals • Arranging for technical appraisal of productive investment sub project proposals • Signing financing agreements with DPMU

<i>Levels</i>	<i>Roles and Responsibilities</i>
Social Audit Committee	<ul style="list-style-type: none"> • Arranging for Financial Management and auditing • Certifying milestones and achievement of triggers • Performing internal monitoring function • Monitoring and Auditing project implementation activities • Observing the functioning of the VPRC • Observing adherence to rules and project principles in the sanction and implementation of the subprojects • Presenting and discussing findings of the SAC in the Gram Sabha • Assisting Gram Sabha in settling disputes and conflict resolution

18. The project would develop service standards for completing various activities, which require approvals and certifications, including those for appraisal of proposals submitted by the VPRC's and EAGs. The project would also engage the services of state and/or district level technical assistance and other service providers, as and when required.

Overall Project Cycle

19. The PIP outlines the project cycle and the sub-project cycle specifying the key steps and sequencing of activities to be performed in implementing the project. This will enable all partner institutions and other stakeholders to understand and agree upon critical activities and their timing, duration and interdependence for ensuring successful project implementation. A summary of the overall project cycle is given below in Table 2.

Table 2: Overall Project Cycle

Main Phases	Critical Activities	Milestones/triggers for Moving on to the Next Phase
Start up Phase (State level)	<ul style="list-style-type: none"> • Register state and district level Societies • Hire and orient state and district project staff and organize exposure visits to best practices in the field • Hire Project Facilitation Teams and orient them • Hire and orient District level Capacity Building Agencies • Identify 1st batch of district and blocks • Develop IEC strategy and communication materials • Develop capacity building modules including COM modules • Launch the project and organize a state-level multi-stakeholder workshop 	<ul style="list-style-type: none"> • State Team trained • 1st batch district and blocks identified • 1st batch District Teams hired and trained • State level information campaign launched
Promotional Phase (District and Cluster Level)	<ul style="list-style-type: none"> • Organize district-level multi-stakeholder workshops to disseminate project information • Organize block-level multi-stakeholder workshops • Finalize 1st batch of VPs - self-selection of VPs based on willingness criteria • Build capacity of PFTs that will work with 1st Phase VPs • Organize orientation and initial capacity building of the VP Presidents, leaders of existing SHGs and other stakeholders • Enlist and orient service providers • Develop district-wise rate bank 	<ul style="list-style-type: none"> • District teams are trained and anchor the process • PFTs trained and anchor the Village level process • VPs selected

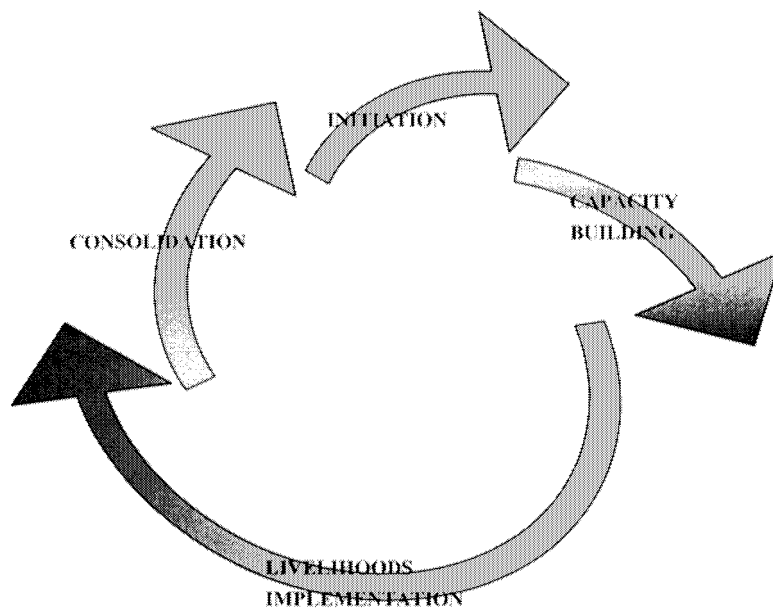
Main Phases	Critical Activities	Milestones/triggers for Moving on to the Next Phase
Pre-planning Phase (Village level)	<ul style="list-style-type: none"> • Identify opportunities and livelihood options for specific blocks • Empanel technical resource persons and service providers for the district • Identify and orient Block Level Disability Agencies • Organize Village level stakeholder meeting to introduce the project • Seek Gram Sabha approval to VPs proposal of joining the project • Release of Initiation Fund to VP after an MOU is signed between VP and DPMU • Mobilize all the poor families and hamlets/habitations • Develop village resource mapping and baseline using participatory methods • Seek Gram Sabha approval of the PIP list • Form VPRC and sub committees, and SAC with Gram Sabha approval • Open bank accounts • Release 1st installment of VPRC Fund after signing of Financing Agreement between VPRC and DPMU • Mobilize and form SHGs of the poor, disabled and vulnerable • Develop a Capacity Building Plan for VPRC and PFT to check compliance with rules • Develop a participatory Village Livelihood Plan • Disseminate VP Incentive Fund eligibility criteria • Train and organize exposure visits to best practices for office bearers of VPRCs and subcommittees and VPs 	<ul style="list-style-type: none"> • VPRC formed, at least 50% women members and 50% of the poor as members • Office bearers of VPRC and sub committees and SAC trained in COM • VPRC Financing Agreement signed and release of first installment • Poor including disabled and vulnerable organized into SHGs
Planning Phase (Village Level)	<ul style="list-style-type: none"> • Form EAGs • Prepare Livelihood Business subproject proposals with PFT and external technical assistance • Contract for technical appraisal of EAG subproject proposals • Appraise and check compliance of EAG subproject to project rules • Sign Financing Agreement with EAG and DPMU to release 1st installment • Seek applications from VPs for accessing VP Incentive Funds and provide 1st tranche to qualifying VPs • Conduct refresher courses in COM for office bearers 	<ul style="list-style-type: none"> • Subproject proposals developed by EAGs and approved by VPRC and appraised by District Team • First installment of subprojects released • Refresher courses in COM for office bearers conducted • First tranche of VP Incentive Fund released
Implementation Phase	<ul style="list-style-type: none"> • Contract technical service providers and private sector for business opportunities • Implement subprojects • Submit milestone certificates, duly signed by the SAC and release subsequent installments • Conduct regular social audits and report card feedback • Submit subproject Implementation Completion reports after the approval of Gram Sabha and make it 	<ul style="list-style-type: none"> • Milestones achieved and certified by SAC • Second and third installments of VPRC funds released • Subproject Implementation Completion Reports of EAGs and Social

Main Phases	Critical Activities	Milestones/triggers for Moving on to the Next Phase
	<ul style="list-style-type: none"> public • Display detailed list of beneficiaries, updated for approved subprojects and amounts released • Conduct annual independent audit of the project on technical, environmental, social and process aspects • Release 11th tranche of VP Incentive Fund 	<ul style="list-style-type: none"> Audit Reports approved by Gram Sabha • 11th tranche of VP Incentive Fund released
Post-Completion Phase	<ul style="list-style-type: none"> • Network with other villages and federate for establishing linkages • Federate EAGs and SHGs • Partner with private sector in business ventures 	<ul style="list-style-type: none"> • Subprojects established and consolidated • SHGs and EAGs federated • Revenues generated through employment and income generating activities

Village Development Cycle

20. The Village Development Cycle has four major phases as shown in Figure 6.

Figure 6 – Village Development Cycle



21. Table 3 provides details of the critical activities and milestones for each of the phases in the Village Development Cycle.

Table 3: Village Development Cycle

Phases	Critical Activities	Key Milestones
INITIATION PHASE	<ul style="list-style-type: none"> • Launch the Communication Campaign to raise project awareness • Seek Gram Sabha approval of Project Principles and sign MoU with VP and release of Project Initiation Fund to VP • Mobilize all VP hamlets/especially poorest ones • Develop list of beneficiaries through participatory identification of the poor • Form VPRC including sub committees and SAC and approval by Village Assembly • VP settles accounts for the initiation fund • Plan CB activities of VPRC 	<ul style="list-style-type: none"> • PIP completed and list of the poor approved • Inclusive and autonomous VPRC formed • VPRC Financing agreement signed and first instalment of 40% released
CAPACITY BUILDING PHASE	<ul style="list-style-type: none"> • Build capacity of VPRCs, office bearers, subcommittee members and SAC members • Form new SHGs and strengthen existing ones • Form groups of the disabled • Launch thematic communication campaigns • Develop Capacity Building Plan and Prepare Village Livelihood Plan • Implement capacity building fund activities, release of Seed Fund, and use of Skill Development Fund etc 	<ul style="list-style-type: none"> • Majority left out poor mobilized into SHGs • Majority disabled and vulnerable also mobilized into groups • VPRC Fund activities in progress and Livelihood Opportunities identified
LIVELIHOODS IMPLEMENTATION PHASE	<ul style="list-style-type: none"> • Form and strengthen Economic Activity Groups, prepare Livelihood Business Plans • VPRC seeks technical appraisal of Livelihood Business Plans • DPMUs appraise and check Compliance • Sign Financing Agreement with DPMU and release of installments to EAGs • Submit milestone certificates, duly signed by the SAC, followed by release of further instalments • Submit Business Plan Completion reports • Display detailed list of beneficiaries, updated for subprojects approved and amounts released 	<ul style="list-style-type: none"> • Majority of SHGs have seed fund and/or credit linkage • Livelihoods Business Units benefiting majority of the poor sanctioned and implemented • Livelihoods Business Units benefiting the poorest established, completion reports approved by Village Assembly
CONSOLIDATION PHASE	<ul style="list-style-type: none"> • Form and strengthen Economic Activity Federations and SHG federations • Establish partnerships and linkages with service providers, private sector • Undertake thematic studies, process monitoring, reviews and internal learning workshops 	<ul style="list-style-type: none"> • VPRCs, Block Level Federations, Economic Activity Groups and Federations fully networked, functioning and benefiting the poor in the village
Village Panchayat Incentive Fund	<ul style="list-style-type: none"> • Apply for Incentive Fund based on meeting conditions of transparency, accountability, equity, participation and efficiency of VP functioning • Release Ist tranche and subsequently IInd tranche funds to qualifying VPs • Seek Gram Sabha approval and SAC certification on utilization of Incentive Fund 	<ul style="list-style-type: none"> • MOUs signed between selected VPS and DPMU and Ist Tranche Funds released • Implementation status of proposals reviewed • Process repeated for Second Tranche

Key Challenges

22. In order for the project to meet its objectives, implementation needs to be guided by the agreed rules, processes, procedures and non-negotiable principles of inclusion, equity, participation, accountability and facilitation style. However, in this process, the project does envisage a few challenges. Key challenges and mitigating strategies are discussed below.

23. **Attitudinal change in all stakeholders and creating a conducive environment for the poor:** The project is seeking to reach the most disadvantaged population in the villages. These poor will need an environment that is free and enabling. This will be ensured by:

- Providing information about the project, its rules and procedures to all stakeholders including villages, local politicians, line department staff, and other service providers;
- Establishing poor peoples' organizations that represent their voice in the Gram Sabha and other forums;
- Encouraging a facilitating style among all service providers to enable poor to themselves analyze their situation, needs and options and then identify possible solutions;
- Strengthening accountability mechanism so that all service providers are held accountable for their services to the community.

24. **Upholding the non-negotiable principles:** That every stakeholder in the project needs to value and follow the rules and non negotiable principles. This will require:

- Intensive IEC campaigns and capacity building programs to influence the mindsets of different actors and to move them away from traditional, top down and bureaucratic ways of making interventions;
- Social Audit Committee at the village as a guardian of project's principles; and
- all decisions to be approved by the Village Assembly.

25. **Reaching the target poor:** The projects' success is very much dependant on identifying the most deserving families in the village and providing them support and benefit. These poor are voiceless and invisible. The key activities to identify the poor and ultra poor are:

- Intensive IEC campaigns led by the VP, existing SHG members and leaders and members of the PLFs with support from the PFTs on the objectives of the project and the condition of the poor and ultra poor and the need to support them;
- Facilitating the participatory identification of the poor such that every village, hamlet and habitation is covered in the process, all families including the poor and vulnerable households are involved in identifying and ranking the poor and poorest in the VP.
- The list of the poor and vulnerable is displayed in public places for all villagers to see and comment;
- The final list is presented by the VP in the Gram Sabha and approved.

26. **Social divisiveness and /or non-cooperation from the better off in the village:** The projects' primary focus is the target poor including poor and ultra poor, and the vulnerable - disabled, destitute, deserted, aged and tribals. The project is supporting the mobilization of the poor into SHGs and strengthening their SHGs with seed funds and special funds. The project also funds productive investments of the poor. Involving the entire village including better-off is key to dealing with social divisiveness. Some key strategies include:

- Giving VP onus of initiating the project and organizing communication campaigns in the village to provide information about the project to all poor, especially the ultra poor;

- Involving existing SHGs – both members and leaders and the PLFs to mobilize the poor and vulnerable into SHGs and providing them training and also strengthening existing SHGs of the poor;
- Seeking the services of PLF in credit rating new SHGs, linking them with the banks and facilitating the formation of a federation of all SHGs at the block level;
- Making available the services of PFTs, SOs, technical services to all SHG members; and
- Providing incentives to VPs based on their response and contribution to project and to the poor.

27. **Responsiveness of service providers to the needs of the client:** Ensuring that the target poor receive support, information, technical assistance and funds, whenever the need arises and in the shortest possible time; is critical for sustaining the enthusiasm and confidence of the target poor and also increasing efficiency of project implementation. This will be ensured by:

- Community Report Cards to monitor behaviour and performance effectiveness of VPs, VPRCs, PFTs, DPMU and SPMU staff and also external service providers who are contracted to serve the target poor;
- Service standards developed and monitored for all project and external service providers.

28. **Convergence with other government initiatives for poverty reduction:** The target poor face deprivation of many kinds. Some of these can be addressed by the project but for other needs they have to access services and entitlements from local governments and other agencies. For this, the project has:

- Provided VPs a critical role in the project and incentives for them to be pro-poor;
- Ensured that the General Body and Executive Committee of the State and District Society have membership from Departments that have a multitude of programs for the target poor, which are inefficiently targeted at present;
- Set up of Steering Committees especially for addressing tribals and disabled issues; and
- Included the option of PFT staffing with candidates from government departments.

29. **Attracting and retaining capable human resources:** Project implementation requires highly skilled staff at the PFTs, DPMU and SPMUs. Some of the strategies for ensuring this are:

- Outsourcing selection of DPMU and PFT staff to an HR agency, to enable a rigorous selection process based not only on technical expertise but also people skills and mindsets;
- Establishing performance based compensation packages, to provide incentives to those staff who perform better and use of report cards and performance audits;
- Capacity building programs linked to project phasing to equip staff to provide effective support to communities during different project phases;
- Contracting Service Organizations that trouble shoot for the staff;
- Building capacity of community resource persons and para-professionals to take over responsibilities from project staff and create knowledge and information centers at the village level, to be sustained beyond the project; and
- SHG and EAG federations to progressively take over responsibility for some basic services for their member organizations.

Monitoring, Evaluation and Learning Aspects

30. The monitoring, evaluation and learning system (ME&L) of the project will monitor and generate information about project progress and performance and disseminate this information amongst stakeholders to enable them to promptly address implementation issues. Through a learning process the project will revise and refine implementation processes and procedures in order to improve its performance and effectiveness. The system will monitor inputs, outputs and outcomes of various project institutions, project processes and project impact. The major aspects that need to be monitored are the

quality of group formation processes, income increases, the quality and performance of service providers, and the efficiency and effectiveness of appraisal process (timeliness, speed of response, rejection rates, etc.). A Monitoring Information System (MIS) will be developed in-house to support the overall ME&L system. The MIS will be simple, participatory and responsive to the operational needs of management to allow decisions about project implementation and corrective actions to be taken in a timely manner.

31. The State Society will be responsible for overall monitoring of the process and implementation progress. One of the main reasons for centralizing all the information on subproject proposals at the state level is to facilitate not only the monitoring of the project but also the initial evaluation of its performance and impact, and to ensure timely release of project funds.

ME&L System Structure:

32. Table 4 summarizes the components of the ME&L system, the subject matter of each, instruments to be used and frequency of reporting:

Table 4: Key Components of Monitoring, Evaluation and Learning and System (ME&L)

<i>Component</i>	<i>Subject</i>	<i>Instrument</i>	<i>Frequency</i>	<i>Data Source/ Responsibility</i>
Baseline Study	Determining Pre-project Conditions to establish the net contribution of the project to the sustainable livelihoods of the targeted families “before” and “after” the project and “between” the project and control areas	<p><u>Hypothesis Document:</u> identification of key hypothesis for demand for different types of project interventions by specific groups, impact of such interventions and methodology to measure them</p> <p><u>Sampling Document:</u> description of methodology adopted for baseline survey including control and surveyed areas, justification for choosing samples and size of sample, weightage etc.</p> <p><u>Questionnaire:</u> For households, beneficiaries local governments, and village leaders with retrospective questions (wherever appropriate)</p>	Pre-project	External Agency
Progress Monitoring	Tracking progress against planned activities on inputs/outputs	<p><u>Reports and Review Meetings based on:</u> Aggregated and disaggregated data on geographic coverage, demographic coverage, coverage of vulnerable groups, project components, human resources, capacity building, services provided, number of SHGs/EAGs/VPRCs etc. formed</p>	VPRC/PFT to DPMU - Monthly District to State - Quarterly	Computerized MIS set up by SPMU with assistance from District Teams and PFTs
Performance	Measuring project progress on			

<i>Component</i>	<i>Subject</i>	<i>Instrument</i>	<i>Frequency</i>	<i>Data Source/ Responsibility</i>
Monitoring	qualitative aspects, especially against the key performance indicators	Setting up of a centralized MIS	Half Yearly	SPMU/ External Agency
Internal Learning - Participatory Monitoring & Learning	Engaging primary stakeholders in monitoring project processes and results: <ul style="list-style-type: none"> • assessing and improving social performance • better focus on outputs and impacts – equity and sustainability • enhanced accountability and efficiency of project institutions 	Social Accountability Mechanisms, Formation of Learning Groups at all levels – village, cluster, district, state	--	--
Internal Learning - Concurrent Process and Learning	Verifying the quality of project implementation on continuous basis to identify the processes through which inputs get converted into outputs, necessary actions to increase effectiveness etc.	<u>Qualitative Assessment on:</u> Project management and organizational development related issues and field implementation related issues	--	External Agency
Impact Evaluation	Comparison of qualitative and quantitative outcomes before and after the project and between project and control areas	Impact and Outcome indicators will be the point of reference to establish the net effect of the project	--	External Agency

33. The ME&L system will operate at four levels – village, cluster, district and state. The structure will enable information flow both horizontally and vertically and information will be made available across the system. In order to increase effectiveness of the ME&L system and reduce data redundancy, each level will be responsible for maintaining data at that level.

34. *Indicators, Instruments, Periodicity and Responsibility:* Components and instruments of ME&L would be refined over the life of the project as information needs emerge and as capacities and systems to undertake different monitoring activities develop.

Institutional Arrangements for ME&L

35. ***Village and Community Level:*** Decision-making and tracking community level development will be the main focus of ME&L activities at this level. The VPRC will be responsible for collecting and analyzing the village level information and will report progress to the Gram Sabha. The monitoring sub-committee of the VPRC will be provided focused training in both conceptual and operational aspects of ME&L.

36. Village level decision-making will be supported by regular surveys and data collection on family profiles, compliance with the project rules and information that reflect changes in livelihood. Data will be captured and reported on a monthly basis.

37. ***Cluster and PFT Level:*** PFT will be responsible for ME&L aspects at the cluster level. The ME&L expert within each PFT will have the primary responsibility of reporting to the district level. The

project will provide computers at this level for data storage and analysis. Reporting frequency will be on a monthly and quarterly basis on formats provided by the SPMU.

38. **District Level:** The district level ME&L coordinator will collect, analyze and aggregate data at the district level and be the point of contact for each district. The district will also be responsible for checking compliance of project activities with the agreed rules and principles. The district level ME&L coordinator will report on a monthly and quarterly basis on formats provided to them by SPMU. The project will provide computers at this level for data storage and analysis.

39. **State Level:** The ME&L specialist will be responsible for the ME&L systems and for the development of a centralized MIS system, which will include an electronic network that will extend up to and include the community and village levels.

Annex 7: Financial Management and Disbursement Arrangements

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

1. The project has a financial management system that is adequate to account for and report the project resources and expenditures.

Table 1: Implementation Arrangements and Financial Management Framework

<i>Level</i>	<i>Institutional Arrangements</i>	<i>Key Financial Management Arrangements</i>
State Level	Executive Committee of the Tamil Nadu "Puthu Vazhvu" Society (State Society)	<ul style="list-style-type: none"> ▪ develop, review and revise financial management policies for the project ▪ receive, review and follow up audit reports ▪ review financial progress ▪ overall oversight of financial management functions
	State Project Management Unit (SPMU): Project Director and Additional Project Director with Financial Advisor and Accounts Team	<ul style="list-style-type: none"> ▪ compile annual budget of project based on annual action plan for SPMU and various DPMUs and submit the same to GoTN for sanction of the budget; ▪ receive funds into its bank account from GoTN as per the allocated budget; ▪ distribute funds to DPMUs on a timely basis as per agreed annual work plans; ▪ institute mechanisms for proper accounting and auditing of project funds at state, district and village level; ▪ compile and forward regular quarterly/annual financial reports to GoTN/GOI/IDA; ▪ submit regular claims for reimbursement of project expenses; ▪ implement capacity building measures for financial management for staff at SPMU and DPMU and ▪ develop policy and strategy for book keeping capacity building at the village level and implement the same.
District Level	Executive Committee of the District "Puthu Vazhvu" Society (District Society)	<ul style="list-style-type: none"> ▪ Overall oversight of district level project financial management functions;
	District Project Management Unit (DPMU): District Project Officer with Finance Officer and Accountants	<ul style="list-style-type: none"> ▪ compile annual budget for the district and submit the same to the SPMU; ▪ receive funds into its bank account from the SPMU as per allocated budget;

<i>Level</i>	<i>Institutional Arrangements</i>	<i>Key Financial Management Arrangements</i>
		<ul style="list-style-type: none"> ▪ appraise sub-project proposals for Village Livelihood/EAG Funds, and verify milestone certificates and release payments to VPs, VPRCs and EAGs on a timely basis as per agreed activities and relevant contractual arrangements and utilize funds for its own activities at district level; ▪ maintain database on village wise sub project agreements, releases, expenditures, contributions, monthly financial statements etc. ▪ compile, prepare and forward regular monthly/quarterly financial monitoring reports to SPMU; ▪ ensure regular and timely audit for district level and village level activities; and ▪ ensure implementation of capacity building activities for building skills in financial management for village level and cluster level institutions, etc. .
Cluster Level	Project Facilitation Team: Finance Specialist	<ul style="list-style-type: none"> ▪ assist the VPRC in implementing the accountability framework (including public displays and external audit); ▪ train and provide hand-holding support to the Village Accountants in book keeping functions; ▪ monitor the maintenance of books of accounts at the Village level;
Village Level	Village Poverty Reduction Committee (VPRC): Secretary and Treasurer with Accountant	<ul style="list-style-type: none"> ▪ sign financing agreements for VPRC Fund with DPMU; ▪ receive funds from DPMU against financing agreements and deposit the same in project bank account to be operated by two members from among the SHG representatives who are members of VPRC, will be called Secretary and Treasurer; ▪ plan, implement and supervise activities under VPRC fund; ▪ engage an accountant and ensure that all project expenditures and income are accounted for in the books of accounts; ▪ submit monthly, quarterly, half-yearly and annual financial progress report to the DPMU through PFT ▪ request for funds from DPMU along with milestones certificates; ▪ provide all books of accounts and other records for project audit; ▪ appoint Finance and Procurement Sub-Committees with the approval of Village Assembly and entrust them with them specific financial management and procurement functions;

<i>Level</i>	<i>Institutional Arrangement</i>	<i>Key Financial management Arrangements</i>
		<ul style="list-style-type: none"> ▪ ensure that all financial management and procurement decisions are documented in the Minutes Books of the VPRC, Finance and Procurement sub-committee meetings; ▪ arrange permanent public display boards at a prominent place in the village, showing updated information on financial progress, subprojects approved with beneficiary lists; ▪ receive and account for initiation fund of Rs. 25,000; ▪ appoint SAC to maintain oversight on the VPRC activities and certify milestone certificates; ▪ prepare and submit for appraisal sub project proposal for Incentive Funds; ▪ receive, plan, implement and account for activities included in the sub project for Incentive Funds; ▪ submit monthly financial reports and copies of quarterly audit reports to DPMU through PFTs.
	Economic Activity Groups: book keepers	<ul style="list-style-type: none"> ▪ with the assistance of VPRC and PFT, prepare and submit Livelihood subprojects to DPMU; ▪ sign subproject financing agreements with DPMU; ▪ open bank accounts, deposit own contributions and receive project funds; ▪ implement and maintain books of accounts for all sub project expenditures and income; ▪ submit milestone certificates for completion of milestones as per agreed format and request for release of subsequent tranches from DPMU; ▪ facilitate periodic audit of sub project expenditures by SAC and project auditors.
	Procurement Sub Committee	<ul style="list-style-type: none"> ▪ guide VPRC, VP and EAGs in their procurement functions; ▪ ensure that the procurement guidelines elaborated in the COM are complied with; ▪ assist the VPRC, VP and EAGs to negotiate for highest quality and best prices
	Finance Sub Committee	<ul style="list-style-type: none"> ▪ guide VPRC, VP and EAGs in its financial management functions; ▪ ensure that the financial and accounting guidelines as laid out in the FMM and COM are complied with; ▪ conduct periodic surprise cash checks; ▪ facilitate the audit process,
	Social Audit Committee	<ul style="list-style-type: none"> ▪ carry out periodic audits (including financial) of VP, VPRC, EAG sub projects; ▪ certify all milestone certificates and submit regular reports to Village Assembly and the Gram Sabha;

Financial Management Capacity Assessment

2. **State Public Financial Accountability Assessment:** A preliminary assessment of public financial accountability arrangements in the state of Tamil Nadu was carried out by the Bank in 2003-04 which concluded that the framework for public financial accountability in Tamil Nadu is generally sound. Its strengths include: (i) the oversight role of legislature over public finances; (b) regular compilation and timely preparation of monthly accounts and presentation of annual financial statements (usually within six months after close of accounts); and (iii) the constitutionally guaranteed independence and broad mandate of the Comptroller and Auditor General (C&AG). However, some areas need strengthening. GoTN has outlined agenda for further strengthening financial management and prioritized several actions in this regard.

3. In case of the proposed project, the important state level Public Financial Management (PFM) issues are GoTN's commitment for timely and adequate counterpart funds to the State Society, GoTN's oversight of project progress and use of project funds, audits and legislative oversight.

4. **Panchayat Issues:** The PRI in the state of Tamil Nadu consists of 29 District Panchayats, 385 Panchayat Unions and 12,618 Village Panchayats. As in the case of all states, weak financial management and accounting/reporting are identified to be some of the primary challenges in decentralization.

5. A study of Accounting and Accountability Arrangements in PRIs in Tamil Nadu, undertaken as part of the project preparation process, indicates that while basic accounting and reporting systems may be reasonably adequate for transaction based accounting, these do not provide the information required for ongoing monitoring, performance evaluation or determining the cost of services. There is an urgent need to modernize the accounting system by introducing modified double entry accounting systems, developing uniform accounting codes or rules and new appropriate chart of accounts accompanied by computerization of the new systems. The entire accounting and reporting system is dependent on the Panchayat Clerk, who may either be appointed directly by the VP or is appointed by the state government (in 15-20% of the VPs). Each VP prepares a monthly consolidated financial report, summarizing the financial transactions and detailing cash and bank balances.

6. Accounts are required to be maintained at all three tiers of PRIs, and are audited annually by the Local Fund Audit Department (LFA). The LFA however only covers 10% of the Village Panchayats every year on a sample basis and the primary responsibility rests with the Deputy Block Development Officer (Dy. BDO). The Dy BDO conducts regular quarterly audits and follows up on audit observations.

7. Other major issues are:

- (a) need for capacity building/training of the PRIs on accounting and financial management issues,
- (b) need to develop mechanisms to enhance local-level transparency and accountability to elected local officials,
- (c) regularity and user-friendliness of accounts and audits; and responses to and follow-up action on Audit Reports, and
- (d) a computerized system of reporting is being developed (Panchayati Raj Information Systems) and is expected to be rolled out. However a detailed action plan/ time frame for the roll out of the hardware, software, training and clarity on whether it is an accounting or a MIS software does not seem to be in place.

8. While more generic PFM improvements at all the three Panchayat tiers are beyond the scope and mandate of the project and are being addressed at the state level, the project design attempts to mitigate

the fiduciary risks by instituting specific procedures that promote positive changes within the context of its operations.

9. **Capacity of the Community:** Some of the members of VPRC and EAGs will include representatives of SHGs who are already functioning under Mahalir Thittam project being implemented by Women’s Corporation. In Mahalir Thittam project specific measures have been taken for capacity building of SHGs in book keeping and record keeping. There is a system of having Master Trainers at state/regional level who train staff of NGOs. The NGO staff provide two-day training to SHGs (two representatives from each SHG, one of whom is the Animator of the group). This training includes topics on book keeping and record keeping for SHGs. Mahalir Thittam project has also developed a manual for SHGs which includes information on book keeping. Under the project, a strategy for capacity building of village level institutions will be developed which will include specific modules on book keeping.

10. **State Society and District Societies:** The Core Project Team for preparation of the project at State Level will be part of the new State Society. The Women’s Corporation has been implementing Mahalir Thittam and therefore staff of the Women’s Corporation who will now be part of the State Society and District Societies are experienced in running accounting system for Mahalir Thittam.

11. Assessment of Women’s Corporation was carried out and some of the lessons learnt have been incorporated in designing accounting system for State Society and District Societies. The conclusion was that while the Corporation had well established accounting system, there were weaknesses such as inadequate monitoring of financial progress against annual plans/budgets, inadequate accounting and financial management capacity at the DPMUs, computerized accounting system not fully implemented, absence of accounting manuals and documented procedures. These lessons as well as lessons drawn from similar projects have been taken into account in planning accounting system for the project for SPMU and DPMUs.

Strengths and Weaknesses

12. **Strengths:** The project has the following strengths in the area of financial management:

- (a) Project specific accounting and reporting requirements for State Society and District Societies have been documented in FMM. The COM has been prepared to guide the village level institutions such as VPRCs and EAGs in sub-project processes and procedures. The COM includes simple accounting and financial reporting systems and would be revised and improved periodically based on implementation experience.
- (b) The staff in the Societies at SPMU and DPMU will include the Core Team which was involved in project preparation and have rich experience of managing a similar project of Mahalir Thittam.

13. **Significant weaknesses:** The mitigation measures deployed for the project to deal with weaknesses are as follows:

<i>Significant weaknesses</i>	<i>Mitigation Measures</i>
Number and quality of staff at DPMUs may be variable, affecting the quality of financial information available at the SPMU	<ul style="list-style-type: none"> (i) Staffing norms providing details of the skill base have been determined at all levels; (ii) State Society will ensure that adequate training is provided at all levels and monitor the qualitative aspects of the financial information being provided; (iii) Financial Management Manual has been developed to document procedures applicable at state and district level; (iv) Computerized accounting system will be strengthened/procured for state and district level to streamline accounting and financial reporting

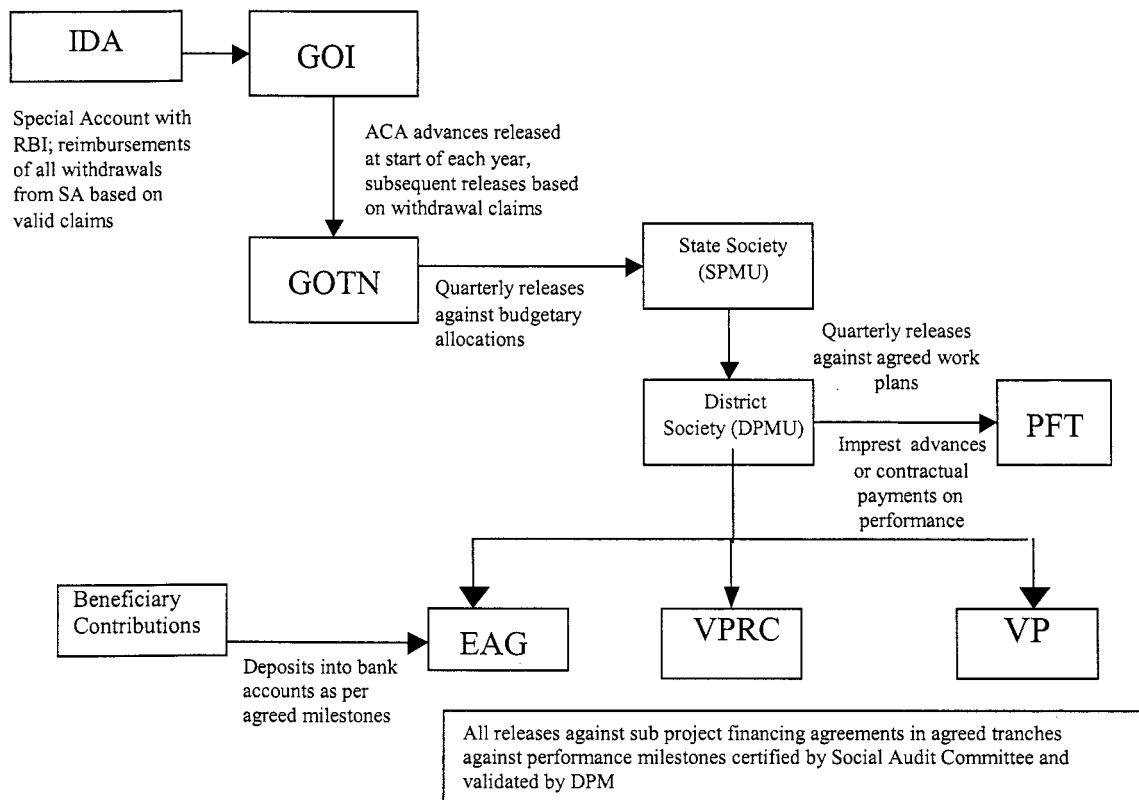
Planning and Budgeting

14. The project’s planning process will follow a ‘bottom-up’ approach i.e. it will grow out of village level plans and get consolidated into district and state level annual work plans. The project planning process for each financial year will follow the budgeting cycle of the state and will be completed when the project estimates are included in the state budget, presented and approved by the State Legislature as ‘demand for grants’ through the Annual Appropriation Act. Supplementary or additional grants are approved by subsequent appropriation acts. The project will be budgeted as a separate line item in the State budget and the funds will be released to the State and DPMUs in line with standard State financial procedures.

Funds Flow

15. Figure 1 provides the fund flow arrangements for the project.

Figure 1: Funds Flow Arrangements



Accounting Policies, Procedures and Systems

16. SPMU and DPMUs will maintain their accounts on cash basis following double entry book keeping principles. Initially the project will use the accounting software currently used at State and

DPMUs of Women's Corporation (EX software), as project staff are experienced in its use, but a review of computerised accounting system for the project at state and district societies will be undertaken during project implementation.

17. An FMM for the SPMU and DPMUs and the COM, including accounting and financial reporting requirements (FMRs) for all levels of village institutions, have been prepared. They document in detail accounting and financial management processes such as funds flow, budgeting and audit arrangements. The financial and accounting policies contained in these manuals shall supplement the policies adopted for State Society, District Societies and existing procedures of VPs.

18. For the pre-existing institutions like VPs, the standard prevalent accounting mechanism will be used to account for project funds. While the design of the accounting system does not envisage separate sets of books of accounts for VP, the project related expenditures will need to be separately identified and classified as per the chart of activities/components.

19. The key issues that have been addressed in the design of the accounting policies and procedures are:

- State and District Societies will be the primary accounting centers under the project. VPRC, EAGs and VPs will maintain accounts for funds received from the project, including their own contribution and will be monitored on a memorandum basis by the project
- Double entry accounting system will be followed and accounting practices will be in line with consistently applied national Accounting Standards, in each of the accounting centers.
- All release of funds from State Society to DPMUs against approved district level work plans will be recorded as grants in the respective books of accounts. On consolidation of the district and state accounts, actual expenditures at each level will be reflected as per monthly/quarterly financial reports. The compilation of financial statements of District and State Societies will be carried out on a regular basis (monthly, quarterly, annual and cumulative over project period) to prepare project level consolidated statements and will be used for preparation of withdrawal claims and monitoring of project financial progress by the Project management, GoTN and IDA.
- At the district level, all releases of funds for approved and appraised sub-projects to VPRC, VPs and EAGs will be against financing agreements and will be recognized as expenditures as these payments will be based on achievement of performance and financial indicators.
- Release of initiation funds to VPs of Rs. 25,000 will be treated as advance and actual expenditure will be recorded in DPMU based on reports from VPs. VP will submit utilization certificate to the DPMU to support their claims for expenditure against initial advance of Rs. 25,000.
- Other releases of funds to suppliers/SOs/NGOs etc. will be accounted for as advances in the books of accounts and adjusted to expenditures only on submission of expenditures.
- In the EAG books of accounts, assets both acquired and constructed will be valued at total gross cost of the subproject, including beneficiaries' contribution. The books of accounts will reflect all receipts and expenditures for the subproject costs (including beneficiaries' own cash/labor/material contributions as well as funds raised from MFIs).
- Accounting entries will be made in the books of accounts of SPMU and DPMUs for the beneficiary share of the subproject costs. All accounting entries for beneficiary contributions will be made on the basis of milestone certification, except for the upfront cash deposits, which will be accounted for on the basis of evidence of bank deposit slips and bank passbooks.

- Materials and other assets purchased will be recorded as expenditures at the time of purchase itself. However, an asset management system for assets procured under the project would provide guidelines for its classification, custody, security, disposal and annual verification procedures.

Training and Capacity Building Requirements

20. The accounting staff at the SPMU and DPMUs will need to be trained in the requirements of accounting and reporting systems for the project. In-house training programs will be arranged by the State Society for staff at the start of the project and repeated as and when required. In addition, the FMM and COM, documenting accounting and financial arrangements (including formats of reports) will be made available to all accounting staff.

21. The State of Tamil Nadu has a long history of well managed SHGs that have demonstrated abilities of book-keeping and accounting arrangements. Experiences from Andhra Pradesh, Sri Lanka and other CDD projects however, indicate the need for high level of investments in building the capacity of village book keepers, with clear definitions of roles and responsibilities of master trainers. A standard menu of training modules will be developed for each level of village institutions and this training will need to be done as part of the capacity building plan at different points of the project cycle. This would include standard training modules for VPRC, VPs and EAG members as well as more detailed modules for master trainers and book keepers.

22. The lessons learnt also indicate that it is important to have some ownership of this function at the PFT level i.e., identified staff positions who have the responsibility of monitoring quality & accountability arrangements and providing hand holding support to master trainers and book keepers.

Internal Control

23. For State Society and District Societies the applicable framework will be delegation of financial powers, authority and payment responsibilities, which will be documented in the Handbook for Accounting and Administrative Procedures and various office orders which will be issued from time to time. Additionally, approval processes for specific project activities as outlined in the project FMM will be followed. These will be reviewed constantly to ensure that these remain valid and adequate during project implementation.

24. Some of the other key control parameters are as follows:

- Payment/release processing time (service standards) will form part of FM performance indicators and will be reviewed regularly.
- Each accounting unit will close the books of accounts within a specified number of days of the close of each month, reconcile its balances with bank statements and books of accounts and forward the same to the next level of authority in the institutional hierarchy, and State Society will provide oversight on the qualitative and timeliness aspects of the reporting.
- At the VP, VPRC, and EAG levels, recording of all financial decisions in the minute books, public displays of financial information, access of accounting records to all members and social audit procedures will ensure that transparency and oversight functions are maintained.

Audit Arrangements

25. **External Audit:** As per the statutory requirements of the Societies Act, the Executive Committee of the State Society will appoint a firm of CAs for audit at the level of the State Society. The

same auditor will also be appointed by District societies to perform audit of their activities. The auditor will also audit and certify the compiled and consolidated annual audit report for the whole project, to be submitted to the Bank no later than 6 months after the end of each financial year. The TORs for the auditor will be agreed with the IDA.

26. The annual audit report would consist of: (i) annual financial statements; (ii) audit opinion confirming whether the annual financial statements have been prepared, in accordance with consistently applied national Accounting Standards and give a true and fair view of the operations of the project during the year; and (iii) management letter highlighting the areas which require improvements.

27. Thus the following audit reports will be monitored in the Audit Reports Compliance System (ARCS):

Implementing Agency	Audit	Auditors
State Society	Consolidated Financial Statements of State and District Societies.	Firm of CAs
Department of Economic Affairs/GOI	Special Account	Comptroller and Auditor General of India, New Delhi

28. The project may also be subject to audit by the Accountant General (Externally Aided Projects section).

29. **Internal Audit:** An internal auditor will be appointed by the Executive Committees of State Society and District Societies for performing audit on a quarterly basis. The internal audit will review project financial management systems and adherence to Government Orders, office orders, instructions issued by the State Society, adequacy of internal controls, etc. The scope of internal audit will include all accounting units (State Society and District Societies) and include a review of mechanisms in place to conduct regular audits of VPRCs and EAGs and follow up of audit observations. In case of VPs, the separate account in which project funds will be deposited will be audited. The TORs of internal audit will be agreed with IDA.

30. **Audit of Village Level Activities:** The project will engage CA firms at the district level or at regional level, to conduct a six monthly audit of the VPRCs and VPs (the separate account for the project funds), and a one-time audit of the EAGs on completion of the subprojects. TORs for audit of village level institutions such as VPRC, VPs and EAG will be agreed with IDA.

31. The District Society will maintain an updated database of the audit reports received and take follow-up action on delayed or inadequate reports, audit observations, etc.

Reporting and Monitoring

32. Each accounting center will compile financial information provided by the constituents in agreed formats designed to provide an audit trail. The summarized quarterly financial reports will form a part of quarterly Project Monitoring Report/s and will be prepared from the start of the project, submitted to the Bank within 45 days of the close of the quarter and used by the project at the state and district level and the funding partners (IDA and GoTN) for monitoring and management decision making.

33. VPRCs will prepare a simple monthly financial report summarizing: (i) the sources and uses of funds, indicating the balances in cash/bank; (ii) contributions in labor and materials; and (iii) physical progress of works/activities. The report will be presented to its members in the VPRC meetings and will provide all records for scrutiny by members. The submission of the monthly financial report will be required as a pre-condition for further releases to VPRC.

34. VPs will submit quarterly financial statements to DPMU, on the utilization of the VP Initiation Fund and the Incentive Funds.

35. The financial management arrangements would emphasize on providing local level transparency, social audit and self-accountability. These measures would include a simple summary of accounts (amounts received from members and the project, amount spent and balances in hand) to be publicly posted on the notice board in the village. In addition, the books/registers, vouchers and bank pass books would be open for perusal by members.

36. The social audit functions at the VP and VPRC as laid down under GoTN circulars, requires the Gram Sabha to review the physical and financial progress of the work during implementation at its meetings. The Village Assembly is also required to approve annual statement of accounts and arrangements for collection of beneficiary contributions.

37. Milestone certificates provided at periodic intervals will provide a detailed summary of the sources and uses of funds (including own contributions and Monthly Financial Reports receipts) for the sub-project. The certificates will be verified by the PFT for completion of the physical milestones before the release of next tranche of funds can be processed.

Information Systems

38. *Computerized Accounting System for State and District Societies:* The State Society will engage a consultant to review the requirements of a computerized accounting system for the State and District Societies. The outcome of the review will be: (a) strengthening the EX software which will be used initially at State Society and District Societies; or (a) procuring another suitable off-the-shelf accounting software. The modified EX system or new system should be capable of consolidating accounts within the statutory time limit, facilitate financial monitoring and reporting and have the ability to allow multiple projects to be handled, while maintaining a simple and efficient accounting system. The strengthening of existing EX software or implementation of the new system will be completed within 6 months of effectiveness of the project.

Disbursement Arrangements

39. Disbursements from IDA credit would initially be made in the traditional system (replenishment and reimbursement with full documentation and against statement of expenditure) and could be converted to Report based disbursements at the option of the GoTN and GoI after successful demonstration of regular, timely and adequate FMRs.

40. A Special Account would be maintained in the Reserve Bank of India; and would be operated by the DEA, GoI. The authorized allocation of the Special Account would be determined in consultation with LOA that represents about 4 months of initial estimated disbursements from the IDA Credit. The Special Account would be operated in accordance with IDA's operational policies.

41. State Society will compile financial information from all its management constituent agencies and prepare reimbursement claims on a monthly basis. The Society will also be responsible for submission of withdrawal applications to CAA&A in DEA for onward submission to the Bank for replenishment of the special account or reimbursement.

42. Since the design of the project is largely community-based, disbursement procedures applicable to CDD projects, as explained in *Fiduciary Management for Community-Driven Development Projects: A Reference Guide (May 2002)*, will be applied.

43. Releases to VPRC and EAGs will be treated as expenditure at the time of disbursements as these disbursements will be against agreed milestones as per financing agreements between DPMU and VPRCs/EAGs. Release of Incentive Funds to VPs will be in two installments and releases will be treated as expenditure as release will be subject to VPs satisfying agreed criteria established by the project.

44. Disbursements will be made on the basis of statement of expenditure for (a) civil works for contracts not exceeding US\$500,000 (b) goods and equipment for contracts not exceeding US\$ 500,000; (c) consultants for contracts not exceeding US\$ 50,000 for individuals and US\$ 100,000 for firms; and (d) incremental operating costs.

45. Retroactive Financing: GoTN has requested for retroactive financing of US\$1.5 million to meet the expenditures incurred since February 28, 2005, including those that are anticipated upto the Credit signing. The activities to be covered under the retroactive financing are consistent with the financing categories as agreed with IDA.

Supervision Plan

46. From a financial management perspective, the project will need intensive supervision. The focus during the supervision will be on building capacity of the village level institutions, internal controls, fund flows, assessment of delays and lags in submission of FMRs and audit reports.

Annex 8: Procurement Arrangements

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

General

1. Procurement for the proposed project would be carried out in accordance with the IDA's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. The nature of the project is essentially community driven and as such most of the procurement would be carried out by community groups and VPs. Unlike normal investment projects, the procurement through community participation cannot be planned upfront. However, GoTN has prepared the Procurement Plan for the first eighteen months for other components. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement for Village Livelihood Program

2. The project would be implemented in about 2,300 VPs covering about 350,000 target families. The Village Livelihood Program consists of building and strengthening institutions of the poor, productive economic activities for livelihood improvement, capacity building activities and seed fund for SHGs, and Village Panchayat Incentive Fund. This component would be the most important component, for which about 81% cost of the project would be spent. The bulk of the funds are allocated for the Village Fund subcomponent in the form of "subproject grants". The Village funds subcomponent (80% of total cost) will fund subprojects which are demand driven in nature, making it difficult to determine ex-ante what is to be procured. Grant funds from the project can be used for services, goods, training and works. The village institutions (VPRC, EAG and VPs) may obtain technical, management support and advice from the technical service providers, SOs or individual consultants, for these services. The procurement at the community/village level would be guided by "Community Participation in procurement" (Para 3.17 of the Guidelines). The VPRCs, EAGs or VPs will be guided by the principles of efficiency, equal opportunity, cost-effectiveness and transparency of the process. The EAGs will manage and implement the subprojects and directly hire contractors/service providers and purchase materials locally to ensure minimal delays and reduce inefficiencies due to loss during transport and storage. Standard price lists (based on market rates) will be developed, maintained and updated regularly under the guidance of the PFTs and DPMUs, and will be used by the communities as standard rates to guide their procurement. The contracts would be very small costing about US\$20,000 or less per subproject. The procedures to be adopted are simple and flexible. At the same time enough safeguards will be provided in the COM for ensuring fiduciary requirement and efficient utilization of funds.

3. The procurement procedures to be followed under the Village Fund sub-component would be as under:

(a) **Works:** Most works undertaken in the Village Fund sub-component will use community participation to mobilize and pay labor. A small number of works may need to be procured through small works. The following methods will be used: (i) community/Panchayats carrying out the works themselves and taking up technical/managerial assistance from Government Agencies or SOs or hiring services of individual experts as needed; or (ii) award the whole or part of work on direct contract to community organizations, such as federations or SHGs or registered SOs; or (iii) award the whole or part of work to qualified domestic contractors after inviting three quotations in response to a written invitation; or (iv) award the whole or part of work to qualified contractors after inviting Competitive Bids.

(b) **Goods:** The goods estimated to cost less than US\$ 200 per contract may be procured through direct contracting procedures, and the direct contracting should be in accordance with the procedures as specified in the COM. Goods estimated to cost less than US\$ 30,000 per contract would be procured through shopping procedures on the basis of at least three quotations. Goods estimated to cost more than US\$ 30,000 per contract would be purchased following open tendering procedures.

(c) **Services:** The services estimated to cost less than equivalent of US\$1,000 may be hired following Section V of Bank's Guidelines for the Selection of Consultants by inviting proposals from three or more service providers or technical consultants or under single source method. Consulting services estimated to cost less than US\$10,000 may also be hired based on consultant qualifications. Any service contracts costing more than US\$10,000 but less than US\$50,000 should be invited through newspaper advertisement.

4. The procurement for Seed Funds would be on the basis of Direct Contracting or commercial practices.

5. In order to ensure that the funds are spent for intended purpose in efficient and transparent manner, strong reliance will be placed on Social Audit. Procurement for subprojects will be carried out by a procurement committee of the subproject. The detailed Guidelines, including the formats, social and financial audit etc. functions of various committees and procurement aspects are included in the COM. The COM will be updated by the Project on the basis of implementation experience after getting clearance from the Bank. In addition, terms of reference of CAs to be appointed by DPMU will include review of procurement carried out under the subprojects by the community. Summing up, the fiduciary safeguards for procurement under community participation are expected to be achieved through the following:

- Procurement Committee
- Social Audit Committee
- Audit by CAs
- Transparency in procurement process
 - The community having full access to accounts and procurement procedures
 - Display of information regarding procurement at appropriate locations

The procurement for other components

Procurement of Works

6. There will be small civil works costing less than US\$ 10,000 per contract in most of the cases. These may not be suitable for competitive bidding due to the small amounts and scattered nature. Therefore, the works would be carried out following Shopping procedures in accordance with Para 3.5 of the Guidelines. However, if the implementation authority wants to adopt open bidding, then National Competitive Bidding (NCB) procedures would be followed in accordance with Para 3.3 and 3.4 of the Guidelines.

Goods, Equipment, Furniture and Supplies

7. **NCB:** Goods estimated to cost less than the equivalent of US\$ 500,000 per contract [e.g., furniture, computers and peripherals, office equipment, vehicles, training equipment etc.] would be

procured following NCB procedures in accordance with the provisions of Para 3.3 and 3.4 of the Guidelines. The acceptable procedures for NCB contracts are given in the Attachment 1 to this Annex.

8. **Shopping:** Goods estimated to cost less than US\$ 50,000 per contract [e.g., small items of equipment which are available off-the-shelf, urgent requirements of computers, audio-visual equipment, furniture etc.] would be procured under Shopping procedures in accordance with Para 3.5 of the Guidelines. Rate contracts of the Directorate General of Supplies and Disposals (DGS&D) would be acceptable as a substitute for Shopping procedures.

9. **Direct Contracting:** Goods and equipment of proprietary nature estimated to cost less than US\$ 10,000 equivalent per contract [e.g., books, periodicals, extension and publicity materials, software, proprietary equipment and spares etc.] would be procured using Direct Contracting procedures in accordance with Para 3.6 of the Guidelines. Petty items costing US\$ 100 equivalent or less, may also be procured following Para 3.6 of the Guidelines.

Training and Consultancies

10 The project involves substantial efforts for capacity building of village institutions –VPRC, VPs, SHGs and EAGs and their federations and community members, enabling them to function as pro-poor, accountable, transparent and efficient local institutions and to identify, appraise, implement and monitor village livelihood sub-project investments. The project would also support skill development training. The project would further support training for capacity building of state and district level teams.

11. The consultancies would be mostly for hiring NGO services and other service providers for community subprojects. The consultancies include baseline survey, monitoring and learning, environmental assessment, consultancies for developing training modules, etc. The shortlist for consultancies estimated to cost US\$ 500,000 or less may comprise entirely national consultants in terms of Para 2.7 of the Guidelines.

Assessment of the agencies capacity to implement procurement

12. Due to the demand-driven nature of the project, it is not possible to prepare a detailed Procurement Plan and Schedule for the community driven activities. Intense efforts will be required to build the capacity of the community in preparation, implementation and maintenance of subprojects. The community will also need to be trained in accounting and financial management, and social audits. The project includes a comprehensive capacity building plan for the communities and PFTs which will include training in community procurement. This will be a continuous activity spread over the project period.

13. So far as capacity of the implementing agency is concerned, the procurement is small and simple. The project has appointed a person having relevant background under IDA financed projects. The Specialist has also been trained at Administrative Staff College of India [ASCI]. The project is also implementing two Grants [PHRD/JSDF]. This will also give exposure to the staff in following IDA's procurement procedure. This is considered sufficient for the project at this stage. During implementation, the capacity will be reviewed and corrective measures, if required, will be adopted.

Procurement Plan

14. GoTN has prepared a procurement plan for project implementation which provides the basis for the procurement methods [other than Part A-1 of the project which involves procurement through community participation]. This plan will be agreed between GoTN and IDA during the negotiations, and will be available in PIP and in IRIS. It will also be available in the project's database and in IDA's

external website. The Procurement Plan will be updated in agreement with IDA or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of Procurement Supervision

15. In addition to the prior review supervision to be carried out from IDA, the capacity assessment of the Implementing Agency has recommended two supervision missions to visit the field to carry out post review of procurement actions.

Details of the Procurement Arrangements Involving International Competition

16. As present planning, the project does not envisage any International Competitive Bidding (ICB) contract.

Prior Review Thresholds

Works and Goods

17. The procurement plan indicates prior review thresholds. At present these thresholds are US\$500,000 equivalent or more per contract, both in case of works and goods. As per the present planning upto 18 months, there is no contract under prior review for both works and goods.

Consulting Services

18. Consultancy services estimated to cost above US\$100,000 equivalent per contract and single source selection of consultants (firms) for assignments estimated to cost above US\$50,000 equivalent will be subject to prior review by the Bank. As per the current planning, no international consultancy is envisaged under the project.

19. The prior review thresholds mentioned above will be reviewed and revised during the implementation project, as needed.

Agreed Procedures for National Competitive Bidding [NCB]

- i) Only the model bidding documents for NCB agreed with the GOI Task Force [and as amended for time to time], shall be used for bidding;
- ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper, at least 30 days prior to the deadline for the submission of bids;
- iii) No special preference will be accorded to any bidder either for price or for other terms and conditions when competing with foreign bidders, state-owned enterprises, small-scale enterprises or enterprises from any given State;
- iv) Except with the prior concurrence of the Bank, there shall be no negotiation of price with the bidders, even with the lowest evaluated bidder;
- v) Extension of bid validity shall not be allowed without the prior concurrence of the Bank (i) for the first request for extension if it is longer than eight weeks; and (ii) for all subsequent requests for extension irrespective of the period (such concurrence will be considered by Bank only in cases of *Force Majeure* and circumstances beyond the control of the Purchaser / Employer);
- vi) Re-bidding shall not be carried out without the prior concurrence of the Bank. The system of rejecting bids outside a pre-determined margin or “bracket” of prices shall not be used in the project;
- vii) Rate contracts entered into by DGS&D, will not be acceptable as a substitute for NCB procedures. Such contracts will be acceptable however for any procurement under National Shopping procedures;
- viii) Two or three envelop system will not be used.

Annex 9: Economic and Financial Analysis

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

1. The total cost of the project is estimated to be US\$ 159 million. The project is designed to channel 90 percent of the total project costs directly to the communities. The costs are to be financed from three sources: IDA (US\$ 120 million), GoTN (US\$ 27 million) and Community contribution (US\$ 12 million).

Fiscal Impact

2. The project will provide direct benefits to 350,000 households located in 70 blocks in 15 districts in Tamil Nadu by improving their livelihood patterns and increasing incomes. The project will provide direct benefits to the poor in the state by improving their livelihood strategies and increasing incomes. The project is expected to have both positive and negative fiscal impacts. The positive impacts of the project include: (i) a more cost-effective approach to implementing anti-poverty program that would provide fiscal savings and allow the state to broaden its anti-poverty programs; (ii) the cost sharing principle would encourage both greater ownership and commitment of the beneficiaries and also rigorous evaluation and monitoring of implementation activities at the community level; changing the culture at the village level; (iii) support strong and sustainable institutions of the poor which have greater decision making power, a voice to demand services and accountability; it will contribute to the strength and legitimacy of the Gram Sabha; and make the VP more responsive to the poor peoples' needs and aspirations; (iv) improve transparency, accountability and governance of the village institutions including VPs and (v) generate incomes for the poor and lead to local economic growth that could potentially improve revenues at the local and state levels. The project would also lead to a wide array of social, institutional and economic benefits, mostly long term, that are not easily quantifiable. Because of the inherent difficulties associated with the measurement of these benefits, no attempt will be made to quantify these benefits resulting from the project.

3. The costs would arise from GoTN's expenditure on counterpart funding. The total Government contribution for the project is US\$27 million for the 6 year period - approximately US\$ 5million (Rs. 22.5 Crores) per year. For the current year (2005/06), this would be 0.24% of the total annual outlay of Rs. 9100 Crores, which should not have a major fiscal impact. This amount is additional to GoTN's substantial spending on women's empowerment and poverty reduction programs. GoTN's counterpart funding would finance recurrent costs, mostly salaries and allowances of the PFTs and Government staff at the SPMU, DPMUs and PFTs. GoTN would bear only incremental cost for Government staff after project closure with no liability for all other contractual staff. Further, all recurrent expenditures for the subprojects will be met by the communities. But given that these expenditures would be on a demand driven basis they are expected to have high returns.

Financial viability of micro enterprises

4. Introducing a variety of livelihood improvement activities that are based on local resources and skills is a major component of the project. Ensuring the economic viability and financial sustainability of such activities is a priority. Assessment of financial viability of projects will involve careful evaluation of cash and other resource requirements, credit needs, repayment capacity, monthly cash flows and overall profitability. EAG members will be assisted in preparing simple household (farm) level budgets that they can easily understand. The information would in turn help in assessing the viability of the sub-project proposals as well.

5. Care will be taken to ensure that only assets that cannot be owned jointly by EAGs can be owned by individuals and, and only activities that cannot be carried out profitably individually will be carried out jointly. Whenever joint ownership of assets or common management of an enterprise/activity is required, care will be taken to ensure clear division responsibilities/tasks, systems for payments for tasks performed, and allocation of surpluses, including that for operation and maintenance costs of assets, depreciation of assets, general reserves, etc. Wherever necessary and feasible, jointly owned enterprises will also be registered under appropriate legal forms such as partnerships or producer companies.

Annex 10: Safeguard Policy Issues

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

Environmental safeguards

1. A key objective of the Project is to support employment generation and livelihoods improvement for the target poor in the project villages. The project will accomplish this objective through a participatory and community-driven process. Under this approach, the project interventions will be focused on forming and strengthening VPRCs, SHGs and EAGs, which will become the decision-making bodies in regards to the employment generation and livelihood improvement activities in their respective areas. These activities would be demand driven subprojects, and will be proposed by the EAGs based mostly on the analysis of their livelihoods in terms of skills, resources, income-expenditure patterns, value-chains and the opportunities for new and innovative livelihoods.

2. It is imperative to ensure that the environment is not compromised in the process of livelihoods generation. Since the subproject proposals will be proposed by the EAGs, exact information on subprojects that will arise out of the Project is not available *a priori*. While the nature and scale of subprojects are not expected to cause any serious long-term adverse impacts on the environment, it is important to design environmental safeguards for ensuring that:

- subproject proposals with severely adverse and unmanageable environmental impacts are not approved;
- subprojects are designed and implemented with adequate and appropriate environmental mitigation measures;
- cumulative environmental impacts of subprojects are addressed;
- environmental benefits of subprojects are enhanced and environment-enhancing livelihood activities are promoted; and
- long-term sustainability of the benefits from subprojects is assured by securing the natural resource base on which they are dependent.

3. 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 environmental aspects can be adequately addressed for a vast range of subproject activities that could be potentially proposed by EAGs and supported by the project. The EMF comprises of the following components:

- environmental appraisal procedure for categorization of subprojects and triggering of appropriate mitigation measures;
- Technical Environmental Guidelines (TEGs), which have been developed to address the environmental concerns associated with specific subproject activities likely to be supported by the project. These are complemented by a list of subproject activities that would not be supported by the project due to their severely adverse environmental consequences. The EMF also incorporates a cultural property plan and a pest management plan for the subprojects where these issues may be significant;
- Environmental Monitoring and Evaluation Plan; and
- Environmental Training and Capacity Building.

4. The EMF lays out the roadmap for activities pertaining to environmental aspects of subprojects that have to be carried out at the planning, approval and implementation stages of the subproject cycle.

5. A Village Livelihood Plan (VLP) will be developed by the VPRCs. Based on this and other information, individual subprojects will be developed by EAGs and will be subject to an environmental appraisal. The appraisal will include environmental categorization of the proposed subproject, and prescription of the required environmental assessment requirements and the required mitigation measures. The subproject proposal will also be scanned to ensure that it is not included in the “negative” subproject list (subprojects with potential severely adverse and unmanageable environmental impacts).

6. The EMF lays out the organization process for ensuring that the environmental safeguards are followed through all the stages, starting from subproject proposal submission by the EAGs, through the implementation of the subprojects. The specific activities at each step are delineated, along with the assignment of responsibilities for them. A summary of the EMF activities is presented in Table 1 below.

Table 1. EMF activities in Sub Project Cycle

<i>Responsible Agency</i>	<i>EMF Activities</i>	<i>Outcomes</i>
PLANNING AND DESIGN STAGE		
VPRC and Gram Sabha Subproject proponent VPRC Subprojects Sub-committee (with the assistance of the DPMU Appraisal Team, which includes an Environmental Appraiser)	A. <u>VLP Communications Campaign</u> B. <u>Submission of individual subproject proposal to VPRC</u> C. <u>Environmental appraisal of sub-project proposal</u> <ul style="list-style-type: none"> • Environmental appraisal is a part of the over-all appraisal of the proposed sub-projects. • Environmental appraisal checks for absence of the proposed subproject activity from the list of “negative” activities. • Appraisal includes environmental categorization (E1, E2, or E3) of the proposed subproject activity. • Completion of Form A-1 for the proposed sub-project. • The Environment Appraiser will document the baseline site-specific environmental information for each proposed subproject on Form A-1. • Relevant TEGs (from ERM) are attached to Form A-1. • Conditions for final environmental clearance, if withheld, are to be recorded in Form A-1. • If the sub-project activity is classed E3, an EIA needs to be conducted and its report submitted to VPRC with the proposal. The EIA report is submitted to DU for evaluation. 	VLP <ul style="list-style-type: none"> • Completed form A-1 for each sub-project proposal. • TEGs relevant to the proposed sub-project are prescribed. • Unless there are issues requiring revision in subproject proposal, environmental clearance is provided for E1 and E2 class subprojects. • For E3 class subprojects, the requirement for EIA study is communicated to the subproject proponent.
Subproject proponent Environmental Appraiser at DPMU	D. <u>Commissioning of EIA study (for E3 class subprojects)</u> E. <u>Evaluation of the EIA report (for E3 subprojects)</u> <ul style="list-style-type: none"> • Subproject proposal activity is rejected if the EIA report does not adequately address the anticipated environmental impacts. • If the EIA report is acceptable, the subproject proposal is given the final environmental clearance and forwarded to the VPRC. 	<ul style="list-style-type: none"> • EIA report is submitted to VPRC, which forwards it to DPMU • Final decision for E3 class subproject proposals.
IMPLEMENTATION		
DPMU	F. Monitoring and Evaluation 5% of the E1 and E2 class subprojects in operation are randomly selected for environmental monitoring every year. G. All E3 class subprojects are monitored for the specified parameters at the monitoring frequency stipulated in the monitoring plan prepared as a part of the EIA.	Yearly supervision reports

7. 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. In order to mainstream the environmental aspects into the process of livelihoods generation, the EMF also includes an environmental capacity building component, aimed at developing professional environmental management capacity as well as promoting environmental awareness in the project villages.

8. The procedures and materials that have been developed as components of the EMF for the project have been compiled as the “Environmental Resource Manual”, and included in the COM.

Indigenous People (OD 4.20)

9. Tamil Nadu has a total ST population of 0.65 million which constitute about 1.04 percent of the total population of the state. The major tribes include Kadar, Muduvan, Paaliyan, Kanikkar, Malayali, Soliga and Konda Reddi. Majority of tribal families are economically deprived, socially marginalized and lack resources. Their access to health, education, employment and other income generation opportunities is limited. Despite several programs and projects for uplifting tribal communities, they are still marginalized and remain the invisible poor.

10. Thus, in accordance with Bank policy on indigenous peoples outlined in its Operational Directive (OD) 4.20, the project has developed a Tribal Development Plan (TDP) to ensure that the tribal community participates in the project, is involved in decision making, and derives full benefits from project interventions. The TDP is based on information derived from the Social Assessment cum Livelihoods Analysis commissioned by the project. The preparatory activities involved GOTN’s consultations with a range of stakeholders at different levels – tribal hamlets, VPs, block, district and state level officials, consultants and NGOs.

Tribal Development Plan

11. The objective of the TDP under the project is to empower the poor Tribal Communities and improve their livelihoods through: (a) developing and strengthening pro-poor local institutions/groups; (b) building skills and capacities of the Tribals; and (c) financing productive demand-driven subproject investments taking care to foster full respect for dignity, human rights and cultural uniqueness of the Tribal Communities; and that all subprojects are culturally and socially compatible. The project recognizes that Tribals are one of the most vulnerable sections in Tamil Nadu, and has thus adopted the same norms as applicable to special groups like disabled and vulnerable.

12. Scope: The project adopts the classification of Scheduled Tribes in the Constitution for coverage under the TDP. Before project implementation, the SPMU will identify specific marginalized Tribes in different project districts who need to be focused on.

13. Plan Components: The project has three major components: (a) Village Livelihood Program; (b) District and State Support for Village Livelihood Program; and (c) Project Management. All the three components will be part of the TDP and the state does not envisage a separate/special component. Care will be taken to meet the needs of the tribal groups with increased sensitivity of the functionaries, targeted focus, and higher allocation for Tribals.

14. Key Elements of Tribal Plan: The tribal strategy has recognized and incorporated certain key elements and these are described in Table 2

Table 2: Key elements of the Tribal Plan

<i>Key elements</i>	<i>Key considerations and arrangements</i>
Rules	
Inclusion	<ul style="list-style-type: none"> All tribal families to be included under the project, recognizing that they are poorest and marginalized; VPRC to justify non-inclusion of any ST family
Benefits	
VP Fund allocation	<ul style="list-style-type: none"> ST population an important basis; 50 percent higher allocation per family for ST families in comparison to other poor
Productive investment subproject	<ul style="list-style-type: none"> No contribution for taking up skill training Equity contribution of 30 percent with 70 percent grant from the project Waiver of the 10 percent individual contribution as part of the 30 percent equity Promotion of Non Timber Forest Products (NTFP) based and eco-friendly livelihoods Livelihoods promoting protection, conservation, regeneration and sustainable development of natural resources Explore potential of indigenous skills in livelihood options Tribal resource agency to assist with tribal livelihoods and skill development
VP Incentive Fund	<ul style="list-style-type: none"> VPs with a tribal VPRC will get additional 10 points Performance of the VP on implementation of TDP, important criteria for Incentive Fund
Implementation Arrangements	
Project area	<ul style="list-style-type: none"> Preference for blocks with ST population
IEC	<ul style="list-style-type: none"> Specific focus on tribals and their cultural traditions for IEC campaigns Use of methods like folk art, songs, street theatre, simple pamphlets, etc. Emphasis on identifying and nurturing local artists
Institutional arrangements	<ul style="list-style-type: none"> Representative from Village Forest Committee in the VPRC to enhance coordination with tribal livelihoods Separate VPRC in VPs with more than 50 households, representation to the traditional headman (Moopan); will have separate bank account and allocation Tribal subcommittee in VPRCs with 50 or less tribal families; tribal plan to be prepared as part of the Village Plan; VPRCs to certify tribal families have received their due share to become eligible for next installment of VPRC fund
Para professionals	<ul style="list-style-type: none"> Preference to those community members who are familiar and sensitive to the needs of the tribals
Convergence	<ul style="list-style-type: none"> Close working relationship with Forest Department, Tribal Welfare Department and Health Department for meeting critical needs of tribals

15. The Operational arrangements set in place by the project include:
- Village: Tribal VPRC and Tribal subcommittee
 - State and District level: Specialists at the SPMU, DPMU and PFTs to anchor the process;
 - Steering Committee: At the state and district levels with representation from the Forest Department, Health Department, Adi Dravidar Tribal Welfare Department, NGOs and the community.

Gender Strategy and Action Plan

16. Women in rural Tamil Nadu have a primary responsibility for the reproductive functions at the household level and are part of the productive sector – mainly agriculture and allied activities. The Social Assessment revealed that rural women do recognize that improvements in quality in life are closely related to increased education and employment opportunities; and representation in public office. However, women also expressed that domestic violence, prevalence of the dowry system and restrictions

on women's full participation in the labor market are problematic. This was more so with women belonging to poorest households especially the SC, ST, women headed households; and sex workers and single women. These women possessed much lower levels of human capital and faced additional constraints on employment and earnings.

17. With respect to employment opportunities for rural women, agriculture and allied sector provides the largest opportunity. However, there is a striking gender gap, with women earning daily wage rates which are, on average, less than 2/3rds that of men. Some responsible factors are gender division of agricultural tasks, lower productivity for the same activities, and lower pay for similar productivity and activities. There are important differences between men and women in terms of access to, and earnings from, non-farm activities. Gender is strongly and significantly related to non-farm earnings, and women would expect to earn only 2-3% of men's income from non-farm activities. This dramatic earnings gap is likely to be a product of factors like fewer days of non-farm employment for women, women more likely to be highly represented in lower-paid occupations and women receiving lower pay than men for the same occupation.

18. Despite their growing contribution to household income, women still have limited voice in decision making in the family more generally, or even at the community level. Constraints in mobility and social restrictions have prevented more women from entering the non-farm sectors, even though women's earnings opportunities have expanded. Only, women from very poor households, currently have joined the labour force.

Goals, objectives and action plan

19. The goal of the gender strategy is to reduce absolute and relative poverty of women and girls from marginalized sections in the project area and thereby contribute to the achievement of gender-specific outcomes in the project area. The major objectives of this strategy are:

- strengthen participation of women from the poor and most vulnerable families in the village level institutions promoted/supported by the Project – Gram Sabha, SHGs, VPRC, and EAGs;
- increase presence of women, especially those from poor and vulnerable families, in decision making positions of various village level institutions e.g. chairperson and office bearers of VPRCs and EAGs, VPRC subcommittee members;
- increase voice and representation of women in the local self governance institutions,
- strengthen poor women's asset base, livelihood security and economic opportunities; and
- reduce gender specific risks and vulnerabilities of poor women from SC/ST and poorest households.

20. Therefore, gender equity is a basic founding principle of the project, and has been systematically and strategically integrated into the design and implementation of the project. The project is also an important forum to enhance the empowerment of women. The institution and environment building process will not only bring awareness among project stakeholders on gender inequities but will enhance their motivation to address women's needs and empowerment. The areas of project design, and institutional and implementation arrangements that have specifically integrated gender are (i) gender awareness, capacity building and mainstreaming, (ii) women representation in all project supported village institutions, (iii) women's equitable participation and benefit sharing and (iv) support to vulnerable women. While the details are provided in the PIP, the major aspects are described below and the implementation arrangements are in Table 3.

(a) Gender awareness, capacity building and gender mainstreaming: This aims at sensitizing and creating a deeper understanding of gender issues for all stakeholders including community leaders and

project implementation teams, and equipping them to make meaningful contributions at all levels. This would enable women to not only overcome some of the social restrictions related to mobility and workforce participation but also help them have greater participation in decision making at household and community level. Gender specialists at the SPMU, DPMUs and PFTs, will anchor the process. Project ME&L will be gender sensitive.

(b) Institutions and processes: Women, especially the poorest, will be members of not only the SHGs but also EAGs. The Treasurer and Secretary of the VPRC will be women and the representative from all the hamlets in the VPRC will preferably be women. 50% members of the VPRC sub-committees are to be women and of the two leaders in the EAGs, atleast one has to be a woman. In every decision meeting, the attendance of 50% women would be necessary for the quorum. VP's functioning and its eligibility for incentive fund also envisages the sensitivity to women's issues and meeting their demands for service delivery and other aspects.

(c) Livelihood security and economic opportunities: The project has special focus on providing women access to skills, information, resources and assets; and one time grant of 50% of the investment proposal cost; so that they are able to participate in the non-farm sector and able to improve their incomes. Long-term tie-ups for credit, technical inputs and markets are to be set up to support women and their enterprises beyond the project.

(d) Special assistance to most vulnerable: Women from very poor and SC and ST households, and those in special circumstances - widows, destitute, deserted and sex workers; need special support. The project will focus on mobilizing and organizing these women into separate SHGs and provide them seed capital to enable them to be credit worthy and access institutional finance. These women will have an opportunity to enhance their skills and improve their incomes. Women bare a disproportional care burden in families with disabled members. Therefore when the disabled person is unable to participate in the project because of severe disability, the caregiver will be provided special assistance on behalf of the disabled.

Table 3: Implementation of Gender Strategy in the Project

<i>Objective</i>	<i>Strategy</i>
Strengthening poor women's social capital and skill base	<ul style="list-style-type: none"> • identifying poor women, especially the vulnerable – widows, destitute, deserted, sex workers, aged and orphan girls, during the participatory identification of the poor. • mobilizing poor women into SHGs, EAGs and Federations • providing women awareness on legal and political rights, work on social issues like dowry, lack of mobility and domestic violence • building the knowledge and skill base of women to enable them to interact effectively with market forces, technical training for effective use of technology; training women in non-traditional occupations, creating entrepreneurial capacities among women for future job creation for other women • increasing awareness levels of women on government programs and legal literacy
Providing women opportunities for economic activities and asset creation	<ul style="list-style-type: none"> • 75% of the project funds will benefit women • seed funds to promote credit worthiness of SHGs of poor women • creating better availability of financial services to women SHGs and Federations and promoting bank linkages • promoting pro-women livelihood subprojects • asset creation for women by promotion of joint ownership of existing and newly acquired asset base.

<i>Objective</i>	<i>Strategy</i>
Mainstreaming role of women in Decision Making in Village institutions	<ul style="list-style-type: none"> • Gram Sabha quorum requires 50% participation of women • At least 75% of representatives from hamlets to be women • VPRCs and its subcommittees (finance and procurement) to have at least 50% women as office bearers and either President or treasurer should be a woman • Social Audit Committee to have at least 2/3rd women members • Check signatories in SHGs, EAGs and VPRC to be women • At least one of the two office bearers (treasurer or chairperson) in EAGs to be women • all book keepers in SHGs and EAGs to be women • preference to women to train as para-professionals
Promoting equity in Village Panchayats	<ul style="list-style-type: none"> • Eligibility criteria for VPs to access incentive funds include attendance of women (at least 50%) in Gram Sabha meetings, decision making positions held by women in VPRC and other subcommittees, women as SAC members
Building Capacity of key stakeholders in promoting gender equity	<ul style="list-style-type: none"> • Both gender-specific and engendered training programs <ul style="list-style-type: none"> ○ staff at all levels – state, district and cluster on gender awareness and sensitization ○ VP President and Ward members, local politicians, and all VPRC members about gender concerns ○ women on leadership and management skills for them to function effectively in various positions, participation in Gram Sabhas, project related issues • 40% of all recruitment on the project to be women involving non-traditional roles (like finance, livelihood and monitoring), are occupied by women. • Specialists at cluster, district and state level to anchor the responsibility for gender related outcomes
Monitoring, Evaluation and Learning	<ul style="list-style-type: none"> • gender sensitive indicators for inputs and outputs • tracking changes in allocation of resources, responsibilities and decision-making at the household level (through visiting the same household) • assess impact on rural poverty, reduction of gender gaps in rural poverty, and reduction of gender specific vulnerabilities to poverty

Youth Empowerment Strategy and Action Plan

21. Tamil Nadu state has performed extremely well with respect to Human Development Outcomes and educational attainment levels are very high. However, there are very limited opportunities for the educated unemployed youth in the rural on-farm sector. The limited skills are a major constraint to the youth moving into the non-farm sector though there is great demand among them for factory based jobs. The project has made provision for addressing issues of Youth in its design and implementation arrangements. The details are provided in the PIP and the major aspects are briefly described below:

(a) **Increasing awareness:** As part of its information dissemination and awareness generation, the aspirations and frustrations of the youth, and the opportunities and constraints that they envisage, will be provided to all stakeholders including community members and leaders and project implementing Teams at all levels;

(b) Encouraging youth: The project will work with groups of youth in villages through the SHGs and Federations, to understand their concerns and also provide them information about various options and avenues of engagement;

(c) Skill development of youth: The project will finance the exploration of opportunities for youth in various sectors under the Skill Development Fund, build linkages and tie-up with private sector to identify key niche areas, and then provide youth with the required training to be able to seek employment in the identified areas; and

(d) Promoting youth: The project provides for the training of five para-professionals in every village to be identified by the community institutions to provide services to the SHGs, EAGs, and VPRCs. The project also requires that these paraprofessionals are from the target poor households. Therefore, youth could emerge as a critical link in the implementation and consolidation of project activities and outcomes.

Annex 11: Project Preparation and Supervision

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

	Planned	Actual
PCN review	06/18/2003	06/26/2003
Initial PID to PIC	07/04/2003	06/30/2003
Initial ISDS to PIC	07/04/2003	06/26/2003
Appraisal	02/14/2005	02/14/2005
Negotiations	05/02/2005	05/12/2005
Board/RVP approval	06/21/2005	07/12/2005
Planned date of effectiveness	09/30/2005	
Planned date of mid-term review	12/31/2008	
Planned closing date	09/30/2011	

Key institutions responsible for preparation of the project:

Ministry of Rural Development, GoTN; Ministry of Social Welfare, GoTN; Tamil Nadu Corporation for Development of Women.

Bank staff and consultants who worked on the project included:

<i>Name</i>	<i>Title</i>	<i>Unit</i>
Meena M. Munshi:	Task Leader	SASAR
Varalakshmi Vemuru	Co-Task Leader and Social	SASES
Manvinder Mamak	Finance	SARFM
D. J. Baxi	Procurement	SARPR
Samik S. Das	Institutional/Community Development	SASAR
Sanjay Pahuja	Environment	SASES
Vinayak Ghatate	Livelihood	SASAR
Ajai Nair	Microfinance	ARD
Ashis Mondal	Monitoring and Learning	Consultant
Sanjay Gupta	Communications	Consultant
C. S. Renjit	Operational Aspects	Consultant
J. Shivakumar	Adviser/Policy Aspects	Consultant
Asha Bhagat	Finance	Consultant
Theodosia Karmiris	Program Assistant	SASAR
J. Julian	Program Assistant	SASAR
Michelle Lisa Chen	Program Assistant	SASAR

Bank funds expended to date on project preparation (as of 5/31/2005):

1. Bank resources: BB: US\$269,570.85
2. Trust funds: TF051479: US\$ 67,869.70
3. Total: US\$337,440.55

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$ 10,000.00
2. Estimated annual supervision cost: US\$120,000.00

Annex 12: Documents in the Project File

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

1. Social Assessment cum Livelihood Analysis - Institute of Development Alternatives, Chennai- Mr. Jeyaranjan
2. Tribal Development Plan – Keystone Foundation, Kotagiri, Ooty- Mr.Pratim Roy
3. Environmental Assessment (Environmental Management Framework and Technical Guidelines) - IRG Systems, Delhi- Mr. Amit Jain
4. Organizational arrangements and capacity building – SRIJAN, New Delhi- Mr.Ved Arya
5. Support Organizations/NGO Assessment and Accreditation – AC Nielson ORG MARG Ltd.- Mr. Aswin Kumar
6. Preparation of Hand Book of Accounting and Administrative rules & Procedures for TNCDW
7. Opportunities Assessment and Resource Mapping to develop Livelihood Enhancement Action Plan (LEAP) – MART, New Delhi – Mr. Pradeep Kashyap
8. Project Implementation Plan and COM – Mr.Muralidhar, Hyderabad (individual consultant)
9. Accounting and Accountability Arrangements of PRIs – NABARD – NABCON - Mr. Ramesh
10. Study on performance and sustainability of SHGs and SHG federations in Tamil Nadu and Micro Finance in livelihood - AF Ferguson Limited- Mrs.Sasikala
11. Gender Strategy – Project Team
12. Study on Vulnerable and Aged- Project Team
13. Disabled People’s Strategy- Mr.Ravichandra Raju and Mr.Chunkath,, Commissioner for Disabled, Chennai
14. Project Base line survey for Pilot villages – Department of Evaluation and Applied Research, Chennai- Mr.N.K.Kumar
15. Developing Operational Communication Strategy and Plan
16. Monitoring and Learning system – SOCHURSOD, Tirupati- Dr.V.J.Naidu
17. Computerized Accounting System for TNCDW
18. Financial Management (Information System)
19. Study on the existing format design of MIS for SHGs and suggest Modifications for enabling Web-based Monitoring System

Annex 13: Statement of Loans and Credits

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

Project ID	FY	Purpose	Original Amount in US\$ Millions						Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P084792	2005	Assam Agric Competitiveness	0.00	154.00	0.00	0.00	0.00	148.98	0.00	0.00
P073651	2005	DISEASE SURVEILLANCE	0.00	68.00	0.00	0.00	0.00	65.67	-0.43	0.00
P084632	2005	Hydrology II	104.98	0.00	0.00	0.00	0.00	104.98	5.19	0.00
P086518	2005	IN SME Financing & Development	120.00	0.00	0.00	0.00	0.00	119.40	49.40	0.00
P094513	2005	India Tsunami ERC	0.00	465.00	0.00	0.00	0.00	465.26	0.00	0.00
P077856	2005	Lucknow-Muzaffarpur National Highway	620.00	0.00	0.00	0.00	0.00	620.00	0.00	0.00
P073370	2005	Madhya Pradesh Water Sector Restructuring	394.02	0.00	0.00	0.00	0.00	372.05	-6.97	0.00
P085345	2005	ODS IV-CTC Sector Phaseout Project	0.00	0.00	0.00	53.04	0.00	48.04	1.00	0.00
P077977	2005	Rural Roads Project	99.50	300.00	0.00	0.00	0.00	393.21	27.40	
P075058	2005	TN HEALTH SYSTEMS	0.00	110.83	0.00	0.00	0.00	103.88	0.00	0.00
P050655	2004	RAJASTHAN HEALTH SYSTEMS DEVELOPMENT	0.00	89.00	0.00	0.00	0.00	87.59	18.55	0.00
P073776	2004	ALLAHABAD BYPASS	240.00	0.00	0.00	0.00	0.00	199.68	55.68	0.00
P055459	2004	ELEMENTARY EDUCATION PROJECT (SSA)	0.00	500.00	0.00	0.00	0.00	372.73	14.04	0.00
P079865	2004	GEF Biosafety Project	0.00	0.00	0.00	1.00	0.00	0.90	0.12	0.00
P082510	2004	Karnataka UWS Improvement Project	39.50	0.00	0.00	0.00	0.00	39.50	15.70	0.00
P073369	2004	MAHAR RWSS	0.00	181.00	0.00	0.00	0.00	186.25	10.76	0.00
P078550	2004	Uttar Wtrshed	0.00	69.62	0.00	0.00	0.00	66.54	-3.25	0.00
P073094	2003	AP Comm Forest Mgmt	0.00	108.00	0.00	0.00	0.00	79.26	-4.09	0.00
P071272	2003	AP RURAL POV REDUCTION	0.00	150.03	0.00	0.00	0.00	103.84	97.84	0.00
P076467	2003	Chatt DRPP	0.00	112.56	0.00	0.00	0.00	115.64	7.48	0.00
P075056	2003	Food & Drugs Capacity Building Project	0.00	54.03	0.00	0.00	0.00	56.12	19.70	0.00
P050649	2003	TN ROADS	348.00	0.00	0.00	0.00	0.00	310.51	41.21	0.00
P072123	2003	Tech/Engg Quality Improvement Project	0.00	250.00	0.00	0.00	0.00	268.52	64.75	0.00
P067606	2003	UP ROADS	488.00	0.00	0.00	0.00	0.00	410.15	117.41	0.00
P074018	2002	Gujarat Emergency Earthquake Reconstruct	0.00	442.80	0.00	0.00	0.00	287.20	317.46	0.00
P071033	2002	KARN Tank Mgmt	0.00	98.90	0.00	0.00	0.00	101.73	34.05	0.00
P050653	2002	KARNATAKA RWSS II	0.00	151.60	0.00	0.00	0.00	149.00	59.89	0.00
P072539	2002	KERALA STATE TRANSPORT	255.00		0.00	0.00	0.00	178.15	19.15	0.00
P069889	2002	MIZORAM ROADS	0.00	60.00	0.00	0.00	0.00	44.74	7.13	0.00
P050668	2002	MUMBAI URBAN TRANSPORT PROJECT	463.00	79.00	0.00	0.00	0.00	454.58	129.84	0.00
P040610	2002	RAJ WSRP	0.00	140.00	0.00	0.00	0.00	134.64	78.39	0.00
P050647	2002	UP WSRP	0.00	149.20	0.00	0.00	0.00	150.23	115.73	0.00
P010566	2001	GUJARAT HWYS	381.00	0.00	0.00	0.00	31.00	167.71	173.71	118.02
P071244	2001	Grand Trunk Road Improvement Project	589.00	0.00	0.00	0.00	0.00	329.42	260.42	0.00
P067216	2001	KAR WSHD DEVELOPMENT	0.00	100.40	0.00	0.00	0.00	99.29	79.24	0.00
P070421	2001	KARN HWYS	360.00	0.00	0.00	0.00	0.00	190.85	92.85	0.00
P055454	2001	KERALA RWSS	0.00	65.50	0.00	0.00	10.00	34.33	20.62	2.08
P059242	2001	MP DPIP	0.00	110.10	0.00	0.00	0.00	75.55	44.02	18.80
P035173	2001	POWERGRID II	450.00	0.00	0.00	0.00	0.00	122.61	96.61	25.30
P055455	2001	RAJ DPEP II	0.00	74.40	0.00	0.00	0.00	41.54	14.74	0.00
P038334	2001	RAJ POWER I	180.00	0.00	0.00	0.00	2.02	65.13	67.15	0.51
P050658	2001	TECHN EDUC III	0.00	64.90	0.00	0.00	0.00	31.11	15.80	0.10
P045049	2000	AP DPIP	0.00	111.00	0.00	0.00	0.00	39.08	15.51	0.00
P069376	2000	CFC PRODTN SECTOR CLOSURE ODS III INDIA	0.00	0.00	0.00	85.34	0.00	30.59	-2.13	0.00

P067330	2000	IMMUNIZATION STRENGTHENING PROJECT	0.00	226.00	0.00	0.00	0.00	1.29	-87.22	0.00
P059501	2000	IN-TA for Econ Reform Project	0.00	45.00	0.00	0.00	0.00	34.73	4.38	10.95
P055456	2000	IN-Telecommunications Sector Reform TA	62.00	0.00	0.00	0.00	20.00	11.47	31.47	6.36
P009972	2000	NATIONAL HIGHWAYS III PROJECT	516.00	0.00	0.00	0.00	0.00	224.20	224.20	-15.80
P010505	2000	RAJASTHAN DPIP	0.00	100.48	0.00	0.00	0.00	55.03	44.22	19.62
P049770	2000	REN EGY II	80.00	50.00	0.00	0.00	0.00	80.50	63.67	45.17
P050667	2000	UP DPEP III	0.00	182.40	0.00	0.00	0.00	32.89	32.43	25.54
P050657	2000	UP Health Systems Development Project	0.00	110.00	0.00	0.00	0.00	82.07	59.54	0.00
P045051	1999	2ND NATL HIV/AIDS CO	0.00	191.00	0.00	0.00	0.00	37.11	32.99	6.18
P050651	1999	MAHARASH HEALTH SYS	0.00	134.00	0.00	0.00	16.96	36.10	47.31	11.62
P045050	1999	RAJASTHAN DPEP	0.00	85.70	0.00	0.00	0.00	20.64	17.83	17.83
P050646	1999	UP Sodic Lands II	0.00	194.10	0.00	0.00	0.00	47.85	40.28	0.59
P041264	1999	Wtrshd Mgmt Hills II	85.00	50.00	0.00	0.00	0.00	4.12	6.65	0.00
P049385	1998	AP ECON RESTRUCTURIN	301.30	241.90	0.00	0.00	0.00	80.36	76.91	46.01
P038021	1998	DPEP III (BIHAR and Jharkhand)	0.00	152.00	0.00	0.00	0.00	59.74	49.44	31.42
P010561	1998	Natl Agr Technology	96.80	100.00	0.00	0.00	18.00	5.80	28.82	-7.60
P010496	1998	ORISSA HEALTH SYS	0.00	76.40	0.00	0.00	0.00	23.26	16.81	16.55
P035827	1998	WOMEN & CHILD DEVLPM	0.00	300.00	0.00	0.00	0.00	122.94	110.15	75.84
P010511	1997	MALARIA CONTROL	0.00	164.80	0.00	0.00	46.50	27.02	72.36	25.97
P044449	1997	RURAL WOMEN'S DEVELOPMENT	0.00	19.50	0.00	0.00	6.72	3.59	11.07	3.71
P010473	1997	TUBERCULOSIS CONTROL	0.00	142.40	0.00	0.00	13.04	37.77	54.15	40.76
Total portfolio			<u>6273.10</u>	<u>6825.55</u>	<u>0.00</u>	<u>139.38</u>	<u>164.23</u>	<u>8494.69</u>	<u>3089.13</u>	<u>525.52</u>

**STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars**

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2005	ADPCL	42.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	AP Paper Mills	35.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	APIDC Biotech	0.00	4.00	0.00	0.00	0.00	0.00	0.00	0.00
2002/03	ATL	1.33	0.00	0.00	0.00	1.00	0.00	0.00	0.00
2003	BHF	10.98	0.00	10.98	0.00	10.98	0.00	10.98	0.00
2001/04	BILT	0.00	0.00	15.00	0.00	0.00	0.00	15.00	0.00
2001	BTVL	48.03	5.00	0.00	0.00	44.60	5.00	0.00	0.00
2003	Balrampur	16.01	0.00	0.00	0.00	16.01	0.00	0.00	0.00
2001	Basix Ltd.	0.00	0.98	0.00	0.00	0.00	0.98	0.00	0.00
1984	Bihar Sponge	7.26	0.00	0.00	0.00	7.26	0.00	0.00	0.00
2001/03	CCIL	1.55	0.00	0.00	0.00	0.64	0.00	0.00	0.00
1990/92	CESC	13.09	0.00	0.00	29.18	13.09	0.00	0.00	29.18
2004	CGL	15.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
2004	CMScomputers	10.00	10.00	2.50	0.00	10.00	0.00	0.00	0.00
2002/05	COSMO	0.00	4.20	0.00	0.00	0.00	4.20	0.00	0.00
2004	Cairn Energy	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1995/05	Centurion Bank	0.00	0.07	0.00	0.00	0.00	0.07	0.00	0.00
2005	DCM Shriram	30.00	0.00	0.00	0.00	15.00	0.00	0.00	0.00
2003	DQEL	0.00	1.50	1.50	0.00	0.00	1.50	1.50	0.00
2003	Dewan	12.95	0.00	0.00	0.00	12.95	0.00	0.00	0.00
	EXB-STG	0.31	0.00	0.00	0.00	0.31	0.00	0.00	0.00
2001	GTF Fact	0.00	1.20	0.00	0.00	0.00	1.20	0.00	0.00
1994	GVK	0.00	7.45	0.00	0.00	0.00	7.45	0.00	0.00
1998	Global Trust	0.00	0.00	3.00	0.00	0.00	0.00	3.00	0.00
1994	Gujarat Ambuja	0.00	0.61	0.00	0.00	0.00	0.61	0.00	0.00
2003	HDFC	100.00	0.00	0.00	100.00	100.00	0.00	0.00	100.00
1998	IAAF	0.00	1.13	0.00	0.00	0.00	0.96	0.00	0.00
1995/00	ICICI-SPIC Fine	0.00	2.23	0.00	0.00	0.00	2.23	0.00	0.00

1998	IDFC	0.00	15.46	0.00	0.00	0.00	15.46	0.00	0.00
2001	IIEL	0.00	3.20	0.00	0.00	0.00	2.06	0.00	0.00
1990/93/98	IL & FS	0.00	0.84	0.00	0.00	0.00	0.84	0.00	0.00
1992/95	IL&FS VC	0.00	0.18	0.00	0.00	0.00	0.18	0.00	0.00
1996	India Direct Fnd	0.00	1.10	0.00	0.00	0.00	0.63	0.00	0.00
2001	Indian Seamless	6.00	0.00	0.00	0.00	6.00	0.00	0.00	0.00
1993	Indo Rama	5.24	0.00	0.00	0.00	5.24	0.00	0.00	0.00
1996	Indus II	0.00	0.86	0.00	0.00	0.00	0.86	0.00	0.00
1992	Indus VC Mgt Co	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
1992	Info Tech Fund	0.00	0.39	0.00	0.00	0.00	0.39	0.00	0.00
2005	K Mahindra INDIA	22.00	0.00	0.00	0.00	22.00	0.00	0.00	0.00
2003	L&T	50.00	0.00	0.00	0.00	50.00	0.00	0.00	0.00
1990/93	M&M	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
2002	MMFSL	10.09	0.00	8.01	0.00	10.09	0.00	8.01	0.00
2003	MSSL	0.00	2.29	0.00	0.00	0.00	2.20	0.00	0.00
2001	MahInfra	0.00	10.00	0.00	0.00	0.00	0.70	0.00	0.00
1996/99/00	Moser Baer	19.38	9.68	0.00	0.00	19.38	9.68	0.00	0.00
1997	NICCO-UCO	1.88	0.00	0.00	0.00	1.88	0.00	0.00	0.00
2001	NIIT-SLP	8.69	0.00	0.00	0.00	0.05	0.00	0.00	0.00
2003/04	NewPath	0.00	3.00	0.00	0.00	0.00	2.33	0.00	0.00
2003	Niko Resources	37.78	0.00	0.00	0.00	37.78	0.00	0.00	0.00
2001	Orchid	0.00	3.03	0.00	0.00	0.00	3.03	0.00	0.00
1997	Owens Corning	8.59	0.00	0.00	0.00	8.59	0.00	0.00	0.00
2004	Powerlinks	77.76	0.00	0.00	0.00	32.14	0.00	0.00	0.00
1995	Prism Cement	10.90	1.96	0.00	5.45	10.90	1.96	0.00	5.45
2004	RAK India	20.00	0.00	0.00	0.00	15.00	0.00	0.00	0.00
1995/04	Rain Calcining	10.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
2001	SBI	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1997/00	SREI	8.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
1995	Sara Fund	0.00	4.16	0.00	0.00	0.00	4.16	0.00	0.00
2004	SeaLion	5.15	0.00	0.00	0.00	5.15	0.00	0.00	0.00
2001/03	Spryance	0.00	1.00	0.00	0.00	0.00	1.00	0.00	0.00
2004	Sundaram Finance	45.74	0.00	0.00	0.00	45.74	0.00	0.00	0.00
2000/02	Sundaram Home	9.53	0.00	0.00	0.00	9.53	0.00	0.00	0.00
1998	TCW/ICICI	0.00	1.12	0.00	0.00	0.00	1.12	0.00	0.00
2002	TML	50.00	0.00	0.00	0.00	50.00	0.00	0.00	0.00
2004	UPL	17.50	0.00	0.00	0.00	17.50	0.00	0.00	0.00
1996	United Riceland	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
2002	Usha Martin	21.00	3.34	0.00	0.00	21.00	3.34	0.00	0.00
2001/05	Vysya Bank	0.00	3.51	0.00	0.00	0.00	3.51	0.00	0.00
1997	WIV	0.00	0.57	0.00	0.00	0.00	0.57	0.00	0.00
1997	Walden-Mgt India	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Total Portfolio:		886.32	104.09	40.99	134.63	633.31	78.25	38.49	134.63

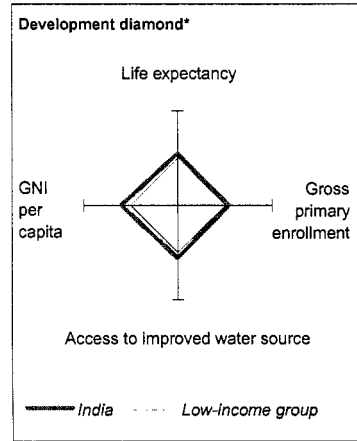
		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
2005	AP Paper Mills	0.00	5.00	0.00	0.00
2000	APCL	7.10	1.90	0.00	0.00
2005	Allain Duhangan	0.00	7.00	0.00	0.00
2005	Bharat Biotech	0.00	0.00	4.50	0.00
2004	CGL	10.00	0.00	0.00	0.00
2004	CIFCO	0.00	0.00	22.07	0.00
2001	GI Wind Farms	9.79	0.00	0.98	0.00
2004	Ocean Sparkle	3.00	0.00	0.00	0.00
2005	SRF Ltd.	20.00	0.00	0.00	0.00
2005	URL Expansion	8.50	0.00	0.00	0.00
2001	Vysya Bank	0.00	0.00	0.00	0.00
Total pending commitment:		58.39	13.90	27.55	0.00

Annex 14: Country at a Glance

INDIA: Tamil Nadu Empowerment and Poverty Reduction "Puthu Vazhvu" Project

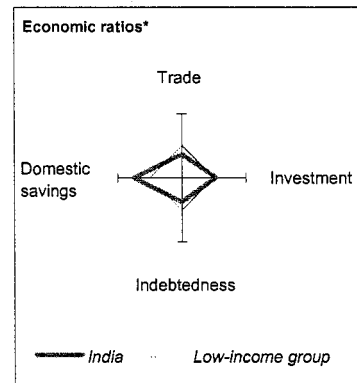
POVERTY and SOCIAL

	India	South Asia	Low-income
2003			
Population, mid-year (millions)	1,064.4	1,425	2,310
GNI per capita (Atlas method, US\$)	540	510	450
GNI (Atlas method, US\$ billions)	571.2	726	1,038
Average annual growth, 1997-03			
Population (%)	1.6	1.8	1.9
Labor force (%)	2.1	2.3	2.3
Most recent estimate (latest year available, 1997-03)			
Poverty (% of population below national poverty line)	29	..	..
Urban population (% of total population)	28	28	30
Life expectancy at birth (years)	63	63	58
Infant mortality (per 1,000 live births)	65	68	82
Child malnutrition (% of children under 5)	47	48	44
Access to an improved water source (% of population)	84	84	75
Illiteracy (% of population age 15+)	39	41	39
Gross primary enrollment (% of school-age population)	99	95	92
Male	107	103	99
Female	90	88	85



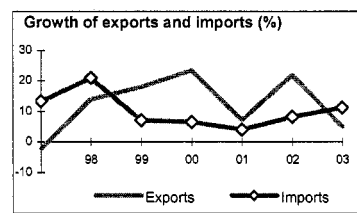
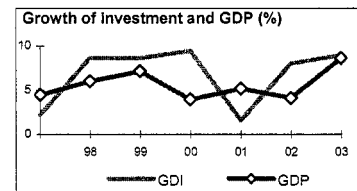
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1983	1993	2002	2003
GDP (US\$ billions)	212.3	273.9	509.0	600.6
Gross domestic investment/GDP	19.7	21.3	22.7	23.0
Exports of goods and services/GDP	6.0	10.0	15.3	15.1
Gross domestic savings/GDP	17.6	22.5	26.1	28.1
Gross national savings/GDP	18.4	23.1	28.4	30.8
Current account balance/GDP	-1.7	-0.6	0.7	1.4
Interest payments/GDP	0.4	1.3	0.7	18.4
Total debt/GDP	15.1	34.4	20.7	19.2
Total debt service/exports	16.5	25.2	13.9	12.9
Present value of debt/GDP	..	..	25.7	16.7
Present value of debt/exports	..	..	139.3	89.3
	1983-93	1993-03	2002	2003
<i>(average annual growth)</i>				
GDP	5.4	5.9	4.1	8.6
GDP per capita	3.3	4.1	2.5	7.0
Exports of goods and services	8.0	13.3	21.8	4.9



STRUCTURE of the ECONOMY

	1983	1993	2002	2003
<i>(% of GDP)</i>				
Agriculture	36.6	31.0	22.5	22.8
Industry	25.8	26.3	26.5	26.4
Manufacturing	16.3	16.1	15.6	15.6
Services	37.6	42.8	50.7	50.7
Private consumption	71.8	67.4	65.9	66.7
General government consumption	10.6	11.4	11.8	11.3
Imports of goods and services	8.1	10.0	15.6	16.1
	1983-93	1993-03	2002	2003
<i>(average annual growth)</i>				
Agriculture	3.1	2.2	-7.2	9.6
Industry	6.4	5.9	6.4	7.0
Manufacturing	6.1	6.0	6.5	6.9
Services	6.7	8.2	8.1	8.9
Private consumption	5.2	4.7	-0.1	11.3
General government consumption	5.6	6.4	-2.4	3.7
Gross domestic investment	5.3	7.3	8.0	9.0
Imports of goods and services	6.3	10.6	8.1	11.2

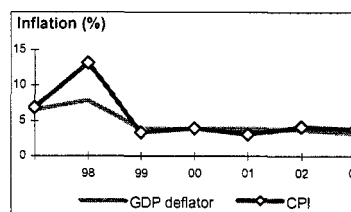


Note: 2003 data are preliminary estimates. Gross domestic savings figures are taken directly from India's central statistical organization.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

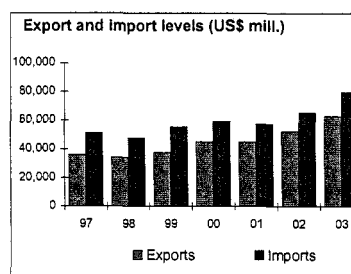
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
<i>(% change)</i>				
Consumer prices	14.4	5.0	4.1	3.7
Implicit GDP deflator	8.9	9.5	3.7	3.2
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	17.5	17.5	18.7
Current budget balance	..	-4.3	-6.0	-4.9
Overall surplus/deficit	..	-8.3	-10.2	-9.3



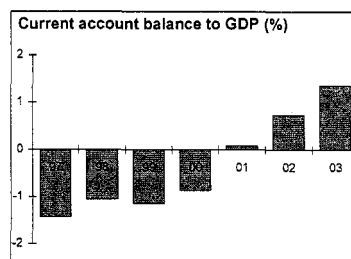
TRADE

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	9,861	22,683	52,512	62,952
Tea	348	814	1,432	1,321
Iron	434	888	1,996	2,341
Manufactures	5,234	16,857	40,245	47,616
Total imports (cif)	16,575	26,739	65,422	79,658
Food	1,694	327	2,411	3,059
Fuel and energy	4,703	5,754	17,640	20,570
Capital goods	3,069	6,243	13,498	17,132
Export price index (1995=100)	101	104	88	93
Import price index (1995=100)	106	96	96	100
Terms of trade (1995=100)	96	109	92	94



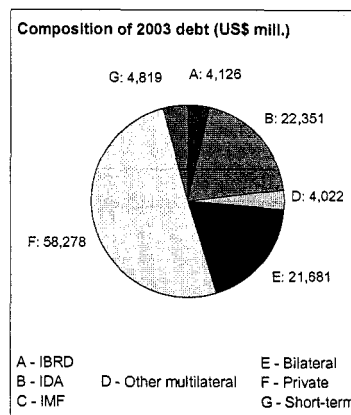
BALANCE of PAYMENTS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	13,141	27,947	77,475	90,568
Imports of goods and services	18,767	31,468	83,620	96,590
Resource balance	-5,626	-3,521	-6,145	-6,022
Net income	-527	-3,270	-4,935	-4,703
Net current transfers	2,558	5,265	14,807	18,885
Current account balance	-3,595	-1,526	3,727	8,160
Financing items (net)	2,777	10,160	13,253	8,820
Changes in net reserves	818	-8,634	-16,980	-16,980
Memo:				
Reserves including gold (US\$ millions)	5,649	19,254	75,428	111,648
Conversion rate (DEC, local/US\$)	10.3	31.4	48.4	46.0



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	32,139	94,342	105,210	115,277
IBRD	1,779	10,123	5,141	4,126
IDA	7,820	16,192	21,642	22,351
Total debt service	2,618	8,345	13,042	14,469
IBRD	246	1,509	3,029	2,079
IDA	91	294	637	771
Composition of net resource flows				
Official grants	380	368	410	559
Official creditors	1,360	1,754	-3,657	2,231
Private creditors	1,318	2,634	-1,861	8,565
Foreign direct investment	0	668	3,611	3,137
Portfolio equity	0	3,567	944	11,355
World Bank program				
Commitments	1,072	929	1,523	1,600
Disbursements	1,345	1,716	1,465	1,717
Principal repayments	120	964	3,196	2,468
Net flows	1,225	753	-1,730	-751
Interest payments	216	838	470	381
Net transfers	1,009	-86	-2,200	-1,133



INDIA TAMIL NADU EMPOWERMENT AND POVERTY REDUCTION PROJECT



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