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GOVERNMENT OF INDIA

**GOVERNMENT OF INDIA AND WORLD BANK SIGN US\$200 MILLION
AGREEMENT TO STRENGTHEN LOCAL GOVERNMENT SYSTEM IN KERALA**

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To strengthen the capacity of gram panchayats and municipalities in Kerala, an IDA credit of US\$200 million was signed between the Government of India and the World Bank in Thiruvananthapuram yesterday. The Kerala Local Government and Service Delivery Project will fund improvements in local infrastructure to help Kerala usher in second-generation reforms towards greater decentralization at the local level.

The agreements were signed in the presence of Kerala Chief Minister Shri Oommen Chandy, Industries, IT and Urban Affairs Minister Shri P.K. Kunhalikutty and Panchayats Minister Dr. M.K.Muneer on behalf of the Government of India Shri Venu Rajamony, Joint Secretary, Department of Economic Affairs, Ministry of Finance; on behalf of the Kerala Government Mr. James Varghese, Principal Secretary, Department of Local Self Government; and on behalf of World Bank Mr. Roland Lomme signed the agreements.

Speaking on the occasion, Shri Venu Rajamony, Joint Secretary, Department of Economic Affairs, Ministry of Finance said that this project seeks to strengthen gram panchayats and municipalities so that they can better deliver essential services such as drinking water supply, roads, sanitation, health and education.

Mr. Roberto Zagha, World Bank Country Director in India stated that the Project will help the Government of Kerala implement key reforms aimed at deepening the decentralization agenda of the State with increased accountability, and funds to support enhanced service delivery at the local level.

This Project will provide gram panchayats and municipalities with additional discretionary funds as performance grant for the creation and maintenance of its capital assets; provide inputs to strengthen the capacity of these local bodies; strengthen the system that monitors their performance; and provide overall support to the Project Management Unit within the local body.

The credit is from the International Development Association (IDA) – the World Bank’s concessional lending arm – which provides interest-free loans with 35 years to maturity and a 10-year grace period. There is no interest charge but a service charge payable by the recipient on the withdrawn credit balance shall be 0.75% per annum.

Some 978 gram panchayats and 60 municipalities in the State of Kerala will be the direct beneficiaries of the Project. Investments made by them will also indirectly benefit the entire State outside of the five City Corporations areas.

In 1994 India adopted the 73rd and 74th Constitutional Amendments, which has mandated the creation of local governments in both urban and rural areas.

Since the 1990s, Kerala has devolved more responsibilities and resources to local governments – and within the local government system, to the lowest levels of local government – than any other Indian state. In addition to their responsibilities for typical local services such as water, roads and sanitation, local governments in Kerala are also responsible for providing services in the areas of health and education. On the fiscal side, the State has also been implementing recommendations of successive State Finance Commissions on transferring increased funding to local governments.

Despite the progress that Kerala has seen in the devolution of responsibilities to the local bodies, the State still faces a number of core challenges. While *gram panchayats* and municipalities in Kerala have benefitted from the increased resources flowing to them, use of these funds is still not fully under their discretion. Capacity of these local bodies – particularly in an environment where their mandate is increasing rapidly – is still limited in areas such as budgeting; planning; financial management; asset management; and in upgrading the skills of its staff.

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