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INDIA: GRID-CONNECTED ROOFTOP SOLAR PROGRAM

FIDUCIARY SYSTEMS ASSESSMENT

FINAL

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The World Bank

ABBREVIATIONS AND ACRONYMS

ACB	Audit Committee of the Board	INT	Integrity Vice Presidency
ACG	Anti-Corruption Guidelines	IT	Information Technology
ALCO	Asset Liability Management Committee	IUFR	Interim Un-Audited Financial Report
AMC	Annual Maintenance Contract	IVA	Independent Verification Agent
AML	Anti-Money Laundering	JNNSM	Jawaharlal Nehru National Solar Mission
CAS	Country Audit System	kWh	Kilowatt-hours
CA	Chartered Accountant	kWp	Kilowatt peak
CAG	Corporate Accounts Group	KYC	Know Your Customer
CAGR	Compound Annual Growth Rate	LIE	Lender's Independent Engineer
CAPEX	Capital expenditure	LIFO	Last-in-first-out
CEA	Central Electricity Authority	MCG	Mid Corporate Group
CGM	Chief General Manager	MIS	Monthly Information Summary
CMS	Compliant Management System	MRMC	Market Risk Management Committee
CPS	Country Partnership Strategy	MNRE	Ministry of New and Renewable Energy
CPPD	Credit Policy and Procedure Dept.	MW	Megawatts
CRMC	Credit Risk Management Committee	NBFC	Non-Bank Financial Company
CTF	Clean Technology Fund	NBG	National Banking Group
CVC	Central Vigilance Commission	NPA	Non-performing Asset
DC	Direct Current	OM	Operations Manual
DG	Diesel Generator	O&M	Operations and Maintenance
DGM	Deputy General Manager	OP	Operations Policy
DLI	Disbursement-Linked Indicator	OPEX	Operating Expenditure
DLR	Disbursement-Linked Results	OPRC	Operations Procurement Review Committee
Discom	Electricity distribution company	ORMC	Operational Risk Management Committee
ECCB	Executive Committee of Central Board	PAD	Program Appraisal Document
EGRMC	Enterprise and Group Risk Management Committee	PCB	Pollution Control Board
ERC	European Research Council	PDO	Program Development Objective
ESR	Early Sanction Review	PforR	Program-for-Results
ESSA	Environmental and Social Systems Assessment	PFSBU	Project Finance Strategic Business Unit
EWCS	Early Warning Control System	PIU	Program Implementation Unit
FM	Financial Management	POM	Program Operations Manual
FMR	Financial Management Report	PPA	Power Purchase Agreement
FY	Financial Year	RBI	Reserve Bank of India
GAAP	Generally Accepted Accounting Principles	RESCO	Renewable Energy Service Company
GEF	Global Environment Facility	RFIA	Risk Focused Internal Audit
GoI	Government of India	RM	Risk Management
GRM	Gross Rent Multiplier	RMCB	Risk Management Committee of the Board
GRSSPP	Grid-connected Rooftop and Small Solar Power Plant	SBI	State Bank of India
GRPV	Grid-connected Rooftop Solar Photovoltaic	SEBI	Securities and Exchange Board of India
GW	Gigawatts	S&I	Supply & Installation
IBG	International Banking Group	SMS	Short Messaging Service
IBRD	International Bank for Reconstruction and Development	SNA	State Nodal Agency
ICHA	International Corruption Hunter's Alliance	TOR	Terms of Reference
ICAI	Institute of Chartered Accountants of India	USD	United States Dollar
I&MAD	Inspection & Management Audit Department	WB	World Bank
INR	Indian Rupee		

Fiduciary Systems Assessment
India: Grid-Connected Rooftop Solar Program

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Fiduciary Systems Assessment
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I. EXECUTIVE SUMMARY

1. As part of the fiduciary systems assessment under PforR operations, the World Bank's fiduciary staff (Financial Management, Procurement and Integrity) reviewed the Program's fiduciary implementation arrangements to assess the capacity of State Bank of India (SBI). SBI is the Borrower and Implementing Agency for the World Bank-assisted Grid-connected Rooftop Solar Program (The Program), which in turn is an important segment of the government's Grid-connected Rooftop and Small Solar Power Plant (GRSSPP) Program. The assessment was undertaken to (i) assess the capacity of SBI to record, control, and manage all Program resources, and to produce timely, understandable, relevant, and reliable financial information for stakeholders; and (ii) determine the degree to which the planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide a reasonable assurance that the Program will achieve its intended results.

2. In particular, the financial management assessment focused on critical elements of the Program such as planning and budgeting, accounting and financial reporting, treasury management and funds flow, internal controls including internal audit, Program external audit, and transparency. The assessment provides a reasonable assurance that the fiduciary arrangements at SBI for the Program are adequate for (i) ensuring the appropriate use of Program funds, (ii) safeguarding assets, and (iii) mitigating and handling risks of fraud and corruption. . The coverage of the fiduciary systems assessment is as per the nature and scope of the Bank funded Program.

3. The development objective of the Program is to increase installed capacity of Grid-connected Rooftop Solar PV (GRPV) and strengthen the capacity of relevant institutions for GRPV. The Program will focus on results related to strengthening institutional capacity for GRPV, market development and expanding generation of GRPV. The total amount of Program financing would be \$915 million, comprising of International Bank for Reconstruction and Development (IBRD) and Clean Technology Fund (CTF) loan, a CTF grant, a Global Environment Facility (GEF) Grant which is expected to be separately approved by the World Bank Board as a part of this financing package for the Rooftop Program, and private and public sector financing.

4. The fiduciary assessment carried out by the Bank provides a reasonable assurance that the Implementing Agency's relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements are adequate and that SBI would ensure the appropriate use of Program funds and safeguarding of its assets. The assessment also provides assurance that systems are in place and are adequate to handle the risks of fraud and corruption, including a complaint mechanism, and provides additional assurance on how such risks are managed and/or mitigated.

5. Since the GRPV Program is SBI's first World Bank-funded Program, SBI is not familiar with the World Bank's requirements for a PforR loan. SBI is also not familiar with the GRPV sector. Furthermore, the Program will be implemented in multiple locations across the country, through many SBI branches and departments. These factors present challenges and risks to the Program. The following measures have been incorporated in the Program design to mitigate these risks: (i) a central location for monitoring and control (the Credit Policy and Procedure Department - CPPD); (ii) a Program Operations Manual (POM) to ensure a common understanding of the Program boundaries, processes, and requirements; and (iii) development of a Program-specific code(s) in SBI's IT system to keep track of all Program-related transactions and to facilitate financial reporting on the Program. These design features, along with SBI's institutional strengths—availability of skilled staff and good governance and risk management—considerably mitigate Program risks. Hence the fiduciary risk is perceived as “Moderate”. The fiduciary risk rating will be reviewed during Program implementation and adjusted as necessary

II. BACKGROUND AND INSTITUTIONAL ARRANGEMENTS

6. SBI, the Implementing Agency for the GRPV Program, is India's oldest and largest financial services company. It has more than 16,000 branches in the country, 194 foreign offices in 36 countries, and an active customer base of 270 million. While the bank is majority-owned by the GoI, SBI shares are traded on the Bombay Stock Exchange and National Stock Exchange of India. Its Global Depository Receipts are listed on the London Stock Exchange.

7. In 2015, SBI was ranked 260 on Fortune's 500, up from 303 in previous year. SBI has won the 2015 “Brand of the Year” Award given by World Branding Forum. SBI's audit reports are clean; its corporate governance practices which are mandated under law are in compliance. SBI's financial management (FM) systems, procedures and controls are well established. It has strong risk management and internal control including internal audit systems.

The responsibility for implementing the Program across the country would rest with several administrative and operational units of SBI. CPPD would be responsible for the overall coordination and monitoring of the activities carried out by the various units as well as interactions with the World Bank. The Program-specific fiduciary arrangements are being documented in the POM, which must be acceptable to the Bank before disbursements will be made. The broad activities of CPPD shall include: (i) Policy formulation; (ii) Drafting and finalization of POM and its subsequent amendments, if any; (iii) Coordinating within the organization for building system capability and required training for the staff, for successful implementation of Program; (iv) Coordination within the organization for setting up separate product code(s) and sub-accounts; (v) Monitoring and Evaluation of the Program based on the agreed verification protocol; (vi) Coordination for creation of standardized document e.g. standardized appraisal format, standardized term sheets, loan agreement, standardized Power Purchase Agreement (PPA) etc.; (vii) Data collection and reporting to the World Bank in the agreed format; (viii) Coordination and review of Program with the WB.

8. The International Banking Group (IBG) at SBI would be specifically tasked with submission of periodic drawdown requests to the World Bank, servicing the World Bank Loan

etc. The Program would be implemented through SBI's vast branch network including Corporate Accounts Group (CAG), Mid Corporate Group (MCG) and National Banking Group (NBG) branches for rapid up-scaling of the Program in an inclusive mode.

9. Project Finance Strategic Business Unit (PFSBU), CAG, MCG and NBG – These entities within SBI have the responsibility for following activities -

- Appraisals and sanction (i.e. approval) of lending facilities for GRPV projects.
- Disbursement of funds to borrower.
- Monitoring of the projects.
- Submission of data required by CPPD for monitoring of Program.

10. The Program funding by World Bank would be based on the assessment and performance of the institutional structure, systems, procedures and controls as specified in the POM which also contains specific additional reporting requirements to comply with the World Bank's lending terms.

III. PROGRAM LOAN COMPONENTS

11. The proposed Program will support the implementation of Ministry of New & Renewable Energy's (MNRE) GRSSPP program, with a focus on mobilizing private sector equity investments and commercial lending, increasing deployment and uptake of GRPV through a variety of business models, and thereby contributing to the achievement of GoI's GRPV installation targets. The duration of the Program will be five and a half years, with a start date of May, 2016 and end date of November 2021. The PforR Program will finance activities in three results areas on a countrywide eligibility basis, as outlined in SBI's POM - (i) strengthening institutional capacity for GRPV; (ii) market development of GRPV; (iii) expanding GRPV generation.

Activities under Results Area 1: Strengthening Institutional Capacity for GRPV. This includes:

- *Strengthening the Institutional Capacity of SBI*, through: (i) establishing a PIU for the Program and mobilizing staff in other SBI departments and/or branches in support of its GRPVs business line; (ii) setting up SBI internal policies and procedures for loan origination, risk assessment and loan approval, (iii) providing training to SBI staff on GRPVs financing, (iv) providing incentives to SBI staff to undertake the promotion of GRPVs financing, (v) strengthening SBI's IT systems to track GRPVs transactions, (vi) carrying out public awareness and advertising campaigns promoting GRPVs financing products, (vii) internalizing lessons learned during Program implementation and launching a second round of GRPVs financing, and (viii) setting up a loss-offsetting fund.
- *Strengthening the Institutional Capacity of DISCOMs, SNAs and ERCs to contribute to an improved investment climate for GRPV (and improved Ease of Doing Rooftop Business)*, by coordinating the administration of a technical assistance program with the help of a program management consultant under the guidance of Ministry of New & Renewable Energy's

(MNRE) and the Steering Committee, which will be: (i) providing capacity building and technical assistance support to selected DISCOMs, regulators and other institutions in respect to solar rooftop power generation, trading and metering; (ii) facilitating the SNAs' communication and stakeholder awareness campaigns on GRPVs systems and the available financing therefor; and (iii) establishing training and accreditation programs for qualified rooftop PV technical inspectors, technicians, trainers, designers and other professionals.

Activities under Results Area 2: Market Development of GRPV. The Program will focus on: (i) developing and implementing market aggregation models for the financing of GRPV installers and rooftop owners, (ii) undertaking marketing and business development for deal origination, (iii) providing financing to SBI clients, eligible as per the POM, for the purchase, including inventory creation, and installation of, GRPVs, and (iv) piloting targeted lending to non-banking financial companies and small and medium enterprises.

Activities under Results Area 3: Expanding GRPV generation. Under this Results Area, the focus will be on installing GRPV systems for aggregate generation capacity of at least 400MW including optional batteries for power storage in accordance with the technical standards issued by MNRE and/or Central Electricity Authority (CEA), as applicable. For Capital Expenditure (CAPEX) and Renewable Energy Services Company (RESCO) models funded through the sub-project mode, GRPV power generation plants with a minimum capacity of 5 kWp per project or system will be eligible under the Program. For the RESCO model funded through the program mode, the aggregate capacity presented in a sub-loan application will have to be at least 1MW. SBI will appoint a Lender's Independent Engineer for sub-projects receiving loans equal to or greater than US\$7.4 million and for sub-projects with overall investment costs equal to or greater than US\$14.8 million. For sub-projects below these thresholds, SBI will depute its staff to ensure that all installations comply with Program requirements and standards. In addition, the sub-borrowers of SBI will need to insure all installations to cover appropriate risks, including force majeure events both during and after the construction period, for as long as the loan is outstanding.

12. The expenditure for the PforR Program will be at least US\$915 million, to be financed by IBRD financing of US\$500 million, CTF financing of US\$125 million (US\$120 million of loan on concessional terms, and US\$5 million as grant), an expected GEF grant of US\$23 million, private and public sector financing of US\$265 million (which represents a 30 percent equity contribution against US\$625 million of debt), and SBI financing of US\$2 million. Table 1 summarizes the first phase of Program financing, which will be supported by the World Bank. SBI will continue with a second phase of the Program with an expected contribution of approximately US\$400 million of its own resources and / or through syndication with other banks, subject to success of phase one of the Program and availability of creditworthy pipeline.

Table 1: Phase 1 Program Financing

Source	Amount (US\$ million)	% of total
IBRD	500	54.6
CTF (loan & grant)	125	13.7
GEF (grant—pending GEF Council approval)	23	2.5
Private & public sector financing	265	29.0
SBI	2	0.2
Total Program financing	915	100.0

13. Six Disbursement Linked Indicators (DLIs), consistent with the PforR framework and based on the Program’s Results Framework and results chain, have been developed in consultation with SBI. The World Bank will disburse against the achievement of these DLIs. They have been identified over five disbursement periods, corresponding to the launch and the five and a half years of the Program implementation period. In turn, equivalent amount of funds would be utilized by SBI for onward lending in local currency for financing the Program and meeting Program related operating and administrative expenses.

14. The Program-specific fiduciary arrangements are documented in the POM and must be acceptable to the Bank before disbursements will be made. The POM, which is the intellectual property of SBI, shall include:

- definition of the contours of the Program, including Program activities, results framework, overall budget and list of Program Expenditures;
- Program implementation arrangements, including the setup of a dedicated PIU, identification of key relevant staff, and the allocation of functions and responsibilities within SBI’s cadres;
- technical specification of GRPV equipment eligible for financing, the various financing modalities therefor, and loan pricing;
- pro-forma Sub-loan Agreement, setting forth the terms and conditions for GRPV financing, including the technical standards, and applicable procurement thresholds, the Bank’s Anti-Corruption Guidelines, and environmental, social and safety requirements consistent with the Program Fiduciary and Environmental and Social Systems and the ESSA;
- screening protocols and procedures for the assessment of clients and the evaluation of their GRPV financing application, including social compliance social, safety and environmental standards set forth in the ESSA;
- terms of reference for the Lender’s Engineer;
- DLIs/DLRs verification protocols and arrangements, and the terms of reference for the independent verification agents;
- procedure for the preparation of annual work plans and budgets;
- format of the Program’s Interim Unaudited Financial Reports (IUFs);
- terms of reference for the external auditor preparing the Program’s Financial Statements;
- protocols and procedures for the grievance redress mechanism; and

- Program monitoring and evaluation, and reporting requirements.

15. The WB (IBRD, CTF and GEF) funds will be disbursed directly into the accounts of SBI upon achievement of the disbursement linked indicators (or as advance against DLIs) and will be pooled to become the Program funds. The Program funds will be on-lent to borrowers based on SBI's commercial practices and the Program-specific criteria stated in the POM. From the World Bank funding perspective, the program expenditure is defined in the POM and Project Appraisal Document (PAD) and largely comprises of funds on-lent by SBI as per POM.

IV. PROGRAM FM AND PROCUREMENT ARRANGEMENT ASSESSMENTS

A. Program FM arrangements assessment

16. The financial management systems assessment carried out by the Bank provides a reasonable assurance that the Implementing Agency's relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements are adequate and would ensure the appropriate use of Program funds and safeguarding of its assets. The details of financial management assessment on the critical elements is given below:

i) Planning and Budgeting

17. Preparation of a proper plan and budget plays an important role in timely implementation of a program. CPPD would prepare an overall Program Plan for the duration of the Program with annual forecasts and estimates. The Plan would help in ensuring that adequate resources – manpower, infrastructure and financial etc. are available on a timely basis for the success of the Program. The Plan would cover both sub-loan targets and the corresponding administrative expenses for Program implementation backed up by appropriate explanation and justification. The Plan would form the basis for annual Program Budgets. To summarize for effective program implementation, CPPD will prepare the following:

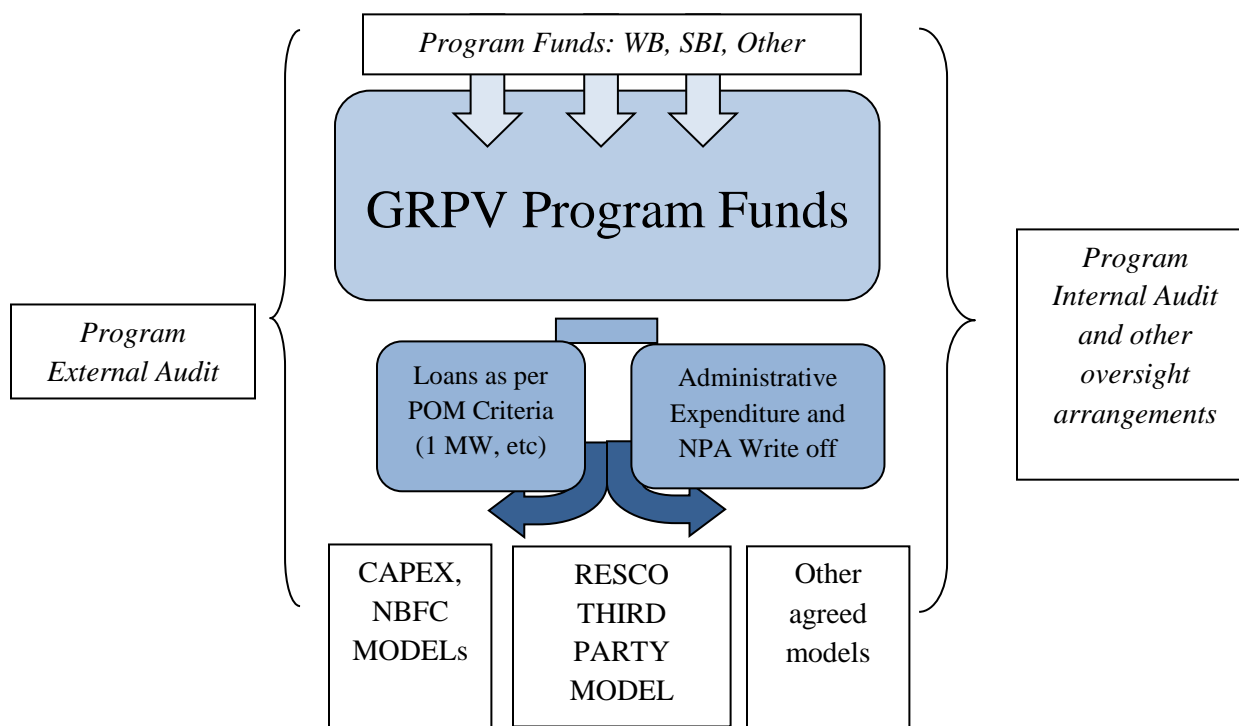
- a) An overall plan for the duration of the program;
- b) An annual plan and budget with quarterly break-ups; and
- c) Quarterly statements providing variance between planned and actual disbursement and expenditure.

18. In addition to preparing the above statements, CPPD will be responsible for monitoring compliance with these, and sharing these with the Bank.

ii) Accounting, Reporting, Treasury and Cash Flow

19. Advances/DLI Based loan funds will be disbursed by the World Bank in an offshore branch of SBI. Grant Funds (both CTF and GEF) will be disbursed in an onshore branch of SBI. Any refunds will also come from these accounts. As soon as the loan funds are disbursed by the WB, SBI will create specific Contra Proforma Accounts in the Books of Account (Ledger Account/s) viz. "WB Fund amount to be disbursed account" and "WB Fund amount to be

disbursed contra account” and an equivalent amount of local currency will be reflected as credit in that account. Equivalent local currency will be calculated based on the USD/ INR exchange rate published on RBI website on the date of disbursement. Grant funds will be converted to the local currency by SBI’s treasury team and will be credited in separate accounts. SBI will on-lend the money to the borrowers and will also release payments against program expenditure.



20. Various modules of SBI’s IT systems would provide the required operational and financial data pertaining to the Program through separate product code(s).

21. The SBI’s financial statements are prepared under the historical cost convention, on the accrual basis of accounting on going concern basis, unless otherwise stated, and conform in all material aspects to Generally Accepted Accounting Principles (GAAP) in India, which comprise applicable statutory provisions, regulatory norms/guidelines prescribed by the Reserve Bank of India (RBI), Banking Regulation Act 1949, Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), and the practices prevalent in the banking industry in India.

22. Income and expenditure are accounted on an accrual basis, except where otherwise stated. Interest income is recognized in the Profit and Loss Account as it accrues except: (i) income from Non-Performing Assets (NPAs), comprising of advances, leases and investments, which is recognized upon realization, as per the prudential norms prescribed by the RBI/respective country regulators in the case of foreign offices (hereafter collectively referred to as Regulatory Authorities). Loans and Advances are classified as performing and non-

performing, based on the guidelines issued by the RBI. Non-Performing Assets are classified into Sub-Standard, Doubtful and Loss Assets.

23. The accounting systems will provide information for comparison against Program budgets; half yearly sources and application of funds; and annual Program Financial Statements. Program costs would include funds on-lent for the purposes of Program and expenditures chargeable to the Program. SBI's accounting procedures and controls would ensure that expenditures under the Program are incurred for the purposes of the Program, duly checked and verified as per standard operating procedures and authorized in accordance with the official delegation of powers. Program related documents and records would be kept in safe custody for the duration of the Program and thereafter as per SBI's policy and would be accessible to the World Bank during supervision visits.

24. **Interim Unaudited Financial Reports (IUFR):** During the tenure of the program, CPPD would prepare and submit half yearly / semester interim unaudited financial report (IUFR) within 60 days from the end of semester to the World Bank. The format of the report as agreed with the World Bank is provided in the draft POM. The information would be provided for the semester, year to date, program to date and would be compared with budgets and variances analyzed. The above report shall be provided by SBI to the WB, twice in a year on November 30th and May 31st for April to September and October to March respectively (6 month period). This report will be unaudited.

25. **Program Annual Financial Statements:** The Program annual financial statements will include (a) IUFR for the second semester; and (b) any other statement agreed with the WB.

iii) Internal Control and Internal Audit

26. SBI has internal control systems with well-defined responsibilities at each level. SBI's existing policies and procedures along with Program specific arrangements as provided in the POM shall be the basis for internal controls under the Program. Provided below are the key steps for approval and disbursements for the sub-loans to be provided and the expenditure to be incurred under the Program.

- (a) Approval and Disbursement for the sub- loans:
 - i. Receipt of loan application by the official of Branch/Processing Cell.
 - ii. Pre-sanction credit process will be done by the official of Branch/Processing Cell.
 - iii. Preliminary assessment followed by detailed assessment will be carried out by the designated official of the Branch/ Processing Cell.
 - iv. Proposal will be submitted by the Branch/ Processing Cell to the Credit Committee for sanction of credit facilities as per the Bank's Scheme for Delegation of Financial Powers.
 - v. Disbursement will be made by the Branch/ Processing Cell after receiving the sanction/ approval and subject to compliance of pre-disbursement stipulations/ observations and execution of appropriate documents.

- vi. A Report of sanction accorded by the appropriate authority is submitted to the next higher Committee for control by the Branch/ Processing Cell.
- vii. Post-disbursement follow up and supervision is carried out by the designated official of Branch/Processing Cell as per the SBI's laid down instructions.
- viii. Compliance of the stipulations/ observations made by the sanctioning authority/next higher authority who have controlled the sanction is to be done by the branch/ Processing Cell.

(b) Expenditure under the program:

- i. Expenditure to be debited for the program will be authorized by DGM, CPPD under the control of CGM, CPPD.
- ii. DGM, CPPD will ensure that only expenditures allowed under the program are debited.

27. SBI conducts internal audit through its Inspection & Management Audit Department (I&MAD). Audit Committee of the Board (ACB) exercises supervision and control over the functioning of I&MAD. I&MAD has zonal inspection offices located throughout the country. Inspection officials periodically monitor adherence to controls and procedures and report deviations to facilitate corrective action. Besides I&MA officials, each Circle is assigned an internal audit team and concurrent auditors are assigned to all large branches.

28. SBI carries out mainly two streams of audits: Risk Focused Internal Audit (RFIA) and Management Audit, covering different facets of Internal Audit requirement. SBI's accounting units are subjected to RFIA. SBI's Management Audit covers administrative offices and examines policies and procedures, besides quality of execution..

29. In addition, the I&MAD department conducts credit audits, concurrent audits, information systems audits, home office audits (audits of foreign offices) and expenditure audit. Expenditure audits involve scrutiny of accounts and correctness of expenditures incurred and are conducted at such operating units as corporate center, local head offices, zonal offices, regional business offices, lead bank offices. To ensure that irregularities identified in audits of branches are rectified, audits of compliance at select branches are also undertaken.

30. *Credit Audit:* The goal of the Credit Audit System ("CAS") is to continually improve the quality of the SBI's commercial credit portfolio through critically examining large commercial loans on an individual basis. Aligned with RFIA, CAS assesses compliance with the SBI's policies for credit appraisal, sanction of loans and credit administration. CAS also provides feedback to the business units by way of warning signals about the quality of their advance portfolios and suggests remedial measures. Credit audits are carried out through an offsite review called a loan review mechanism, of all individual advances above a threshold limit within six months of a sanction, enhancement or renewal. Onsite post sanction audits occur once in 12 months.

31. *Information System Audit:* Information systems audits of SBI's centralized IT establishments are conducted in a manner similar to RFIA, but by a separate team of qualified

officials. Branches are subject to the information systems audits, which assess IT-related risks, as part of the RFIA of the branches.

32. *Concurrent Audit System:* A concurrent audit system is a continuous control process, integral to the establishment of sound internal accounting functions, effective controls and overseeing of operations on a continuous basis. Concurrent Audit System is reviewed on an on-going basis in accordance with RBI directives. The Inspection and Audit Department prescribes the processes, guidelines and formats for the conduct of concurrent audits.

33. The Program would be covered by SBI's existing internal audit systems as described above. Scope of internal audit of the Program will be as per internal Policy Document on internal audit. Sections of the internal audit reports, (from above referenced audits) relevant to the Program would be made available to the Program external auditor, and to the World Bank representatives, as requested.

iv) External Audit

34. External Audits of the Program need to be carried out by auditors with independence, experience, and capacity and Terms of Reference (TOR) acceptable to the World Bank. The annual external audit of the project will be carried out by a firm of chartered accountants appointed as per criteria and TOR agreed with the World Bank and as provided in the POM. This auditor may cover the program procurement post review in line with the POM during the program life cycle. Findings of the auditor shall be followed up by SBI to improve its work. The Annual Audit Report of the Program would be shared with the Bank within 9 months from the end of the year. The annual audit report of the Program would be accompanied by (i) audited program financial statements with management assertion; (ii) an audit report expressing an opinion on (a) the program financial statements; and (b) the accuracy of the IUFs submitted under the program; and (iii) management letter highlighting significant issues to be reported to the management. The annual audited Program financial statements and the audit report would be uploaded on website of the World Bank.

v) Transparency

35. SBI's official corporate website provides information regarding its management, operations, governance etc. including audited financial statements as well as quarterly unaudited financial statements.

vi) Program expenditure

36. The Program expenditures will include (i) disbursement of loans according to the criteria set out in the POM; (ii) Program establishment and operating costs including PIU costs; (iii) Program advertisement costs, including outreach to aggregators inside and outside India; (iv) SBI capital market fees for advisory services provided to the Program, including out of pocket expenses up to a level consistent with market norms; (v) training and capacity building of all key stakeholders; (vi) engagement of key staff required to operate the Program, various consultancies, dissemination materials, and operating costs; (vii) capitalization of a loss-

offsetting fund (also referred to interchangeably as “guarantee facility for non-performing loans”); (viii) audit fee, legal fee and independent verification agent (IVA) charges; and (ix) incentive to staff.

37. Program sub-loans will be considered Program expenditures when SBI makes a disbursement on a sub-loan to its borrowers. There will be no direct transfer of Program funds to the recipients of the TA and capacity-building (such as Discoms, SNAs, and SERCs). Program funds will only be transferred to sub-borrowers and consultants or service providers.

38. The eligibility of Program Expenditures of the funds contributed by SBI to the capitalization of the guarantee facility for non-performing loans would be subject to fiduciary arrangements agreed with the Bank, which shall include: (a) the fund should be included in SBI’s financial reporting and audits; (b) the fund should be subject to SBI’s regular controls; (c) SBI management should exercise satisfactory controls over the use of the fund; (d) the fund should not exceed the equivalent of US\$10 million. These will be further detailed in the POM.

39. The amount of World Bank financing under the Program will be equal to or less than the total Program expenditures. If by the end of the Program, the cumulative World Bank disbursements (against DLIs) exceed the total amount of Program expenditures, SBI will be required to refund the difference to the World Bank. Reconciliation and reporting of expenditures in financial statements and reports will be in Indian Rupees (INR). The refund if any, will be made in the currency of the loan and at the exchange rate at which the disbursement was notionally converted into INR on a last-in-first-out (LIFO) method.

B. Procurement Arrangements Assessment

40. The procurement assessment carried out by the Bank provides a reasonable assurance that the Implementing Agency’s procurement review of the sub-loan beneficiary, complaint handling system, audit arrangements, internal controls, are adequate and found acceptable against the principles of economy and efficiency of procurement process and ensure appropriate use of Program funds. The extent of procurement assessment is based on the typical nature of a GRPV Program being implemented by a commercial lender, SBI. The procurement assessment focused on the following critical elements:-

i) Procurement profile of the program

41. SBI is the implementing agency of the operation and will on-lend the Program funds through mobilization of large-scale private investment under both "Aggregator Model" (from an aggregator i.e. a third party owner of the panel relative to the owner of the rooftop) and 'Capex Model' (from Public or Private - Institutional/Industrial /Commercial establishments where the rooftop owner and the panel owner are the same). This will involve lending for financing grid connected rooftop solar PV investments in accordance with SBI's existing institutional arrangements, procedures and requirements for sub-loan application, eligible sub-projects, eligible sub-borrowers, appraisal and sanction of sub-project proposals, due diligence, supervision, and oversight arrangements under each sub-loan. The institutional arrangements, financing models and risk controls are included in the draft POM that was discussed with the World Bank, and found acceptable. The procurement under the Program would mostly include rooftop solar PV power plants which consists of solar PV panels, inverters, module mounting structures, trackers, batteries and charge controllers. Based on a "Moderate" risk rating for Procurement capacity, the thresholds provided in the guidance on P4R and applicable for this Program are US\$75 million for Goods, US\$115 million for works/Supply and Installation, US\$60 million for non-consulting services and IT systems, and \$30 million for consultants' services,. These will be applicable for contracts under the Program. Any individual contract financed by the Program should be equal to or less than the indicated thresholds and hence contracts of higher values shall be excluded from the Program. For all practical purposes, aggregator/sub-loan beneficiaries will be in-charge of procurement which will be taken up in line with the broad procurement details shown in the sub-loan proposal agreed by SBI. The general rule for sub-loan beneficiaries is to carry out formal/informal market analysis of available products/technologies/providers, and then through a series of negotiations, try to establish long term mutually beneficial relationships with the providers. Procurement under the Technical Assistance and Capacity Building, would mostly include procurement of Consultancy services and will be done by SBI according to its procedures. Procurement Management

42. iProcurement under the Program will be undertaken by the respective private sector beneficiaries/aggregators who are approved for sub-loans; rooftop owners and Public Sector Undertakings, in accordance with the commercial practices in private sector and procurement practices of Public Sector Undertakings; that meet the principles of economy and efficiency.

ii) Procurement Management

43. SBI has prepared a draft POM, to be finalized and accepted by the Bank before disbursement can take place. The POM includes the program implementation and governance regulations for this PforR Program to ensure that the loan is being used for program objectives and to reduce the risk of corruption and fraud (refer to the Anti-corruption paragraph below). During the program implementation, the POM will be updated in line with the implementation needs. In order to better manage the project implementation SBI shall ensure that the following is received from the sub-loan beneficiaries:

- Procurement components of the sub-loans - As part of the sub-loan proposal/application, the sub-loan beneficiary shall provide broad break-up of the loan including cost estimates and time schedule.
- Methods and procedures - the sub-loan beneficiary will follow procurement methods which are accepted procedures are in accordance with well-established private sector/commercial practices in India, ensuring economy and efficiency of the procurement process.
- Compliance to the World Bank's Anti-corruption Guidelines : shall be established within sub-loan beneficiaries as a lending condition,
- Procurement records keeping – SBI shall request sub-projects to keep all procurement records for monitoring and supervision purposes. In addition, SBI shall allow the Bank to conduct supervision for some exceptional cases if needed

44. For purpose of procurement management a chapter titled: “procurement management framework” is included in the POM. SBI has introduced two sections: Commercial Practices and Payment, in this chapter of the POM. The definition and process of Commercial Practices are given in the POM: (i) opening bidding; comparison of quotations; reversed auction and direct contracting, etc.; (ii) the effective competition among several suppliers or contractors is encouraged in accordance with the nature and scope of the contract to be procured; and (iii) any other procedures accepted.

45. Record Retention Policy of SBI: As per RBI directives, the SBI has formulated a comprehensive Record Retention Policy, which inter-alia, lays down the following as its main objectives:

“Preservation of records in an efficient, secured and cost effective manner so that identification and retrieval of records by Branches/offices of the Bank are facilitated to meet their operational, business, legal, statutory and decision/policy making requirements in the course of pursuit of the Bank’s mission”.

46. The records at Branches/offices will be retained for the minimum prescribed period. However, relevant records may be kept for longer periods where circumstances so warrant, such as suit filed cases, fraud cases etc. The vital records at the Corporate Centre in the nature of policy prescription, operating instructions etc. and Central Board/ECCB Memoranda will be preserved permanently. The Policy will be reviewed periodically to accommodate changes in the record retention area in the light of statutory/legislative changes, or introduction of new technologies. Records must be kept tidily and methodically, each book and file being conspicuously numbered and dated for easy reference. The record registered will be maintained in which the name of every book or file placed in the record room will be entered with its number and first and last date as soon as it is received.

V. FIDUCIARY RISK ASSESSMENT

A. Procurement Risks and Mitigation Measures

47. Based on the information provided by SBI, the following gaps which are identified by the Bank team are addressed through appropriate actions in the Program Action Plan agreed with SBI prior to program negotiations:

Sl. No.	Risk Description	Mitigation Measure
1.	Compromise on economy and efficiency in Award of contracts by aggregators/sub-loan beneficiaries to their parent or affiliate companies	As this is a well-established industry practice to award the contract to most cost effective supplier, it may not be possible to stop award of contract to group/affiliate companies. However, SBI will ensure that economy and efficiency are not compromised in such transactions.
2.	No requirement of procurement plan in the sub-project application	SBI shall ask for broad break-up of loan (Civil Works/Goods/Equipment/services etc.) in the loan application. Private sector normally has good track record of adhering to procurement time-frame, even if no formal procurement plan is prepared.
3.	No mechanism for SBI's procurement review, supervision	SBI or its independent engineers shall require aggregators/sub-loan beneficiaries to maintain the all procurement records, and during World Bank's supervision mission, SBI shall provide following information obtained from Utilization Certificates : (i) Name of large Supplier/Contractor (ii) Break-up of items procured
4.	lack of complaint handling mechanism within some of the aggregators/sub-loan beneficiaries	Complaints in private to private transactions are not common due to balance of power between purchaser and supplier in contracts and long term relationship between them. Suppliers to aggregators/sub-loan beneficiaries will have option to approach SBI, if needed.
5.	non-application of the Bank debarment/suspension lists to the suppliers of the aggregators; which may result in unacceptable contract awards to the Bank debarred/suspended firms or individuals under the Program	SBI shall seek compliance to Bank's Anti-Corruption guidelines, from the aggregators/sub-loan beneficiaries, in their loan application. These guidelines shall apply to the suppliers/contractors of the aggregators.

48. Based on above addressed, the procurement risk rating is **Moderate**.

B. Financial Management Risk Assessment

49. The fiduciary assessment identified the following potential FM risks that could impact Program as well as FM risks:

- The Program would be the first World Bank assisted project to be implemented by SBI. Non-familiarity with World Bank's as well as other partner Donor Agencies' operational, fiduciary and legal requirements may cause confusions resulting in delays/ non-compliances. A team from SBI has been working closely with the WB during preparation and during implementation, close interactions with the WB team would continue.
- The Program implementation would be spread over large geographical areas and managed by several Departments and Branches of SBI. Coordination could be an issue. SBI has identified CPPD as the focal point for Program management. Specific team (PIU) would monitor the day-to-day management and control of the Program and interact with World Bank for reports submission and legal compliances.
- SBI has good experience in financing renewable energy project and has sanctioned 1651 MW till date but rooftop financing is nascent; the Program (providing financing to rooftop solar) itself would be a new line of business and form a comparatively small part of SBI's total operations. Thus, the challenges for the Program's successful implementation would include capacity, resources and timely and relevant information. While SBI's capacity is assessed as more than adequate to handle the Program, the proposed separate product code(s) would facilitate compilation of all Program related information for management and reporting purposes.
- With respect to FM the risks associated with the various elements are summarized below:

FM Elements & Risks	Impact	Proposed mitigation measures
Planning Budgeting – Plans and budgets are not properly drawn up	<ul style="list-style-type: none"> • Lack of proper work plan and targets may delay implementation and achievement of DLIs; • Resources may not be available to the Program on timely basis. 	<p>SBI has adequate resources in terms of manpower and infrastructure. Focused attention will be given to drive the program. A committee of the senior officials of the departments concerned will also be constituted for periodic review of progress under the program. Necessary corrective steps, if required, will be initiated as per recommendation of the committee.</p> <p>Resources required for the implementation of the program will be small compared to resource available (both in term of manpower and infrastructure available), hence risk is low.</p>

FM Elements & Risks	Impact	Proposed mitigation measures
Accounting & Reporting – Delays in accounting; Program specific information not collected; Delays in reporting/ incorrect information	<ul style="list-style-type: none"> • Delays and errors in financial management information would in turn delay appropriate corrective actions being taken, • Non-compliance of WB legal covenants relating to timelines for reports submission would attract remedies. • Slowdown in WB disbursements. • Delays in implementation of Program. 	<p>(i) SBI’s existing accounting systems are standards compliant; quarterly accounting reports are published in time under regulations. No accounting issues are highlighted by the independent statutory auditors of SBI.</p> <p>(ii) SBI’s accounting systems are computerized.</p> <p>(iii) POM lays down Program accounting and reporting requirements including expenditure authorization, checking and verification etc.</p> <p>(iv) Separate product code(s) would compile all Program specific information and make them available in the required form in a timely manner for effective management of the Program and reporting through IUFRRs and annual Financial Management Report (FMR).</p>
Audit – Lack of timely and propose independent oversight	<ul style="list-style-type: none"> • Serious deficiencies in governance, systems and controls may lead to losses and damaged reputation • Non-compliance of WB legal covenants relating to independent audit and report 	<p>SBI carries out regular internal audits and reports are reviewed by Audit Committee of the Board.</p> <p>Annual statutory audit of SBI is carried out by several independent Chartered Accountant (CA) firms appointed by the RBI. The audit reports are clean.</p> <p>The Program would be covered by SBI’s existing internal audit systems as described above. Scope of internal audit of the Program will be as per internal Policy Document on internal audit. Sections of the reports from internal audits as described above relevant to the Program would be made available to the Program external auditor, and to the World Bank representatives as requested.</p> <p>However, to conduct independent audit for the program external auditor will be empaneled and TOR will be decided in consultation with World Bank</p>

50. Based on the above FM risk assessment, the post-mitigation risk is **Low**.

51. The Program implementation arrangements together with SBI institutional strengths in availability of skilled manpower, good governance and risk management would considerably

mitigate the challenges/ risks of the Program. Hence, the Fiduciary risk is perceived as **Moderate**. The Fiduciary risk rating would be reviewed during project implementation and adjusted suitably where necessary.

VI. IMPLEMENTATION SUPPORT

52. Regular Program FM information would be available to the Bank for Program monitoring purposes. These include quarterly budget performance reports, half-yearly IUFs, half-yearly internal audit reports and annual Program financial statement audit report. World Bank's Fiduciary team would review these reports and recommend necessary actions where appropriate to SBI. The World Bank FM team would undertake half-yearly implementation support missions and visit Program implementation locations to hold discussions with counterpart officials of SBI and review Program related systems, Program records and documents as appropriate. The FM risk rating would be reviewed and revised, if require, and where necessary suitable actions would be recommended and followed up.

53. SBI shall arrange to monitor and supervise the sub-loans during the program implementation. During each supervision mission of the World Bank, SBI shall arrange to submit the following procurement related reports, available from the utilization certificates of the sub-loans:

- (i) Name of the major supplier/contractor from whom the goods/works were procured using Bank's funds.
- (ii) Confirmation that there are no large value procurements exceeding OPRC thresholds but it is possible that multiple contracts may be awarded to a single supplier and cumulative value of such contracts may be significant in comparison to Bank's loan size.

VII. GOVERNANCE

Integrity Review

54. To complete the review of fiduciary areas, the assessment included a review of systems SBI has in place to monitor and address possible fraud and corruption issues that may affect the proposed Program. The review found SBI relies on robust systems that control for fraud and corruption risks, as defined by the Anti-Corruption Guidelines (ACG) approved specifically for PforR operations and revised in July 2015. Indeed, SBI's systems monitor for issues beyond those defined in the ACGs, given its critical position in the Indian financial system, and has put in place redundant systems that closely monitor its various operations, in India and abroad. SBI expends significant resources to ensure relevant legislation and banking system regulations, it is subject to, are complied with in all of its operations. As well as to assure its shareholders and clients that its corporate goals related to safeguarding its brand and reputation are met. To assist the team carry out its assessment, SBI made available key corporate officers for this review as well as the direct officials in charge of monitoring SBI issues *onsite* from the Central Vigilance

Commission (CVC)¹. Officials showed various internal documents and the team did a run-through of one of the complaints-handling systems in place. In the course of other preparation activities, observations from the market regarding challenges in this area were also noted. Lastly, given that SBI has made available a significant volume of documents to the public, and has an active online presence to publicize and actively seek comments and complaints on issues that may affect its clients and customers, the team incorporated relevant information contained in those documents or through those sources.

55. The main objective of the integrity review, as part of the fiduciary assessment, was to confirm whether the legal framework and institutional mechanisms in place would enable SBI to abide by the “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing.” A secondary objective was to find out how SBI systems attempt to prevent or identify the type of misconduct defined in the ACGs, and/or, if a customer or client (or potential client) seeks to complain about fraudulent and corrupt acts, SBI systems are able to capture such a complaint in a secure manner, assign such complaint to a relevant unit or official for review, and track the complaint until it is addressed. A third objective was to find out if SBI systems are then able to address a potential issue that the complaint raises in a systematic manner, in order that the relevant internal control mechanism may prevent recurrence of such potential issue.

56. To meet these objectives, the assessment briefly reviewed the various corporate mechanisms with oversight over “corporate governance” areas, including those at the Board, and technical systems that actively control for these risks, including grievance and complaint handling mechanisms; the standard lending process; various systems that handle information in this area, and the level of transparency, accountability, and integrity that the various systems aim to reach; and, critically, the internal controls and audit systems in place.

57. An assessment of integrity systems, including those over fraud and corruption found that SBI has put redundant policies, procedures, and systems in place in an effort to ensure SBI has control over fraud and corruption risks in its various areas of operations, and these are not only reviewed on a periodic basis by key committees of SBI’s Board, but are also continuously monitored by RBI, as well as by the Central Vigilance Commission and the Securities and Exchange Board of India (SEBI). These policies, procedures, and systems are also reviewed and upgraded to ensure compliance with international standards. In addition, SBI has robust staffing in place to ensure the various complaints handling and risk control systems that it runs, which can in fact operate continuously, 24x7x365.

58. The assessment concludes SBI can capably absorb the various measures outlined in the ACGs and observe its parameters to accompany implementation of the Program without need for additional actions to address gaps, or assistance from the Bank on this topic, apart from taking a

¹ The CVC is the main anti-corruption agency in India with a mandate to monitor and investigate “vigilance issues” such as fraud and corruption misconduct, as defined by the ACGs, as well as misconduct beyond those defined by the ACG. The CVC is a member of the International Corruption Hunter’s Alliance (ICHA) that the Bank’s Integrity Vice Presidency (INT) runs, and INT is well familiar with CVC, and has had numerous interactions with the CVC in the past.

collaborative approach on a case-by-case basis in the event that there is a need for the Bank to undertake specific audits.

VIII. SBI BOARD OVERSIGHT

59. SBI was established in 1955 through a specific Act, “The State Bank of India” Act and has put in place governance and oversight mechanisms that were set out under that Act. Although operating since its establishment as a public institution, SBI’s Board composition has steadily began to include significant private sector participation (4 of the 14 in the Board of Directors, excepting the Chairman are Independent and not appointed by GoI). The government still owns the majority share of the Bank, but as a financing institution that also sells its shares in the Stock Exchanges, SBI complies with provisions of clause 49 of the Listing Agreement with the Stock Exchanges (overseen by SEBI) except where the provisions are not compatible with the SBI Act. Lastly, SBI is closely monitored by RBI, which ensures that SBI complies with directives that RBI issues from time to time.

60. As a result, SBI has unique governance and integrity objectives that seek to both ensure its competitiveness among lenders in India and abroad (where it maintains branches) as well as to protect the public interest. In particular, the objectives it adheres to in this area include:

- To protect and enhance shareholder value;
- To protect the interest of all stakeholders such as customers, employees, and society at large;
- To ensure transparency and integrity in communication; and
- To ensure accountability for performance and customer service.

61. The Board is expected to oversee the risk profile of the Bank; monitor the integrity of its business and control mechanisms; ensure expert management; and, maximize shareholder interests. The Central Board of SBI met twelve times during the SBI financial year 2014-2015 whilst the Executive Committee of the Central Board met once every week, with the Chairman being recorded in attendance at every meeting.

62. With respect to the governance and integrity area, following provisions of the SBI Act and RBI/SEBI guidelines, the Central Board constituted nine Board level Committees, including: the Audit Committee, Risk Management Committee, Special Committee of the Board for Monitoring Large Value Frauds (fraud valued at INR 1 crore and above), the Customer Service Committee (which oversees the complaint handling systems that are most visible to the public and borrowers), Board Committee to Monitor Recovery, and Corporate Social Responsibility Committee. These Committees are charged with oversight of key areas such as Audits and Accounts, Risk Management, Resolution of Shareholder/Investor grievances, Fraud Review, Control Review, Review of Customer Service, and Redressal of Customer Grievances, and Payment and Incentives to Executive Directors.

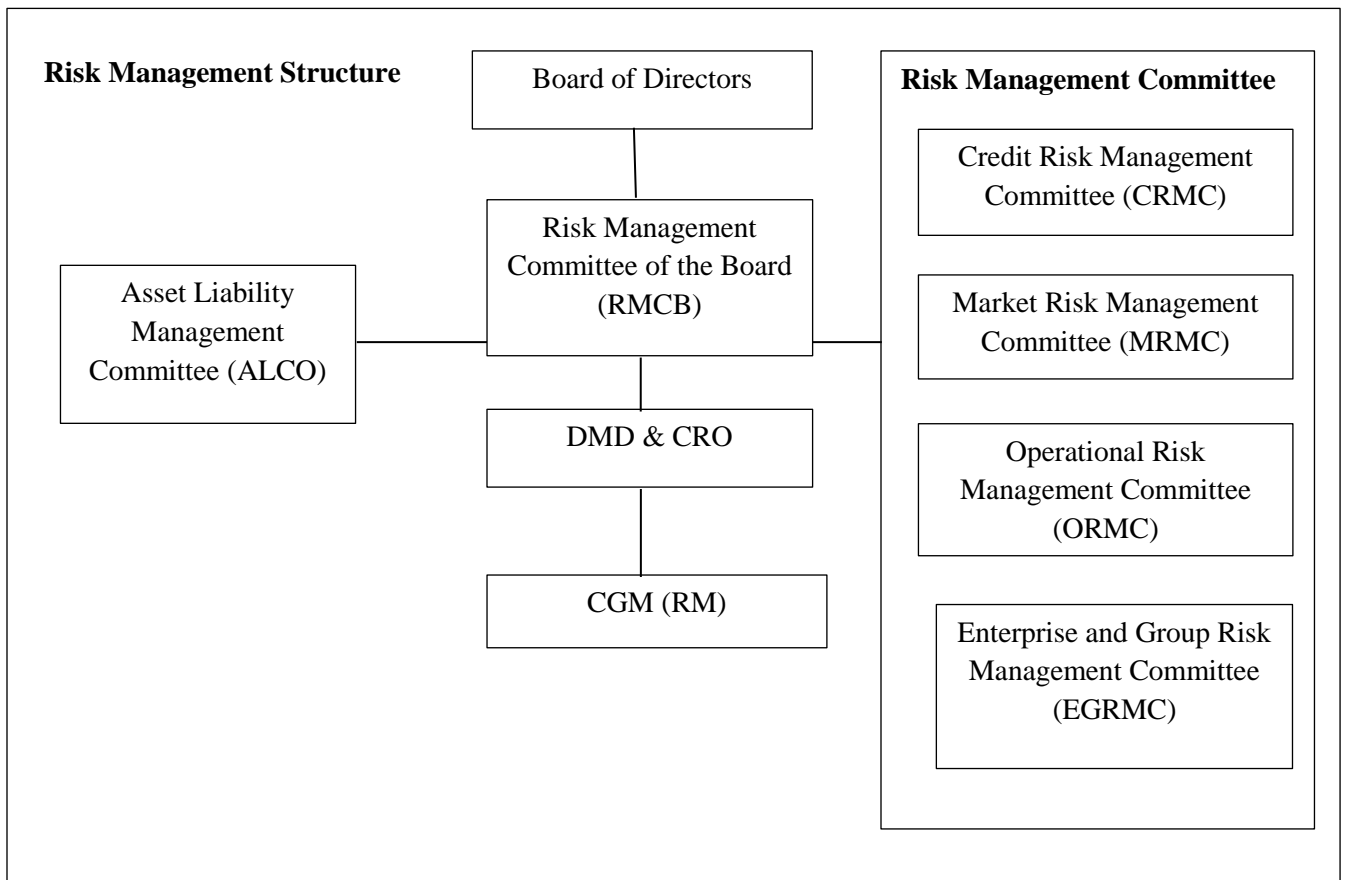
63. An example of close and responsive Board oversight in this area was the adoption by the Board of recommendations following a recent review by the RBI that the position of Chief Risk Officer be separated from Credit Risk Officer, and for the Group Compliance Officer to report independently to the Audit Committee or the Central Board.

IX. ETHICS AND CODE OF CONDUCT

64. Apart from various operational due diligence procedures and internal controls processes and systems (mentioned below), SBI has a Code of Conduct for the Central Board Directors and its Management. Such code is publicly disclosed via the SBI website: <https://www.sbi.co.in/portal/web/corporate-governance/code-of-conduct-for-the-banks>

65. Of particular relevance to the Program in this area is SBI’s Business Responsibility Policy, which lays out specific codes related to ethics, and vigilance against bribery and corruption (https://www.sbi.co.in/portal/documents/41076/60023/1403856255584_SBI_BR_13.06.14.pdf/02c5c712-375b-4c97-9c5f-3ea7de70a800)

66. The risks that such codes are violated in any lending activities are essentially controlled for from top to bottom and through various systems. As mentioned above, there are critical Board Committees with well-defined mandates to oversee areas of risk, including fraud and corruption risks, as follows:



X. AUDIT AND COMPLIANCE MECHANISMS AS CRITICAL CONTROL FUNCTIONS

67. The Audit Committee of the Board (ACB) is a key unit at the Board level that oversees actions taken by SBI in critical areas of activity of concern to integrity issues, including: application of KYC (“Know Your Customer”) and AML (“Anti-Money Laundering”) Guidelines, compliance with Clause 49 and other guidelines issued by SEBI, and “housekeeping” or follow-up on issues identified in various audit systems that SBI runs (more on this below). The Group Compliance officer reports on compliance issues to the ACB and compiles a periodic report for the ACB. The ACB met 11 times during the financial year to review these reports and other issues.

68. Within this framework, there are external systems also that ensure compliance with relevant legal and regulatory provisions, with the RBI being amongst the most active. Apart from nominating Directors to the SBI Central Board, the RBI conducts periodic inspections and records issues in its Annual Financial Inspection Reports (this mandate is spelled out in Section 35 of the Banking Regulation Act).

69. At the time of this assessment, a special team from RBI was onsite, conducting an inspection. This was the third such inspection following RBI’s adoption in March, 2013 of risk-based supervision. The RBI team conducting the inspection was a dedicated unit which was assigned solely to SBI. It comprised of six specialists working under a senior manager who were collecting data from SBI systems and running such data through unique models that would identify risk markers. The findings would allow the RBI team to dig deeper in areas and conduct spot-checking. The RBI team was also following-up on actions taken on issues identified following the last inspection. As with previous inspections, the RBI team asked about SBI Board and Senior Management functioning, probed for organizational weaknesses, examined the credit risk process, looked into liquidity, operational, IT, and non-IT risks.

70. The Group Compliance officer is a key counterpart of SBI to the RBI team, and includes issues identified through this process, as well as through its review of the functioning of compliance systems. These are assigned to relevant operational units to address, and reported the ACB.

71. SBI has an internal control system that is subject to close scrutiny not only by internal and external auditors but also by regulators and the CVC. There are multiple and redundant systems that seek to control for all manner of risk, including fraud and corruption risk. The TOR of each critical component of the internal control system is well-vetted by the Board and closely watched. Internal audit is conducted by the Inspection and Management Audit Department, and the ACB supervises the activities of this Department.

72. Of specific relevance to the Program and systems in SBI that can identify fraud and corruption risks are the specialized audits that are activated when loans above a certain size enter into the SBI system. In September 2014, SBI introduced an “Early Sanction Review (ESR) to review new loans approved that were valued between INR 1 crore up to INR 5 crore. Following

its introduction, up until March 2015, 4339 accounts were reviewed under this process. The ESR aims to:

- Capture the critical risks in loan proposals approved at an early enough stage and, if risks are identified, bring these to the attention of the Controllers of the risks to ensure mitigation at the earliest;
- Improve the quality of the loan application process; and
- Improve the quality of proponents.

73. When financing larger than INR 5 crore are approved, a “Legal Audit” is undertaken. This was initiated in June 2014, and has covered both loans and mortgages. Since its introduction up to March 2015, 8976 accounts were reviewed under this type of Audit.

74. Apart from the specialized audits above, SBI revamped a comprehensive system called a “Concurrent Audit” system, which it considers essential to sound accounting functions, and assures effective controls and oversight of operations on a continuous basis. The system is reviewed on an on-going basis in accordance with directives from RBI, principally to ensure that SBI’s Advances and other risk exposures are within limits of the regulatory authority. SBI appointed external auditors as Concurrent Auditors in several of its Centers of operations.

XI. RISK MANAGEMENT MECHANISMS

75. As mentioned above, SBI requires due diligence checks on proponents and loan applicants. A composite listing of steps taken by loan officers when reviewing such applications is attached. There are system constraints that affect the latitude afforded loan officers to exercise discretion, not the least being the specialized audits described above, as well as the risk a loan officer runs that not only will the loan review process spot a weakness, or an internal auditor or an external auditor will spot an anomaly, but also the RBI team. There is also a risk the loan officer faces that, viz-a-viz fraud and corruption complaints that are followed up on by the CVC, the process will result in actions against him/ her.

76. In the background is an elaborate risk management system that also screens for various risks, including fraud and corruption risk, on a continuous basis. SBI is in the midst of improving and upgrading its risk management systems, but there are several ones in place, some new, that are relevant to the assessment, including:

- An Early Warning Control System (EWCS) being put in place that monitors credit risk exposures, based on quantified indicators, and would trigger a warning when there is a breach of the parameters set (this controls for the risk that only a few borrowers would be favored under the Program);
- A lifecycle management system to cover the whole cycle of a loan, from proposal to approval to payments;
- Monitoring for “variance risks” based on several models, which are back-tested daily
- Training of key staff, and development of a “risk culture” amongst staff at all levels, including through the use of e-learning modules;
- Publishing “Risk Appetite Statements” – which are being reviewed and formalized; and

- Active measuring of Group Risk through Reputation Risk, Contagion Risk, Concentration Risk, and Strategic Risk indicators.

77. A bedrock of credit risk management in SBI's system are the appraisal and risk assessment practices in place to identify, measure, manage, and control credit risks that SBI faces. To this end, it uses internal risk assessment modules and score cards to assess credit risk under different exposure segments. The internal ratings are reviewed and subjected to a comprehensive validation process and framework.

78. SBI is in the process of preparing to participate in RBI's program of Advanced Approaches for Credit Risk, which is another indicator that it continues to upgrade its risk management systems.

XII. WHISTLEBLOWER MECHANISM AND THE CVC

79. The head of the CVC unit who is onsite in SBI headquarters actively monitors the whistleblower mechanism of SBI. The unit reports the system has been in place for about four years, and estimates around 40 complaints have been investigated as of late.

80. It is also noteworthy that CVC makes available online and mobile methods for the public to report complaints. These modalities have been examined previously by the World Bank in the context of other projects and operations, as well as through participation of the CVC in ICHA events. For example, a former CVC Commissioner presented "Vigeyeye" during an ICHA event in Washington, DC in 2012 -.It is a complaints system through which the public may report online and through mobile devices any complaints it seeks to raise to the CVC.

81. If there is a "vigilance overtone" in any of the issues detected through the audit, controls, or risk management system, the CVC reported to the team that these are turned over to the CVC. In addition, RBI may refer a complaint, as well as other authorities that interact with SBI.

82. CVC also monitors "SMS Unhappy" to augment the various methods by which the public can report a grievance related to vigilance. A complainant will be called back upon receipt of such SMS.

XIII. CUSTOMER SERVICE AS A PREVENTION AND COMPLAINTS MANAGEMENT MECHANISM

83. SBI has a robust complaint management system which is web-based and accessible to all customers as well as non-customers at SBI's web-site www.sbi.co.in>customer care>complaint and compliments. As soon as the complaint is entered in the system, it generates a ticket number. Complainant can track his status through this ticket number. SBI also has Board approved Grievance Redressal Mechanism available in the above mentioned web-site.

84. In case of any kind of corruption, there is vigilance department at the Corporate Centre/Local Head Offices (Circles) to deal with such cases. The structure of vigilance department is as per GoI guidelines under the strict monitoring of CVC. All corruption cases are dealt with strongly with appropriate action against the officials involved. The complaint management analysis is put up to the Central Board at quarterly interval where the Directors give their guidance to make it more transparent and efficient.

85. The visiting team observed how the CMS is working, and, at the time of the assessment, a live complaint was reported and demonstrated online. The team was allowed to observe how the complaint was recorded and addressed.

XIV. ACTIONS AGREED TO OPERATIONALIZE THE ANTI-CORRUPTION GUIDELINES (ACGs)

86. In order to operationalize implementation of the various areas covered in the ACGs, SBI agreed to:

- a) Maintain and compile a quarterly report of complaints that may be reported that are related to the Program and share this with the Bank (based on the agreed format provided below);
- b) Incorporate the Bank's debarment list in the filter used by lending officers when they conduct due diligence. This list may be found in the following website: www.worldbank.org/debarr or <http://web.worldbank.org/external/default/main?theSitePK=84266&contentMDK=64069844&menuPK=116730&pagePK=64148989&piPK=64148984>
- c) Incorporate into the filter mentioned above the Bank's suspension list that will be compiled on a periodic basis by the WB team and shared with the SBI team; and,
- d) Incorporate the ACGs in the lending document to be used by SBI for this Program, to ensure potential borrowers are aware of the applicability of the ACGs. The ACGs were attached to the financing documents that were negotiated and agreed with SBI and Department of Economic Affairs, Ministry of Finance, GoI.

Quarterly Report of Complaint Format

No.	Who submitted (Full name - Address/ if not anonymous)	Complaint Summary	Complaint Date	Who received the complaint	Manner of complaint submission	Substance of the complaint	Results		Recommendation
					(e.g. telephone, e-mail, writing, verbal)	(brief description of the allegation or reason for complaining)	Interim Action	Final Action Taken	
1									
2									
3									
4									
5									
...									