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Integrated Fiduciary Systems Assessment

Karnataka Sustainable Rural Water Supply Program (P179039)

(Program-for-Results)

INDIA:

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**Prepared by
The World Bank**

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Currency table

INR 1 Lakh = INR 100,000 = INR Hundred Thousand

INR 10 Lakhs = INR 1 million

INR 100 Lakhs = INR 10 million = INR 1 Crore

1 US\$ = INR 80

1 million US\$ = INR 8 Crore = INR 80 million = INR 800 Lakhs

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IFSA – Karnataka Sustainable Rural Water Supply Program (P179039)

Acronyms

Acronyms	Expansion
ACS	Additional Chief Secretary
AEE	Assistant Executive Engineer
AG	Accountant General
CAAA	Controller Aid, Accounts and Audit
C&AG	Comptroller and Auditor General
CVC	Central Vigilance Commission
DLI	Disbursement Linked Indicators
EE	Executive Engineer
FD	Finance Department
FM	Financial Management
FRBM	Fiscal Responsibility and Budget Management
FY	Financial year
GeM	Government e Marketplace
GO	Government Order
GOI	Government of India
GoK	Government of Karnataka
GSDP	Gross State Domestic Product
HPC	High Powered Committee
IA	Implementing Agencies
IAS	Indian Administrative Services
IFSA	Integrated Fiduciary Systems Assessment
JE	Junior Engineer
KFRA	Karnataka Fiscal Responsibility Act 2002
KTPP	Karnataka Transparency in Public Procurement Act 1999
MIS	Management Information System
MTFP	Medium Term Fiscal Plan
MVS	Multi Village Scheme
PAP	Program Action Plan
PFM	Public Financial Management
PFR	Program for Results
PIU	Program implementing unit
PMU	Program Management Unit
PRED	Panchayat Raj Engineering Department
RDPR	Rural Development and Panchayati Raj Department
RDWSD	Rural Drinking Water and Sanitation Department
RTI	Right to Information Act 2005
RWS	Rural Water Supply
VE	Vigilance Entity
ZP-CEO	Zilla Panchayat – Chief Executive Officer

Section 1. Integrated Fiduciary Systems Assessment (IFSA)

1.1 Fiduciary Risk Assessment – Conclusion

- 1. An Integrated Fiduciary Systems Assessment (IFSA) of the key selected implementing agency (IA) Karnataka Rural Drinking Water and Sanitation Department (RDWSD) was carried out in accordance with Bank Policy and Directive for Program for Results (PforR) financing.** This program is being implemented by RDWSD under the Rural Development and Panchayati Raj (RDPR) department of Government of Karnataka (GoK) supported by their district offices in the field.
- 2. IFSA assesses whether the fiduciary system and performance of the Program’s fiduciary system are adequate and provides reasonable assurance that the funds would be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.** This IFSA has been conducted through meetings and discussions with the officials of IA and review relies upon documents and data provided by the IA regarding their fiduciary processes and performance in past and also upon the Bank’s past project experience and understanding of the Financial Management (FM) and Procurement systems at the State level.
- 3. Based on the IFSA and given the multi-level of implementation (i.e., state level and division level) for operation and execution, the combined fiduciary risk is rated as “Moderate”.** There is an inherent risk associated with variations in fiduciary capacity, compliance to agreed FM and procurement processes in the field offices. To mitigate fiduciary risk and strengthen the existing systems , various actions are recommended to be completed during implementation as Program Action Plan (PAP). With the implementation of recommended mitigation measures and system strengthening actions, during the program implementation, the capacity and performance of the Program IA are considered adequate to provide reasonable assurance that the financing proceeds would be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. If any significant events and issues come to the knowledge during the program implementation, additional appropriate mitigation measures shall be put in place in consultation with GoK.
- 4. GoK has public financial management (PFM) framework including procurement which is followed by RDWSD.** The PFM framework is embodied in the state’s budget manual, Karnataka Treasury Code 1963, Karnataka Financial Code 1958, and other financial rules guided by the principles embodied in the Constitution of India. These are supplemented by legislations such as the Karnataka Fiscal Responsibility Act 2002 (KFRA), Karnataka Fiscal Responsibility Rules 2003, and Karnataka Transparency in Public Procurement Act 1999 KTPP Act. An institutional framework to implement the PFM is in place. From time to time government also issues orders and circulars with clear

delegation of powers which are well established and followed. The existing governance and accountability arrangements include audits by the Comptroller and Auditor General (C&AG) of India which are done on a timely basis, review of audit reports by Public Accounts Committee, Right to Information (RTI) Act 2005, and Central Vigilance Commission (CVC) Act 2003 as well as the Karnataka Lokayukta Act 1984. The state departments and government agencies have clearly defined delegation of authority, financial rules and regulations which are followed.

1.2 Scope of IFSA

5. The IFSA covered the Bank Program and assessment of RDWSD and covered the following key areas and sub areas:

- (a) **Procurement arrangements:** Regulatory Framework; Procurement Planning; Staffing; e-procurement system, capacity of bidders and staff at the line agencies; Standard procurement processes and procedures ; standard bidding document; value of procurement handled; availability of competition; Existence of complaint handling and resolution system; Procurement performance; Existence of management information system (MIS); internal controls mechanism; Procurement documentation, review and audit.
- (b) **Public Financial Management:**
- *Planning and Budgeting:* Budget Vs Expenditure; Budget utilization; Transparency;
 - *Fund Flow:* Fund Flow Mechanism; Process of receipt of fund; Utilization certificates; Delegation of authority; Fund Management; Timeliness of utilization of funds;
 - *Accounting, financial reporting and internal control:* Process of compiling accounts and preparing Financial Statements; Accounting system being used; Current staffing structure including minimum qualification required; Adequacy and capacity of staff; Responsibilities of accounts department; Time lag in preparation of Financial Statement; Existence of segregation of duty; Existence of Fixed Asset Register and physical verification of assets; Record keeping;
 - *Audit-Internal and External:* Entities responsible for auditing line agencies; Existence of internal audit cell; Resolution of audit observations; Time lag in conducting audit
- (c) **Governance and Accountability:** Vigilance function at entity level; Vigilance for the State of Karnataka ; Organization structure of Vigilance Entity (VE); Functions of VE; Types of complaints that can be registered at VE; Mode of complaints; Annual data of investigation undertaken; Duties of agencies w.r.t fraud and corruption; and Awareness about the VE.

1.3 Key risks and mitigation measures

6. The key fiduciary risks identified during the assessment and the mitigating measures are mentioned below:

- a) **Strengthen Staffing and fiduciary capacity of the Implementing Agencies (IAs) (PAP):** Fiduciary staffing and capacity of Program Management Unit (PMU) and divisions need to be strengthened through appropriate and timely appointments. Regular fiduciary training in regard to procurement, contract management, eprocurement, audits, program accounting, and submitting of Disbursement Linked Indicators (DLI) claims would be provided to staff. As agreed staff would be hired in PMU and divisions.
- b) **Strengthen internal controls thru robust fiduciary complaint handling mechanism (PAP):** A centralized fiduciary complaint redressal mechanism preferably with a web interface with clearly defined rules, roles and responsibilities, authorities, and definite timelines to resolve/process the complaints/queries is to be developed to receive and address fiduciary complaints.
- c) **Ensure Bidding and Contract management (Procurement) MIS (PAP) :** For day to day monitoring of procurement and contract management aspects as well as for taking timely corrective actions, an MIS is to be developed and implemented. .
- d) **Publish Program audited financial statements within 9 months from end of the financial year (FY) (Legal) :** RDWSD should prepare and publish financial statements and audit reports within nine months from end of the FY on its website which will improve transparency and provide data to the citizens. Program audit report should be disclosed by the PMU as per the Bank policy on disclosure of audit reports.
- e) **Government Order (GO) issued, and Budget head created/assigned (before negotiations):** GO covering the entire program has been issued before negotiations as well as budget heads as required for the Program has been indicated.
- f) **Appoint external auditor within six months of effectiveness (Legal):** External Auditors are required to be appointed for certification of AFS as per agreed terms of reference within six months of effectiveness.
- g) **Enhance reporting of K-II (Public Financial Management System) PFMS portal and link to central government portal PFMS (PAP action):** GoK has implemented K-II PFMS module . Enhanced reporting and linkage to PFMS needs to be completed within six months of effectiveness.

- h) **Appoint internal auditor for the Program (PAP):** Internal auditor will be appointed for the Program which will cover the entire program and provide timely reports. The auditor is to be appointed within six months of effectiveness.
- i) **Annual procurement audit to be conducted by independent procurement agency.(PAP):** Ensure annual procurement audit is conducted and findings shared with the Bank. Action should be taken on the findings as required and recommendations followed.
- j) **ACG Protocol to be followed as per Annexure 1.**

1.4 Procurement Exclusions

- 7. **The project envisages contracts in Goods, Civil Works, Consultancy, and non-Consultancy, of various values.** The program is not expected to procure any large contracts valued at or above thresholds (US\$75 million for works, US\$50 million for goods and non-consulting services, and US\$15 million for consultant services), which are based on a “Moderate” risk rating. The IA shall report to the World Bank if any large contracts are envisaged throughout program implementation. In addition, the Bank will review the audit, the Program budget execution and contract management reports to identify any large-value contracts to ensure conformity with the Bank’s policy on Program for Results (PFR).

Section 2. Scope and Program Boundary

2.1 Implementation Arrangements

8. **The program is implemented by RDWSD .**
9. **A GO has been issued by GoK to operationalise the Program.** The GO covers the entire program implementation arrangements, future funding provisions, budget and fund flow arrangements, roles and responsibilities of all stakeholders, results and DLI's to be achieved and cover all the key aspects of the Program. GoK has already issued a GO in January 2022 for allocation of INR 9152 crores and approval for taking loan from the Bank. A revised GO has been issued in February 2023 which outlines the above aspects.
10. **RDPR department is headed by Additional Chief Secretary (ACS), which has three Commissionerate namely Commissioner Panchayati Raj, Commissioner Rural Development (RD), and Commissioner Rural Water Supply who heads RDWSD and report to the ACS (RDPR).** The Commissionerate's of RDWSD is head quartered in the state capital Bengaluru and are supported by their respective division offices in each district. These division offices report to the Zilla Panchayat – Chief Executive Officer (ZP CEO) at the district level as well as to the respective Commissionerate's. Division office of RDWSD is headed by an Executive Engineer (EE) of RDWSD who looks after water and sanitation works.
11. **The Program falls entirely under RDPR led by RDWSD.** The core part of the Program will be implemented by RDWSD with support from their district staff who will be the main IAs. The PMU and division staff may either be brought in on deputation with required qualifications or hired from the market.
12. **A Program Steering Committee will be established and chaired by the Development Commissioner of the GoK.** Members of the committee will include the ACS (RD&PR), representatives from Finance Department (FD), and representatives from the PMU. The committee will be responsible for providing oversight, strategic guidance, and policy direction for the Program. The committee will meet annually or as required. In addition, a Program Implementation Committee (PIC) which will conduct regular review of the Program will be constituted and headed by ACS (RD&PR). The members of this committee will be commissioners of RDWSD, chief engineers, nodal officers of the Program, and finance controllers of the departments, among others. This PIC will meet quarterly or as required.

13. **A PMU will be established in RDWSD, and it will use its district staff for implementation.** The PMU will have overall responsibility for compliance, monitoring, and implementation of the Program. The PMU will include specialized technical personnel as well as environment, social, FM, and procurement experts. A District Technical Support Staff will be deployed to the 31 districts who will support the EEs and ZP-CEO. District staffing will include five staff—a technical specialist, a finance and contract management specialist, an M&E specialist, and an environment and a social specialist—for supporting activities, oversight, coordination, and staff to lead the ISAs and the social change campaigns in each district. The staff may either be brought in on deputation or hired from the private market.
14. **The state office will coordinate the program while the funds will be sent to the Divisions through the state office where the actual implementation of works will be done.** All divisions of RDWSD are expected to be part of the Program. Each division is headed by an EE who is supported by Assistant Executive Engineers (AEE) and Junior Engineers (JE). Each division has divisional accountant who carries out accounting and reporting at the division level. The divisions report to the ZP CEO who is normally an Indian Administrative Services (IAS) officer. The state office will be appropriately staffed with key staff including procurement and FM expert for managing day to day activities, oversight, coordination etc. The existing staff may either be assigned to work in the project or hired from market with required qualifications. Program can hire staff from market on contractual basis if required and the cost can be charged to the program.

2.2 Program Boundary and Expenditure Framework

15. **The overall government program is US\$2926.16 million (“p”) (at an exchange rate of 1 US\$ = INR 80) to be implemented over a period of 5 years (FY23-24 to FY28-29).** GoK has approved an overall funding of INR 21,800 crores (US\$2,725 million)¹ for in village works to provide 100 percent FHTC coverage². Up to 2024, the GoK will receive 50 percent co-financing from the JJM (CSS) and after 2024, state funding will address any gaps. The overall government program is US\$2926.16 million which includes sustainability and other support for program implementation.
16. **A PFR program has been carved out of the overall government program.** The PFR program is expected to fund 2 million FHTC connections and other initiatives for sustainability and improvement in the sector including capacity building and other operational costs. The PFR program covers 39 percent of the overall government program. The scope of the IFSA is limited to the boundary of Bank Program. The expenditure framework of the Bank Program (“P”), hereafter called ‘The Program’ is,

¹ INR 35000 crores (US\$ 4.3 billion) is being provided by the state for MVS schemes which is being funded separately by the state and centre.

² 6 million connections are envisaged to be provided.

estimated at US\$ 1144.91 million, of which the WB (IBRD) will finance US\$363 million. The overall funding by the government of the PFR program is 68 percent while the funding from the Bank is 32 percent.

Figure 1: Government Program vs. Bank Program – “p” Vs “P” – (US\$ million)

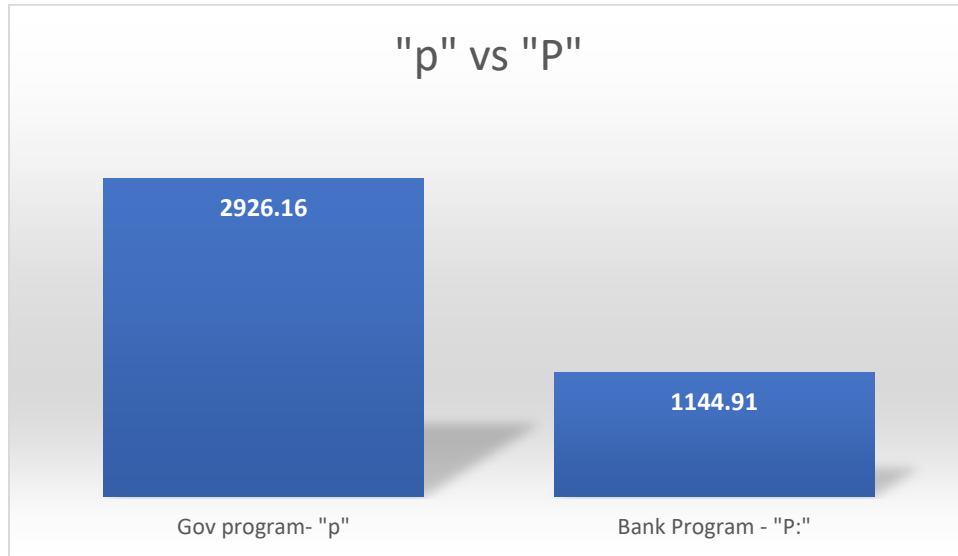


Figure 2: PFR Program – “P”

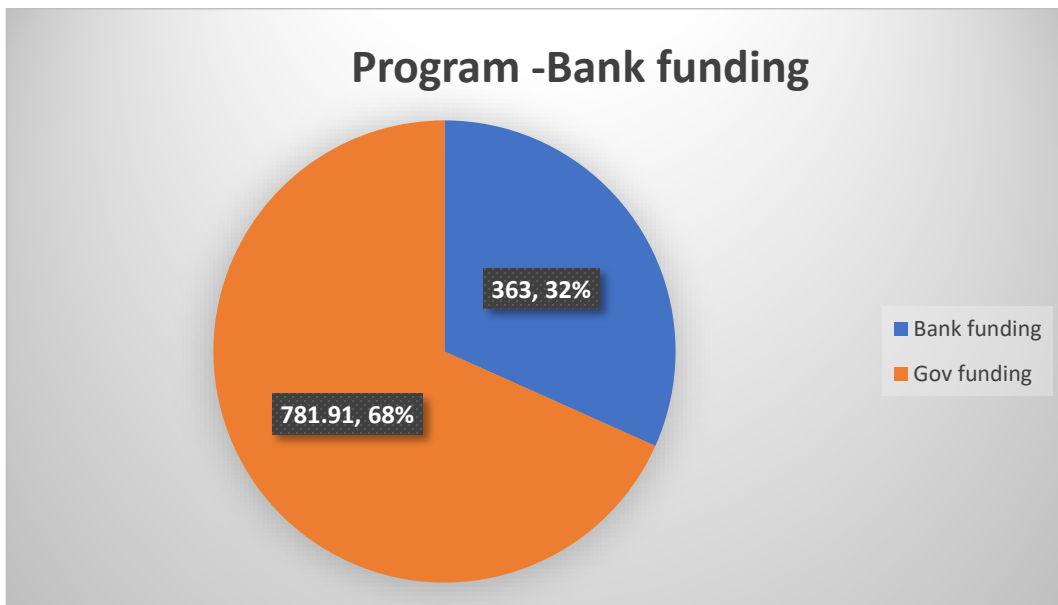


Table 1: Government Program vs. PFR Program – Activity wise (US\$ million)

Activities	Bank Program ("P")				Government program "p"
	World Bank	GoK	GOI	Total	
In-village water supply infrastructure #	280.60	320.75	453.65	1055.00	2725.00
Staffing, PMU, and office improvement	13.00	0.00	0.00	13.00	104.25
Lab construction and O&M	10.00	0.00	0.00	10.00	30.00
Tanks rejuvenation	7.50	0.00	7.50	15.00	15.00
Energy efficiency	10.00	0.00	0.00	10.00	10.00
M&E and IVA	10.00	0.00	0.00	10.00	10.00
Training, capacity building and exposure visits	6.00	0.00	0.00	6.00	6.00
Other program related activities including IEC	25.00	0.00	0.00	25.00	25.00
Sub total	362.10	320.75	461.15	1144.00	2925.25
Front end fee@	0.91			0.91	0.91
Total	363.00	320.75	461.15	1144.91	2926.16

In village water supply infrastructure Includes entire cost of SVS and cost of in village schemes which can be segregated from an overall Multi Village Schemes (MVS) contract.

@ front end fee of USD 907,500 rounded off to 0.91 million.

17. Most of the Program activities are fully funded by the Bank or state except in case of in village facilities and tanks. In village facilities and tanks rejuvenation are funded up to 50 percent by Government of India (GOI) as part of the Jal Jeevan Mission (JJM) which is part of the government program and Bank PFR. In case of MVS, GOI and GoK will provide funds, however this is neither part of the Bank Program nor part of the government program as funds are being provided separately.

18. The funding shown above is indicative and the expenditure will be reconciled on an overall basis for the Bank Program. GOI will provide funds as a part of the ongoing JJM program till 2024. After that the entire funding will be provided by the GoK. While the expenditure for the Bank Program will reported on overall basis, at the time of reconciliation, expenditure incurred by GoK will only be considered. Also, the expenditure against each activity is indicative and could be changed based on the actual implementation in the field.

19. The Program will be a combination of capital expenditure (capex) and operating expenses (opex) activities. The Program will finance procurement of goods, consultancy services, works, and operational and administrative costs associated with the implementation units, related to the program. Operational and administrative expenditure will include salaries of incremental staff of IA,

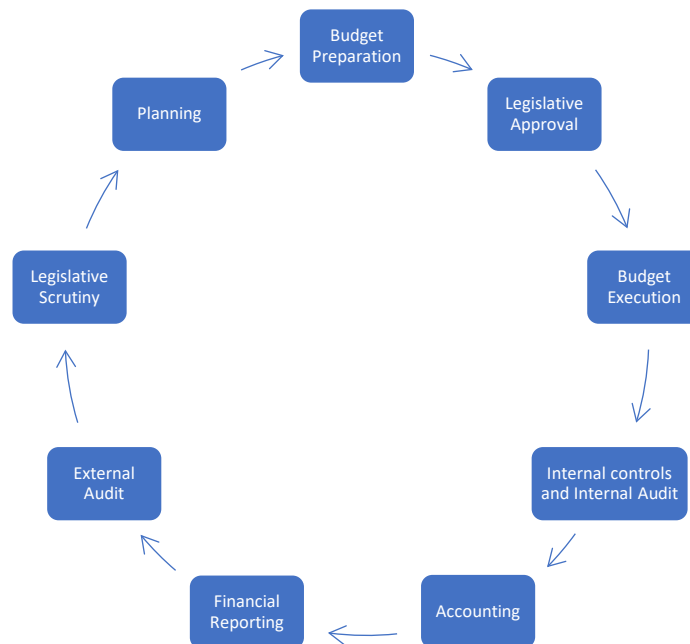
building rentals, annual maintenance, recurring administrative and general expenses. It will include Procurement of hardware and IT systems. Investments can be in civil works, resilient watersheds including groundwater recharge, rejuvenation of tanks, and water quality improvements; Procurement of Water Meters; Increase in water network coverage areas; contractual payment to consulting firms; and non-procurement activities like training, workshops, and Operational cost.

20. **The Result area and DLI:** To achieve this Project Development Objective, an integrated approach is used, leveraging synergies across the Results Areas. The Disbursement of US\$ 363 million by the WB to GoK will be linked to achievement of Disbursement Linked Indicators (DLIs). DLIs are provided in the Project Appraisal Document (PAD).

Section 3. Review of Public Financial Management Systems

21. **Public Financial Management (PFM) encompasses both upstream and downstream functions.** Upstream functions include policy, planning and budgeting and downstream functions – budget execution including procurement, internal controls, accounting, reporting and audit. The procurement cycle including contract management is embedded coherently within the PFM and contributes substantially to the efficacy of upstream and downstream functions. PFM cycle is represented in the figure given below. PFM is an ongoing process and needs to be reviewed from time to time and aligned to achieve the objectives.

Figure 3: PFM CYCLE



3.1 Planning and Budgeting

3.1.1 Adequacy of budget:

3.1.1.1 Budget at state level

22. **The overall state budget has been increasing on a year to year basis.** For FY 20-21 the actual expenditure was US\$ 28,016 million. As per FY22-23 budget the total expenditure is expected to be US\$ 31,443 million. This PFR program funds less than 1 percent of the State budget every year over the next five years. Hence this PFR will not affect the state finances.

23. The state had revenue surplus for a decade, however, is facing revenue deficit over the recent years starting from FY 20-21 and this trend is expected to continue as per the medium term fiscal plan (MTFP) projections. Revenue deficit has increased in the last two years due to economic slowdown caused by COVID-19 which led to reduction in revenue as well as increase in expenditure to meet the needs of pandemic. During 2021-22 to fight the revenue crunch due to Covid-19 impact GOI has raised the borrowing limits for states from the mandated 3 percent to 4 percent of Gross State Domestic Product (GSDP). Accordingly, State Government has amended the KFRA 2002 and increased the Fiscal deficit limit to 4% of GSDP for 2021-22. The state fiscal deficit is within the norms of the state FRBM and is expected to be less than the allowed ceiling. The state overall liabilities including off-budget borrowings were always below the allowed limit of 25 percent of GSDP expect in the last year 2021-22.

Table 2: Snapshot of the State Finances (INR Crores)³

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
GSDP (at current prices)	1,045,168	1,207,608	1,336,914	1,490,624	1,628,928	1,803,609
Total Revenue Receipts	118,817	133,214	147,000	164,979	175,443	156,716
Revenue Expenditure	117,028	131,921	142,482	164,300	174,258	176,054
Committed Expenditure	92,725	101,338	107,732	135,065	144,532	148,978
Capital Outlay Expenditure	20,713	28,150	30,667	34,659	35,530	45,406
Revenue Surplus	1,789	1,293	4,518	679	1,185	(19,338)
Revenue Surplus/GSDP %	0.17%	0.11%	0.34%	0.05%	0.07%	-1.07%
Fiscal Deficit	19,169	28,664	31,101	38,442	38,166	67,098
Fiscal Deficit /GSDP %	1.83%	2.37%	2.33%	2.58%	2.34%	3.72%
Fiscal Liabilities/GSDP %	17.54%	18.32%	18.41%	19.14%	20.72%	22.37%
Total Expenditure outturn %	101.27%	102.64%	97.94%	98.72%	94.63%	99.38%
Revenue outturn %	102.11%	101.88%	101.39%	99.15%	96.47%	87.10%
Capital expenditure / total expenditure %	15.04%	17.38%	17.21%	17.04%	16.61%	20.26%
Revenue expenditure outturn	101%	101%	98%	99%	96%	98%
Capital expenditure outturn	101%	109%	96%	98%	89%	105%

³ Based on data available in the AG reports, AG (A&E) reports, and Budget documents available in the FD website.

Table 3: State finances actual expenditure for six years and budget in the past two years (INR Crores)

Particulars	2015-16 (A)	2016-17 (A)	2017-18 (A)	2018-19 (A)	2019-20 (A)	2020-21 (A)	2021-22 (RE)	2022-23 (BE)
Revenue Expenditure	117,028	131,921	142,482	164,300	174,258	176,054	195,814	204,586
Capital outlay Expenditure	20,713	28,150	30,667	34,659	35,530	45,406	39,481	43,572
Total Expenditure	138,398	162,005	178,242	203,446	213,857	224,129	231,642	251,541
Revenue Surplus	1,789	1,293	4,518	679	1,185	(19,338)	(6,235)	(14,699)
Revenue surplus/GSDP	0.17%	0.11%	0.34%	0.05%	0.07%	-1.07%	-0.36%	-0.78%
Fiscal Deficit/GSDP	1.83%	2.37%	2.33%	2.58%	2.34%	3.72%	2.84%	3.26%
Total Expenditure in US\$ million	17,300	20,251	22,280	25,431	26,732	28,016	28,955	31,443

24. **States expenditure outturn has been consistently over 90% which outlines better alignment between the budget and the actual expenditure.** Capital expenditure outturn has been varying around 90 percent which was 105 percent in the recent year. The share of capital expenditure on total expenditure has also been increasing over the years.

3.1.1.2 Sector level budget

25. **From 1954 to present, many drinking water projects have come up.** Prominent among them are National Water Supply Scheme, Water Nirmal Abhiyan, Jananidhi, Swajaladhara, and National Rural Drinking Water Program.

26. **With an objective to give more focus towards rural sanitation many schemes were implemented.** Central government rewarded scheme Sampoorna Swachhata Andolan was implemented from 2005 to March 2012, and Nirmal Bharat Abhiyan was implemented from April 2012 to 2nd October 2014 in all 30 districts of the state. Swachh Bharat Mission (SBM) Gramin was implemented from 2nd October 2014 till 2020. Now, SBMG Karnataka Phase 2 is in process which will be implemented till 2024.

27. **States rural water supply and sanitation budget and expenditure is covered in two budget heads 2215 – Rural water supply and sanitation head which includes certain operational heads as well heads for transfers for creation of capital assets, and 4215 – Capital outlay for rural water supply and sanitation.** Rural water supply programs have been implemented for more than a decade. The Budget for the sector along with breakup is available from FY 2015-16. The water supply expenditure actual figures as per budget has been around US\$ 350 million on an average per year in the past six years. In the last two years due to JJM the allocation has increased considerably and hence the

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budget has also increased considerably. The sewerage and sanitation has been increasing due to state schemes as well as contribution to SBM. The government has provided adequate budget over the years and the budget outturn has also been above 90 percent except for one year in 2019-20 in which the last quarter was affected by COVID. (Refer table given below) . From outturn it is clear that there is better alignment between the budget and the actual transactions. Majority of the sector funding is routed through RDWSD and hence the department handles these funds both for water supply and sewerage.

Table 4: Sector financing over the years (US\$ million)

	Water supply			Sewerage and sanitation			Grand total	Outturn Percentage
	BH 2215	BH 4215	Total	BH 2215	BH 4215	Total		
2015-16 (A)	328	-	328	0	53	53	381	117%
2016-17 (A)	380	-	380	114	54	167	547	138%
2017-18 (A)	324	-	324	210	64	274	598	106%
2018-19 (A)	201	148	349	120	49	169	518	90%
2019-20 (A)	134	224	359	18	44	62	420	81%
2020-21 (A)	164	193	358	20	60	81	438	91%
2021-22 (BE)	272	156	428	52	-	52	480	
2022-23 (BE)	669	35	704	52	-	52	756	

(A) = Actuals as per accounts (BE) Budget estimates as per Budget

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Table 5: Sector financing over the years with detailed budget head (US\$ million)

Heads	2018-19			2019-20			2020-21		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
2215 Rural water supply and sanitation	403	321	80%	230	152	66%	213	185	87%
2215-01 Water supply	176	201	114%	138	134	97%	160	164	102%
2215-01-001 Direction and administration	14	17	121%	17	16	96%	20	19	93%
2215-01-003 Training	0	0	13%	-	-	-	-	-	-
2215-01-052 Machinery and Equipment	0	0	22%	-	-	-	-	-	-
2215-01-102 RWS Programs	158	178	113%	115	113	98%	138	144	105%
2215-01-196 Assistance to ZP	-	-	-	-	-	-	-	-	-
2215-01-197 Assistance to TP	1	1	99%	1	1	99%	1	1	100%
2215-01-198 Assistance to GP	4	5	132%	6	4	70%	2	1	40%
2215-02 Sewerage and sanitation	226	120	53%	92	18	19%	52	20	39%
2215-02-001 Direction and administration	0	0	78%	0	0	127%	0	0	104%
2215-02-105 Sanitation Services	-	-	-	-	-	-	-	-	-
2215-01-198 Assistance to GP - SBM	226	120	53%	92	18	19%	52	20	39%
4215 Capital Outlay on RWSS	172	197	115%	287	268	93%	270	254	94%
4215-01 Water supply	122	148	121%	237	224	95%	239	193	81%
4215-01-102 Rural water supply	122	148	121%	237	224	95%	239	193	81%
4215-02 Sewerage and sanitation	50	49	98%	50	44	87%	31	60	193%
4215-02-800 Other schemes	50	49	98%	50	44	87%	31	60	193%
Total sector amount	575	518	90%	517	420	81%	483	438	91%

Heads	2015-16			2016-17			2017-18		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
2215 Rural water supply and sanitation	271	328	121%	342	493	144%	500	534	107%
2215-01 Water supply	263	328	125%	266	380	143%	302	324	107%
2215-01-001 Direction and administration	2	10	444%	10	13	127%	14	14	102%
2215-01-003 Training	0	0	18%	0	0	80%	0	0	189%
2215-01-052 Machinery and Equipment	0	0	77%	0	0	95%	0	0	55%
2215-01-102 RWS Programs	196	241	123%	253	364	144%	283	306	108%
2215-01-196 Assistance to ZP	-	6	-	-	-	-	-	-	-
2215-01-197 Assistance to TP	1	0	100%	1	1	99%	1	1	100%
2215-01-198 Assistance to GP	64	70	109%	2	2	101%	5	4	77%
2215-02 Sewerage and sanitation	8	0	2%	76	114	149%	198	210	106%
2215-02-001 Direction and administration	0	0	110%	0	0	78%	0	0	78%
2215-02-105 Sanitation Services	7	-	0%	-	-	-	-	-	-
2215-01-198 Assistance to GP - SBM	-	-	-	76	114	149%	198	210	106%
4215 Capital Outlay on RWSS	55	53	97%	55	54	97%	65	64	100%
4215-01 Water supply	-	-	-	-	-	-	-	-	-
4215-01-102 Rural water supply	-	-	-	-	-	-	-	-	-
4215-02 Sewerage and sanitation	55	53	97%	55	54	97%	65	64	100%
4215-02-800 Other schemes	55	53	97%	55	54	97%	65	64	100%
Total sector amount	326	381	117%	397	547	138%	565	598	106%

IFSA – Karnataka Sustainable Rural Water Supply Program (P179039)

	Heads	2021-22			2022-23		
		Budget	Actual	%	Budget	Actual	%
2215	Rural water supply and sanitation	324			721		
2215-01	Water supply	272			669		
2215-01-001	Direction and administration	19			18		
2215-01-003	Training	-			-		
2215-01-052	Machinery and Equipment	-			-		
2215-01-102	RWS Programs	250			650		
2215-01-196	Assistance to ZP	-			-		
2215-01-197	Assistance to TP	1			1		
2215-01-198	Assistance to GP	2			-		
2215-02	Sewerage and sanitation	52			52		
2215-02-001	Direction and administration	0			-		
2215-02-105	Sanitation Services	-			-		
2215-01-198	Assistance to GP - SBM	52			52		
4215	Capital Outlay on RWSS	156			35		
4215-01	Water supply	156			35		
4215-01-102	Rural water supply	156			35		
4215-02	Sewerage and sanitation	-			-		
4215-02-800	Other schemes	-			-		
Total sector amount		480			756		

3.1.1.3 RDWSD absorption capacity**28. RDWSD is the department through which RWSS budget expenditure and implementation is done.**

Major portion of 2215 head and 4215 head is spent through RDWSD. One issue with these budget heads are some of these heads represent transfers from the state and the actual expenditure is recorded and available with the RDWSD. It is clear from the below tables that RDWSD incurs expenditure to the tune of US\$ 360 million on an average. This PFR is a part of the envisaged government spending and will not affect the capacity of the department. From the table it is also clear that expenditure is increasing every year and post covid has improved due to removal of restrictions. RDWSD has good absorptive capacity, and it is expected that the program will not significantly affect the capacity of the department.

Table 6: Budget outturn and expenditure for RDWSD – US\$ million⁴

RDWSD	Budget	Release	Expenditure	Release/budget	Expenditure/budget
2018-19	205	222	244	109%	119%
2019-20	349	336	349	96%	100%
2020-21	379	320	307	84%	81%
2021-22	738	853	476	116%	64%
2022-23	1,391	196	421	14%	30%
total	3,063	1,928	1,797		
Average	613	386	359	63%	59%

29. JJM has been implemented with a larger objective of providing safe drinking water to all households in Rural India by 2024 through Functional Household Tap Connections (FHTCs). In addition to maintaining sustainability of water sources, grey water management, water conservation, are also part of the mission. JJM includes a community based approach which includes effective Information, Education and Communication. JJM will create a nationwide movement for water which is also the priority of everyone. JJM is implemented in Karnataka as Mane Manege Gange Scheme.

30. The vision of JJM is to improve the quality of life of the rural population by providing adequate quantity of clean drinking water for a sustainable period. JJM will be implemented between 2020 to 2024, to provide operational water supply to every household in the rural areas, providing a capacity of 55 LPCD of clean drinking water every day. Expenditure under the JJM program is incurred on components viz, coverage, water quality, apart from support activities, and water quality monitoring and surveillance.

⁴ The average numbers for release/budget and expenditure/budget are low due to current year figures.

31. **JJM is the RWSS program implemented by RDWSD.** RDWSD under the RDPR Department, GoK is the State Nodal Department of the Mission in the State. At the field level, District Water and Sanitation Missions (DWSMS) or district offices are responsible for the Program implementation.
32. **From the tables below it is clear that both centre and state have provided adequate budget every year and have released funds as required by the agency.** The centre and state provides funds in the budget at the beginning of the year. Releases are done equally by both the governments based on fund request and actual expenditure in the field. It is evident that the agency has always had opening cash balance and funds have not been a constraint under JJM for execution. Since JJM started in 2018-19, the expenditure has been increasing gradually to albeit affected by COVID in end of 2019-20 and beginning of 2020-21. The agency has subsequently improved the pace of expenditure. Another point to note is that the agency has cash balances, which is used first to incur expenditure and then funds are withdrawn from budget as required. Last year due to releases during the last month of the FY, the closing balance is on the higher side which is being used for this year expenditure. While budget is adequate over the years, alignment of cash releases with working season will be more useful for the agency.

Table 7: Budget outturn and expenditure for RDWSD- JJM – US\$ million⁵

JJM	Budget	OB	Releases	Expenditure	CB	Release/budget	Expenditure/budget
2018-19	83	46	69	108	7	83%	131%
2019-20	113	7	109	99	17	97%	88%
2020-21	141	17	127	98	46	90%	69%
2021-22	582	46	731	372	405	126%	64%
2022-23	1,331	405	186	404	188	14%	30%
total	2,249	-	1,222	1,081	-		
Average	450	-	244	216	-	54%	48%

⁵ The average numbers for release/budget and expenditure/budget are low due to current year figures.

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Table 8: JJM Centre and State Contribution and expenditure – US\$ million

JJM		2018-19	2019-20	2020-21	2021-22	2022-23	total
Allocation	Centre	41	68	56	278	681	1125
	State	41	44	85	303	650	1124
	Total	83	113	141	582	1331	2249
Opening Balance	Centre	23	3	10	22	158	
	State	23	3	7	24	248	
	Total	46	7	17	46	406	
Release during the year	Centre	35	68	56	313	170	642
	State	35	41	71	418	16	581
	Total	69	109	127	731	186	1222
Expenditure	Centre	54	62	44	177	202	539
	State	54	37	54	195	202	542
	Total	108	99	98	372	404	1081
Closing Balance	Centre	3	10	22	158	126	
	State	3	7	24	248	62	
	Total	7	17	46	405	188	

33. In case of 4215 the budget head includes amount for MVS funded under Jaladhare as well as O&M expenditure for existing schemes. The state has provided adequate funds every year even exceeding the original budget which would have been funded through supplementary estimates during the year. From the above table it is clear that funds and expenditure has been increasing over. One area of concern is the reduction in the FY22-23 year; however, it is understood from GoK that in future years more budget will be provided for maintenance and new MVS schemes.

Table 9: Budget outturn and expenditure for RDWSD- Jaldhare and 4215 – US\$ million

	Budget	Release	Expenditure	Release/budget	Expenditure/budget
2018-19	122	153	136	126%	111%
2019-20	237	227	250	96%	106%
2020-21	239	194	209	81%	88%
2021-22	156	122	104	78%	67%
2022-23	60	10	17	16%	29%
Total	814	706	716		
Average	163	141	143	87%	88%

3.1.2 Planning and Budget Preparation

34. The GoK has an established budget preparation process that is guided by Budget Manual. Every year the budget process starts in the month of October when a detailed budget circular is issued by

the FD to all departments. The budget circular issues instructions to the estimating officers to provide the budget request duly scrutinized by the IFA of the department.

35. **The FD issued budget circular⁶ in September 2022 clearly outlining the timetable for budget as well as the methodology to be used for preparing the budget for the Department.** The exercise of finalisation of figures by FD is going on and budget will be passed before March 2023. The Administrative Department prepares the budget for the Department under different budget heads that includes the budget estimate (BE) for the current year, the reasons for changes in budget in comparison to last year and other details as required by the FD. The actual expenditure for the ongoing FY is also filled by FD based on which the budget is reviewed on a holistic basis. The final agreed budget allocations are presented in the state annual budget and are approved by the Assembly in February/March. State budgets and consequently departmental budgets are prepared on a timely basis and approved on a timely basis. During the year, the expenditure is monitored against budget and in case budget needs to be adjusted it is done through supplementary budgets during the year. The timeline of presentation of budgets for the past four years are as follows:

Table 10: Dates of budget presentation

Financial Year	Date of Budget presentation
2022-23	4 th March 2022
2021-22	8 th March 2021
2020-21	5 th March 2020
2019-20	8 th February 2019

36. **For RDWSD the budget is prepared by the department and submitted to the RDPR department.** The RDPR department consolidates all budget heads under its control and submits to FD which finalises the budget in consultation with RDPR and submits to legislature for approval. Once the budget is approved the administrative department carries out budget allocation to the respective departments
37. **RDWSD should prepare an annual work plan and based on that prepare the budget requirements for that year.** The action plan will be approved by the state level committee. The budget requirements of the program should be intimated to the administrative department as per the state budget schedule so that the requirements can be incorporated in the state budget.

⁶ <https://finance.karnataka.gov.in/storage/pdf-files/FD14BPE2022-General%20Circular%20Eng.pdf>

- 38. **The state should provide budget for the entire program in their annual budget based on the annual work plan.** The state will prefund the program and receive reimbursements from the Bank on completion of DLI.
- 39. **The state will provide budget at the financial year beginning to the IA.** RDWSD will use this budget amount to achieve the DLIs. Once the DLIs are achieved the report will be submitted to the Bank and disbursements will be made as per achievement. The funds will be provided to the state.

Figure 4: Budget preparation process – Bottom up approach

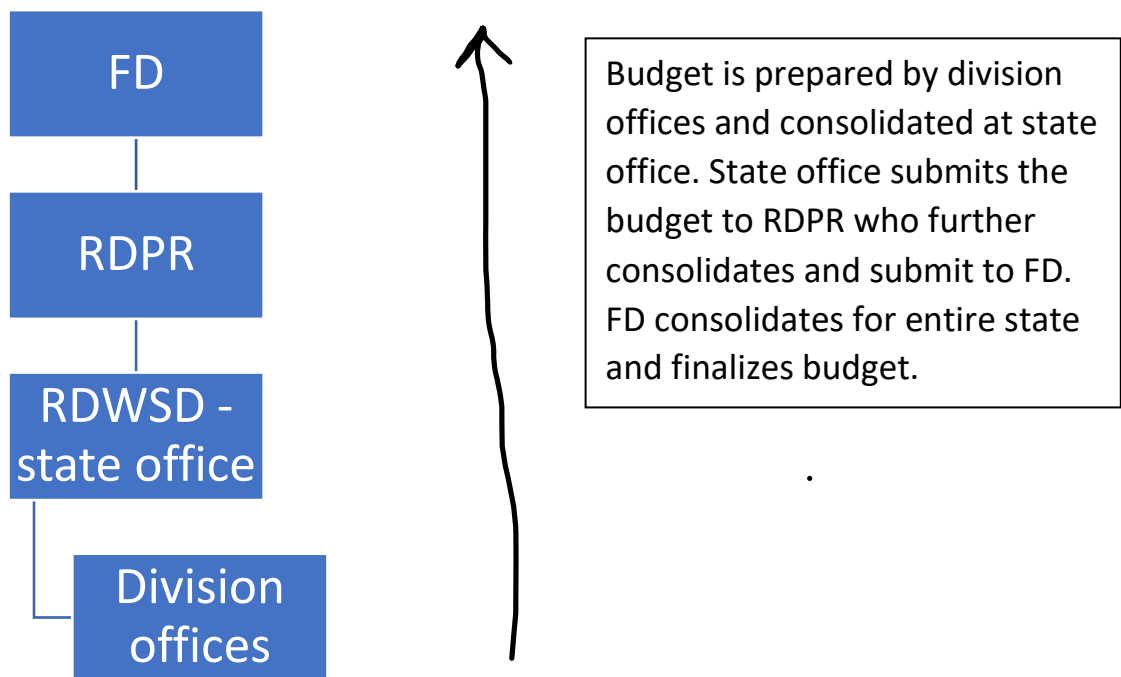
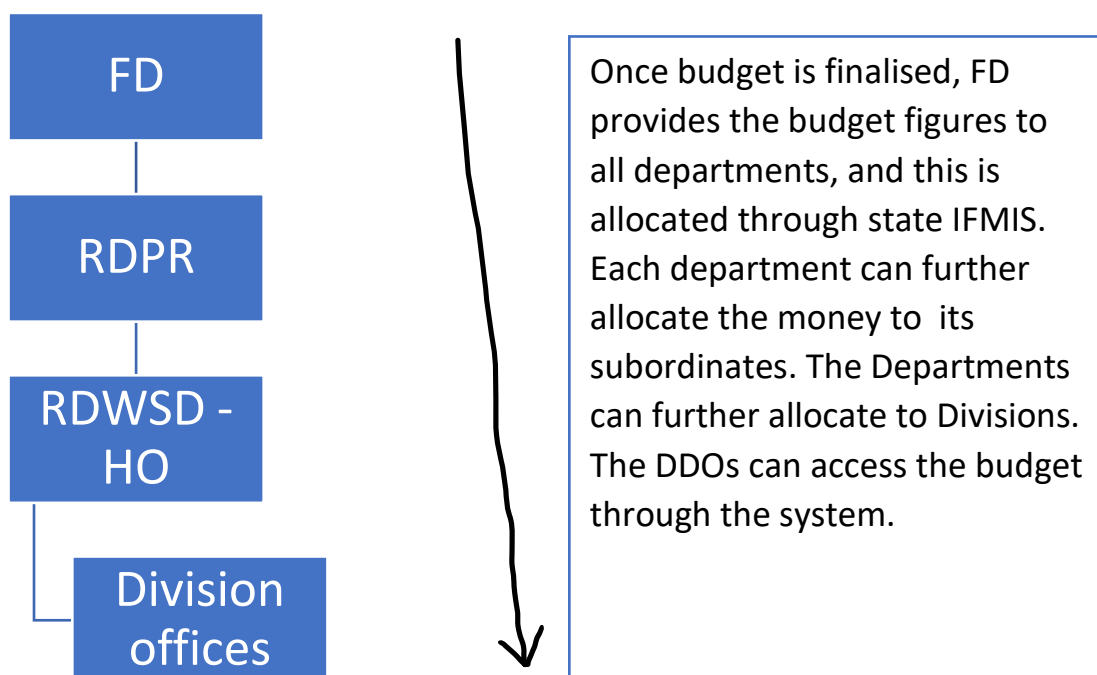


Figure 5: Budget allocation process – Top down approach



40. **In case of GoK, clear delegation of powers exist FD as well has issued clear circulars on release of funds.** Once the budget is approved by the State and it is entered in Khajane II (K-II) – the state IFMIS system, then the administrative department has a flexibility in distributing the budget and utilising the budget amount within the parameters given in the circulars. While for the first three quarters liberal delegation is provided, only in the fourth quarter certain restrictions are envisaged for prudent cash flow and addressing state fiscal parameters. On the whole the administrative department has flexibility and need not go to FD for every transaction.

41. **In case of RDWSD, the funds from the budget will be transferred to the Bank account for CSS schemes at the state office.** The state office provides funding limits to the divisions for carrying out the work. Further details are provided in the section on fund flow in the subsequent pages.

42. **For the program, in case of RDWSD, the existing budget heads would be used for providing program budget.**

Action:

- *FD to pass GO for funding the program*
- *Budget to be provided based on Annual Work Plan*

3.1.2.1 Budget documentation

43. **Annual budget documentation submitted to the Legislature for scrutiny and approval provides a complete picture of government fiscal forecasts, budget proposals and out-turn of previous years.** The legal basis of budget documentation (literature) to be presented before the Karnataka Legislature is embodied in the Karnataka Budget Manual supplemented by the KFRA. The Budget Manual requires the government to present the following to the Legislature: Finance Minister’s Speech, Annual Financial Statement, Detailed Estimates, and Budget Memorandum. The KFRA requires the government to ensure greater fiscal transparency in public interest and, as far as practicable, minimize the secrecy in preparation of the annual budget. The KFRA requires the government to place before the Legislature along with the budget, a Medium Term Fiscal Plan (MTFP) and statements disclosing specified items.
44. **The budget literature continues to contain and disclose significant information and the entire budget is uploaded in the FD website.** The website has detailed budget documents for nearly a decade. The Budget for FY 22-23 contained the documents listed in Table below. GoK also prepares an annual Economic Survey Report that provides a commentary on the economy as a whole and of the major sectors. This is presented to the Legislature prior to the submission of the budget.

Table 11: Budget Documentation 2022-23 in GoK

▪ Budget Speech	▪ Expenditure Volumes
▪ Budget Highlights	▪ Appendix B – Employees and Salaries for State and District level
▪ Annual Financial Statement	▪ Gender Budget
▪ Overview of the Budget	▪ Child Budget
▪ Medium Term Fiscal Plan	▪ Karnataka Scheduled Caste Sub Plan and Tribal Sub Plan Allocation
▪ Detailed estimates of Revenue Receipts	▪ Budget Allocation for Urban Local Bodies
▪ Demand for Grants	▪ Budget Memorandum
▪ District sector schemes	▪ Action Taken Report

3.1.3 Procurement profile of the Program

45. **Program expenditure will be a combination of capital and operating expenditure activities to be carried out by these two agencies.** The Program will finance procurement of goods, consultancy services, works, and operational and administrative costs associated with the implementation units, related to the program. Operational and administrative expenditure will include salaries of incremental staff of IA, building rentals, annual maintenance, recurring administrative and general

expenses. It will include Procurement of hardware and IT systems. Investments can be in civil works, resilient watersheds including groundwater recharge, rejuvenation of tanks, and water quality improvements; Procurement of Water Meters; Increase in water network coverage areas; contractual payment to consulting firms; and non-procurement activities like training, workshops, and Operational cost.

46. **The project envisages contracts in Goods, Civil Works, Consultancy, and non-Consultancy, of various values.** However, it was confirmed that though there may be large value contracts for bulk water supply works, the contracts under the project may require a large number of small contracts, no contract is expected to cross US\$10 million for civil works and US\$2 million for goods, non-consulting services and for consulting services. Most procurements in the districts are expected to be low value, therefore challenge will not be for complexity of procurement, but for monitoring the large number of small value contracts. Goods are procured mainly through GEM Portal – for items which are available on GeM. For items which cannot be procured on GeM, online eprocurement system will be used. Civil works and consultancy services are procured using the e-procurement platform of the GoK (www.eproc.karnataka.gov.in). Broadly, two-stage tendering system is followed for contracts valued above INR 0.5 million.

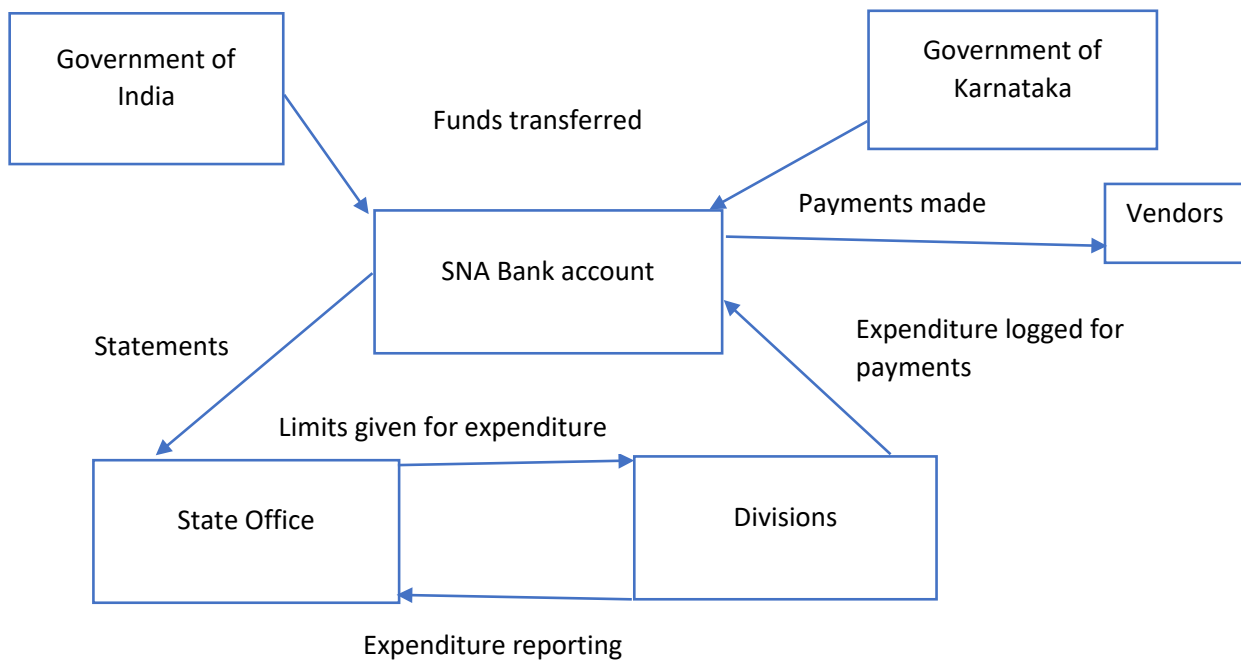
3.2 Budget Execution

3.2.1 Fund Flow

47. **GoK has implemented a comprehensive IFMIS and HRMS system namely Khajane-2 (K-II).** K-II is the state treasury system on which all departments work. The departments get budget allocation through K-II, which they can further allocate to their subordinates. Drawing and Disbursing officers (DDO) of all departments are registered in K-II and they can access and make payments through K-II for all their bills. All bills are passed and paid through state treasury.
48. **RDWSD uses two mechanisms, i.e., payments through treasury and payments through Single Nodal Agency (SNA) bank account for centrally sponsored schemes (CSS).** RDWSD uses the state treasury module for payment of salaries, operational costs of office as well as for using funds under the budget head 4215. All department salaries are paid through state treasury. The permanent staff are enrolled in HRMIS of the state and payroll is generated in the software by DDO. Once the salary bill is prepared and approved and sent to treasury, it makes direct payment to the staff bank accounts. In case of other expenses also each DDO prepares the bills and submits to the treasury which makes payments directly to the vendors. In case of 4215 budget head, the division office are provided allocations based on which they incur expenditure. The expenditure is tracked in K-II and monitored on regular basis in the state office.

49. **In case of CSS like JJM or SBM the funds are operated through SNA bank account as per scheme guidelines.** SNA is a bank account opened at the state level one each for respective CSS scheme. RDWSD has two SNA accounts one for JJM and one for SBM. Amounts released by Centre and State are held separately in the designated Bank accounts for Program and Support activities. This mother account has link accounts/child accounts in which all the division offices are enrolled which are zero balance accounts. This account is registered with the central government portal Public Financial Management System (PFMS). Central government funds are directly transferred to this account through PFMS. Once the funds from centre are released a matching share is provided by the State from state treasury into this bank account. The payments and reporting are presently done through K-II PFMS module which has been developed by the state.

Figure 6: SNA funds flow



50. **State office allocates funds to different components some of which are of 100% state share and some 100% central share.** State office makes sub component-wise allocation under the Program and Support activities in respect of each DWSM (division) under intimation to the designated Bank, which maintains division wise memorandum account and regulates payments authorized on the Bank accounts by the DWSMS for the Program and Support activities, with reference to the sub component wise allocation made by the SWSM and ensuring that payments by the DWSMS do not exceed the sub component wise allocation made by the SWSM. The state office manages this bank

account and provides the divisions with limits for expenditure. The divisions will prepare and submit the bill in K-II PFMS module and request the bank to make payments. Once the bank makes payments in the divisions the balance is automatically adjusted in the mother account. So, from K-II PFMS all receipts and payments for the schemes are available.

51. **RDWSD has moved from GOI PFMS portal to the K-II PFMS portal for managing CSS payments recently.** Earlier the CSS payments was received through Bank account and linked to GOI PFMS portal. All receipts and payments were entered in the GOI PFMS portal. The expenditure-advance-transfer (EAT) module of the GOI PFMS portal used to record all expenditure which automatically reports to the GOI based on which transfers were done by the GOI. However, this portal had certain issues of linkage and issued for payment of dues like TDS, GST etc.
52. **GoK decided to develop a module known as K-II PFMS which will help in making payments and accounting for the CSS projects.** This module was developed and rolled out recently in November 2022, and the system has stabilised for basic payments and reporting. At present, the system is able to process payments and provide reports of expenditure division wise and provide accounting reports. However, the key issue as of now, is the linkage with GOI PFMS system, as entries are not being posted automatically which will lead to understatement of expenditure and potentially affecting future transfers. Also, the report functionality of the module needs to be improved as currently only two basic reports are available. This is a PAP action which will be monitored during implementation.
53. **For the PFR, we will follow the same funding mechanism elucidated above.** RDWSD payments will be done through SNA bank account.

3.2.2 Accounting Systems and Financial Reporting

54. **RDWSD follows government accounting system for budget heads.** RDWSD has implemented K-II across all offices and all payments and accounting are maintained in the system. The DDO would prepare the primary bills for payment in the system which would be approved by the competent authority in the system. The approved bills are forwarded to Treasury and based on validation, and budget availability e-payments would be made. As the DDO would enter all the data from his office, the primary book of accounts would be maintained in the KII system itself. Monthly payment statement can be generated from the system which would provide budget code wise monthly expenditure and cumulative expenditure. Apart from the computerised system, the department maintains cash book, cheque issue register, and other basic records as prescribed by the state. Accounts are maintained up to date as it is computerised. Once payment is done the accounts are

completed for the budget heads. Salary payments are centralized and is processed through computerized module. All payments to employees are done through electronic transfers.

55. **RDWSD JJM scheme accounts are maintained separately.** Payments are made through SNA bank account and payments are processed through computerised K-II PFMS module. Once payments are done, in K-II PFMS accounting is done automatically. Expenditure can be obtained from K-II PFMS as well as bank account. Division office also maintains cash book and cheque registers. Apart from these records, state office is also maintaining proforma accounts in Tally. For JJM, expenditure is also booked in the central MIS systems. Accounts from K-II PFMS compared with Bank accounts can be used for tracking expenditure.
56. **Schemes are implemented at division level and hence payments are initiated at the division level.** SVS or MVS are done by the RDWSD through contractors. When work is done, the AEE verifies the work and enters in the M-Book. Then the work is verified by the EE and the bill is processed by the division. Divisional accountants checks the bills and validates the bills for payments. Once the bill is ready it is sent to the ZP CEO for approval after which payment is done from SNA account.
57. **Accounting will be done using the current mechanism..** In case of RDWSD, the SNA bank account would be the main payment mechanism and accounting would be done using K-II PFMS module.
58. **As this is a PFR program interim unaudited financial reports submission is not required.** However, the client shall submit six monthly reports on the expenditure for which the templates will be developed and put as a part of the POM and agreed before negotiations. The same templates will be used for AFS.

3.2.3 Procurement system analysis

59. **Procurement by all the agencies are carried out following the Karnataka Transparency in Public Procurement Act 1999 and Karnataka Transparency in Public Procurement Rules 2000 as amended from time to time. Each agency has clearly defined delegation of authorities.** Government e-Marketplace (eGeM) portal of central government can be used by all implementing entities. The procuring agencies may engage with private sector companies following selection process as per Karnataka transparency in public procurement (KTPP) rules 2000 and enter into a contract with a clear ToR. While each agency follows a standardized provision there are standard/model bid or contract document issued by the Finance Department of the GoK, which are used across board by all agencies. Procurement method are chosen based on these documents. The procedure for bid submission and opening, evaluation and contract award are based on the criteria provided in the bid documents. Market readiness: There is a clearly identified target market for all procurement

activities. There is no restriction to open competition. Standard bid and contract documents as per expenditure framework are used by all IA at all levels.

3.2.4 Procurement management: Agency wise analysis

60. **This program is being implemented RDWSD supported by their district offices in the field.** RDWSD has clear delegation of powers to control procurement decisions. Procurement is carried out by engineering staff at various levels (EE, AEE, AE). As part of procurement planning each Project Administrative approval and technical sanction are obtained from appropriate authority. Agency uses standard bid documents and contract formats. Schedule of Rates published by designated departments of the GoK are the basis for arriving at the works estimates.
61. **Transparency is maintained by advertising bidding opportunities in National and local media; by carrying out public bid opening; and by uploading the evaluation report in the e-procuring site www.eproc.karnataka.gov.in** .For works contracts, the Schedule of Rates approved by the Government is used. The rates for works contracts are based on Schedule of Rates which are revised annually/quarterly for the issue rates of specific materials The preference policy for a MSME/Made in India etc is as per the KTPP act but there is no exclusion of Bidder policy based on class, category, or country. RDWSD has a quality control mechanism which carries out periodical checks regarding various projects and activities. There is a mechanism in place to monitor delivery of goods, works and services to verify quantity, quality, and timeliness.
62. **As per the GO, the bids/proposals are advertised/published in the national/local Newspaper based on the estimated value of the contract.** The actual costs for completing some contracts have been higher than the quoted price by the contractor even after considering the additional scope. Due diligence is conducted on the winning bidder to ensure that it is a legitimate, technically capable contractor/suppliers etc; by verifying qualification criteria, verification of performance certificates carried out from the client who issued the certificate for its genuineness, financial capabilities are verified from the P&L account, and Balance Sheet issued by Chartered Accountant and assess the bid capacity as per the provision contain in Bid documents. Bid evaluation reports contain all essential information necessary for approvals, including adequate justification for decisions taken during evaluation such as rejection of bids.
63. **Details of tenders awarded get automatically displayed in the procurement portal for public view.** Bidders who have been disqualified/ debarred due to works executed in any State/Central Government Department or State / Central Undertakings/Boards/Corporations, Municipalities and Municipal Corporation, Urban Development Authorities will also be disqualified in the tenders participated by them in the tenders invited by RDWSD for the projects funded by GOI, GoK. All supplies required for the works are subjected to Third Party Inspection at the cost of the employer.

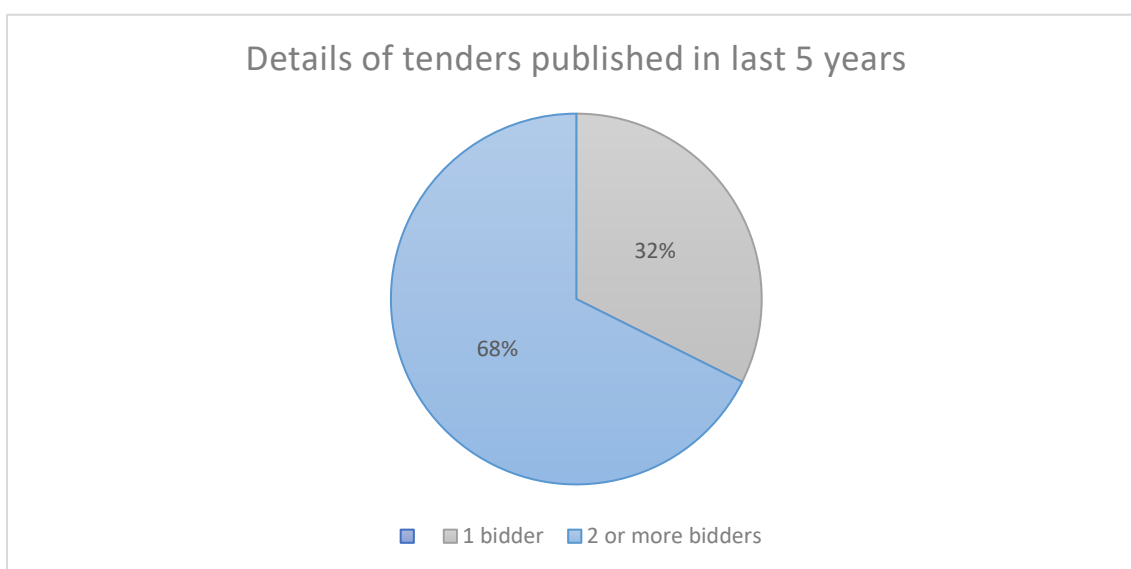
64. **RDWSD have a formal system known to the bidding community to review and resolve complaints from bidders at different stages of the procurement cycle up to contract award stage.** RDWSD has a system in place to allow the complaint to be disposed of administratively besides judicial review. While RDWSD has the provision for arbitration other than judicial avenues but no records of implementing such an alternative dispute resolution was provided. The procurement operations are subject to regular internal checks and external audits done by CAG and includes physical inspection and compliance checks but there are no specific procurement review being carried out. No other form of oversight of procurement exercised by other external independent organization like civil society groups, anticorruption agency or similar.
65. **Procurement Capability:** RDWSD has decentralised the contract procurement and officials in each district have been assigned the responsibility of conducting the tender process in addition to their other functional responsibilities. Ideally, the officials with right procurement capabilities should be assigned the role of procurement. In the RDW&SD Head Office a separate Project Management Unit(PMU)which is consisting of Procurement Expert and Financial Expert in addition to Procurement Consultant of the Department. In case of special projects division there are no dedicated procurement staff but EE,AEE,AE superintendent are assigned to carry out the role of procurement.
66. **e-procurement:** While low value procurement (i.e., below INR 5 Lakhs) are carried out manually but all procurement above INR 5 Lakhs value procurements are carried out through e-procurement.
67. **RDWSD have model standard bidding documents (SBD) for procurement of Goods, Works and Services issued by the FD of GoK.** The department is following these documents with the data to suit the specific work/goods/service requirement. To ensure uniformity, it is agreed that RDWSD will incorporate provisions related to implementation of Bank's anti-corruption Guidelines.
68. **As per the procurement data, provided for the last three financial years, procurement of RDWSD has largely been done through e-bidding mode i.e., bids are invited and received in e-mode.** However, contract award continues to be done manually. In addition, for contracts below INR 5 lakhs manual procurements is done where bids are invited and submitted manually. As per RDWSD, procurement is de-centralized with all district officers having their own procurement cell. Some officials within each department has been assigned the additional responsibility of procurement. RDWSD generally follows five type of contracts- (i) Item Rate (ii) Lumpsum (iii) Percentage (iv) Rate and (v) Supply based contract. As regards number of bidders for each contract, the information provided by RDWSD shows that there has been mixed participation by bidders in tenders in the last three financial years as presented below.

Table 12: Number of bidders in each contract - RDWSD

Number of bidders participated in each tender	No of contracts	Percentage
1 bidder	7219	32%
2 or more bidders	15080	68%
Total	22299	

69. On the basis of above table, the chart below presents that up to 2 technically qualified bidders account for higher percentage of overall participation in terms of numbers of contracts.

Figure 7: Number of bidders



70. **Procurement arrangements and Process:** As part of procurement planning each Project Administrative sanction and Technical sanction are obtained from appropriate authority and Procurement is done as per KTPP 1999 & KTPP Rules, 2000. Agency uses its own bid documents and contract formats. SOR/Published by PWD and Water Department of Government of Karnataka for Constructions are the basis for arriving at the estimates. Procurement is carried out by engineering staff at various levels.

71. **Standard Bidding Document:** RDWSD mentioned that there are standard bidding documents for works, goods and service contract

- a. RDWSD: Transparency is maintained by advertising bidding opportunities in National and local media. Bids are published in Web site (www.eproc.karnataka.gov.in); bid opening and

evaluation report uploaded in the e-procuring portal. Technical Qualification of the bidder scrutiny by the Department and followed by the Tender Scrutiny Committee to ensure due diligence on the winning bidder to ensure that it is a legitimate, technically capable company. The Bid Evaluation reports contain all essential information necessary for approvals, including adequate justification for decisions taken during evaluation such as rejection of bids. The contract monitoring by reviews and reports end to end stages. The payments are made within contractual terms. The goods are supplied to the Store. There are two levels of Scrutiny. Tender Scrutiny Committee will scrutinize and recommend for action. Evaluation reports are prepared. RDWSD has a disclosure policy. It has no preference policy for any particular class of bidders. no exclusion of Bidder policy based on class or category.

- b. special project department: Each Project Administrative sanction and technical sanction are obtained from appropriate authority; Standard bidding document are used. Advertisement for notice of invitation for tender is published in Procurement Portal, National English, and Kannada Papers Edition. Bid are opened as per scheduled in the tender notice. Technical evaluation is done as per the Karnataka Transparency in Public Procurement Rules, 2000 and the evaluation report is uploaded in the e-procuring site. All the contracts are awarded within contract validity period. The invoices are paid as per contractual terms, Contract amendments are done only case to case basis. Extension of time will be considered on specific request from the perspective bidder on reasonable grounds.

72. **Contract management:** RDWSD has a quality control mechanism, which carries out periodical checks regarding various projects and activities. The contract monitoring is done and reports end to end stage. The goods are supplied to the Store. There the quality and quantity of Materials are verified. Time Extensions are done in exceptional cases, due to the administrative reasons. No pending backlog of payments /dues. Procurement operations are audited by CAG Audits, Local fund audit and includes physical inspection and compliance checks There, the quality and quantity of Materials are verified. Very few extensions of time/amendments were done, due to the administrative reasons. There is no backlog of unresolved contractual claims (e.g., payments, variations). There is no track record of implementing an alternative dispute resolution procedure besides the judicial avenue.

73. **Contract Management Structure:** in RDWSD, Chief Engineer at the state office and EE at divisions handles the contract management. Engineering departments are responsible for contract management. In addition, major projects have design consultant, Program management consultant based on the nature of work. However, there is no contract management training modules or contract management manual in place.

74. **Contract monitoring is currently being performed based on excel based format but presently there is no integrated contract performance management system within RDWSD.** Any

alteration/variation in quantities in the contracts are only upon approval from the Competent authority. Procurement operations are subject to Internal checks and audit by Comptroller and Auditor General of India regularly. It also includes physical verification. To keep track of progress on day-to-day basis, the RDWSD staffs also make use of Google Sheets, WhatsApp, and Telegram. Currently e-procurement portal GoK is being used for tendering till work award. However, there is no dedicated Contract management MIS system which has complete end to end information from Procurement planning to indent creation to finally closing of the contract.

75. Time taken to complete the contract- As per the data furnished by RDWSD, all contracts completed within estimated time. Although it is also understood that time for the completion of contract is counted from the date of handing over the site and there is generally delay of about 1 - 6 months in handing over of the site. As per the information provided by RDWSD, following are the main reasons for delay in completion of the contract:

- Unforeseen site conditions.
- Weather related issues

76. Distinct Contract Identification Number- As per the current system of RDWSD, when a contract/project is internally approved, there is a unique number generated. the unique numbers are same at the time of approval and at the time of tender process which results in ease in extracting the historical information for same contract.

77. Accountability for Procurement Decisions: All procurement decisions and activities are carried out following the Karnataka Transparency in Public Procurement Act 1999 and Karnataka Transparency in Public Procurement Rules 2000 as amended from time to time.

3.2.5 Procurement processes and procedures

78. RDWSD carries out procurement as per the delegation of authorities using the applicable threshold for e-procurement. Government e-Marketplace (eGeM) portal of central government is available for use . The procuring agencies may engage with private sector companies following selection process as per Karnataka transparency in public procurement rules 2000 (KTPP) and enter into a contract with a clear ToR. While RDWSD follows a standardized provision Procurement method are chosen based on the market condition and market assessment. The procedure for bid submission and opening, evaluation and contract award are based on the criteria provided in the bid documents and KTPP Act.

79. Open tender using e-procurement : Common use goods and services can be procured through eGeM portal. There is a Government Order (GO) in place regarding use of e-procurement portal

www.eproc.karnataka.gov.in , which is used for inviting bids through e-bidding. The evaluation and award of contract is also done online. Tenders are advertised in newspapers and through central e-procurement portal. The publication period for the potential bidders to submit the bid is Minimum: 15 days for tenders of value less than Rs.2.00 Crores and 30 days for tenders of value more than Rs.2.00 Crores. However, there is a provision of inviting short term tender with minimum duration of 7 days for reasons to be recorded in writing with approval from competent authority.

Table 13: Year wise contracts issued (Numbers)

Type of contracts	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (till November)
	Number of Contracts	Number of Contracts	Number of Contracts	Number of Contracts	Number of Contracts	Number of Contracts
Item rate	2435	2456	4845	6065	6217	4909
Lumpsum/DBOT	35	38	69	89	50	74
Total	2470	2494	4914	6154	6267	4983

80. **Contract performance:** Based on review of information on activities tendered, contracted, and completed during last three years, gaps in terms of reduced or no competition, delayed contract completion, have been observed. . Overall enhanced monitoring and timely corrective action for timely delivery is required.

Action:

- *Bidding and contract management (Procurement) MIS to be developed from planning to contract closure for close monitoring and timely corrective actions.*

81. **Contract Administration:** From the national legal framework point of view, the main acts which govern the contracting are Indian Contract Act 1872, Sale of Goods Act 1929, Arbitration and Conciliation Act 1996 (Revised 2015 & 2018). Contracts are administered in line with the contractual provisions listed in the Standard Procurement Documents. To ensure effective oversight and as a forward looking action , all procurements under proposed Program shall be monitored through a set of Key Performance Indicators which is part of the implementation support and monitored bi-

annually and reported as part of the ISR (referred in section 5 as part of the implementation support). This information would be useful to focus attention on underperforming activities and agree on timely implementation of remedial measures. This information would be useful to focus attention on underperforming activities and agree on timely implementation of remedial measures.

Action:

- Consolidated monitoring of physical and financial progress to measure cost overrun and time overrun.
- Measure the performance of the procurement system identified set of four (04) Key Performance Indicators as under: (a) Procurement lead time from publication till the award of contract (days) (b) number of bids/ quotations received; (c) Number of contracts awarded and completed within the contract period; and (d) number of complaints received and upheld.

82. Key procurement risk and mitigation measures are given below

Table 14: Procurement risk and mitigation measure

SN	Risk	Mitigation Measure
1	There is multiplicity of circulars and instructions laid down by several Agencies, which are applicable to Procurement under the Program.	RDWSD shall prepare a Procurement Manual for use of all Implementing Agencies and Procuring Entities which shall be agreed with the Bank before procurement is commenced.
2	Variations in important provisions in the Procurement Documents on account of absence of Model or Standard Bidding Documents/ RFPs with the Implementing Agencies.	Implementing Agency shall prepare Model/Standard Bidding Documents for Goods, Works, Non-Consulting & Consulting Services.
3	Non-disclosure of Contract Award information on the Procurement Portal, websites of Implementing Agencies and/or other media.	RDWSD shall ensure that Contract Award information is disclosed by both the Implementing Agencies on the Procurement Portal, their respective websites, and/or other media.

SN	Risk	Mitigation Measure
4	Absence of formal procurement complaint handling and redressal mechanism.	An online system should be set up to allow registration of complaints on the websites of the Implementing Agencies. The system should have the mechanism for acknowledging the complaint and for its tracking by the Complainant as also by the nominated officials, reviewing the redressal periodically, escalation to higher levels in case of delays beyond a specified time period, ultimate disposal of complaints and communication of the outcome to the complainant within an agreed timeframe. Further, all complaints should be dealt with at a level higher than that of the level at which the procurement process is undertaken.
5	Non-inclusion of ACB provisions and of ineligibility in the Procurement Documents for bidders to participate in the Program and for award of Contract to any person or entity debarred or suspended by the Bank during the period of such debarment or suspension.	RDWSD shall revise the Procurement Documents and align the relevant provisions with the Bank's Anti-Corruption Guidelines.
6	No Procurement Audit is done	Ensure Annual Procurement Audit by an independent Procurement Firm

3.3 Internal Controls

83. **Internal controls are being practiced in RDWSD.** The internal control framework is embodied in the financial rules supplemented by defined delegation of financial powers. These are detailed in the State financial and procurement rules, and treasury code. Oversight regarding compliance with internal controls are vested with the head of the Administrative Department and FD, and these are reviewed by the C&AG during annual audits. Internal controls at the States are robust and is improving due to use of ICT, and adoption of payments through electronic modes.

84. **The internal controls for RDWSD largely follows the state framework.** Clear delegation of powers exist which defines all activities. All payments made through treasury are validated with checks by it.

State office also continuously monitors payments done by Divisions. In case of bank payments, controls are followed as per scheme guidelines. Bills are prepared and verified by different officers and verified by accountants. Regular reconciliations are carried out by divisions for payments with the bank account.

3.3.1 Internal Audit

85. Entity level internal audits are not practiced in government agencies and departments. Pre-audit of payments is done for all bills. Internal audit for the Program will be introduced. Such audit will cover the entire program and provide inputs to the management. The auditor will be appointed within six months of effectiveness. This arrangement has been agreed during appraisal.

Action: *Internal auditor to be appointed within six months of effectiveness*

3.4 External Audit

86. Audit of the budget heads which are part of the department and using treasury system for payments are carried out by the state office of C&AG of India. Audit for FY 20-21 for the state has been completed and report is available in public domain. There are no separate audit reports for the department budget heads.

87. In case of scheme funds like JJM, SBM, or other schemes, audit is carried out as per the scheme guidelines and these are audited by Chartered Accountants' (CA) firm. As per the JJM guidelines, the State Water and Sanitation Mission- RDWSD state office has to submit annual financial statements (AFS) audited by the C &AG empanelled CA comprising of the Audit Report, Receipts & Payments Account, Income & Expenditure Account, Balance Sheet with notes forming part of the accounts, and Auditor's observations as per the prescribed Annexures.

88. Standalone state office annual financial statements (AFS) are compiled to reflect the financial transactions of the state office. District-wise AFS are compiled by the DWSMs, audited by CA, and submitted to the RDWSD. SWSM annual financial statements (AFS) reflecting the financial transactions of the SWSM and all the DWSMS, is consolidated on "As is Where is Basis" by netting off inter movement of funds between the SWSM and DWSMS, and on the basis of the audited AFS received from the DWSMS. SWSM appoints Chartered Accountants' firm as Statutory Auditor to carry out audit of the SWSM transactions and consolidated AFS (State and Districts transactions) as detailed above. DWSMS appoint Chartered Accountants to carry out audit of the DWSM transactions at the district level including transactions of all the IA under their jurisdiction and

certification/attestation of the DWSM AFS. For these schemes both consolidated as well individual audit reports are available. Audits have been completed up to FY 20-21. Accounts compilation and audit has started for FY 21-22.

89. The program audit report needs to be submitted within nine months from end of the financial year for entities. For RDWSD, the existing external auditor will be requested to provide the consolidated audit report for the entire program. The need for duplication will be avoided. While audit will be one, a separate report will be requested from the auditor. The audit will be conducted as per agreed terms of reference with the Bank and would be hired within six months of effectiveness. The program audit report will be displayed in the PMU website as per the Bank disclosure policy. This has been confirmed during appraisal.

Action:

- Agree on audit arrangements for CA and appointment within six months of effectiveness
- Display the program audit report on the PMU website

3.5 Procurement and Financial Management Capacity – Staffing

90. Based on the interactions, it is understood that the engineering staff carry out procurement and contract management functions supported by procurement staff assigned to each department. The staff needs to receive specialized training on various commercial and contract management aspects so that they can carry out procurement with minimum disruptions.

91. In case of FM, staff are available in all the state office and divisions. RDWSD should nominate a staff who will be responsible for program accounting at state office. Staff have been hired under JJM and they could be used for accounting for this program also. FM staff will need training on accounting for program expenditure, DLI disbursements, and other FM requirements. Program can also hire staff from market on contractual basis if required and the cost can be charged to the program. There should be one nodal FM officer at the state office who can supervise the programs.

92. The World Bank’s assessments have identified shortcomings in district-level capacities, and thus the Program will support District Technical Support Staff (DTSS) to be deployed to the 31 districts. DTSS would include five staff for each district and will include a finance and contract management specialist . The staff may either be brought in on deputation or hired from the private market.

Action:

- *Ensure each of the IA have required FM and Procurement staff who have received training and are well versed with the procurement and contract management aspects*
- *Staff to be hired/nominated within three months of effectiveness*
- *Nodal officers for Procurement and FM to be nominated at state office of RDWSD*

3.6 Transparency and publishing of financial statements

93. Finance department has its own website and accounts details, and budget details are provided.

Overall state finance audit report is hosted in the CAG website. The finance accounts and appropriation accounts are also hosted in the finance website.

94. RDWSD has its own website, but no finance details are available. While scheme audit reports are available it is not published on the website. Also scheme achievements are not mentioned on the website. RDWSD will display program audit in its website.

3.7 Program Governance and Anticorruption Arrangements

95. The GoK is committed to ensuring that the Program's results are not impacted by fraud and corruption. Under the larger governance framework of India, all government departments and agencies are covered under the Right to Information (RTI) Act 2005. The C&AG, through its state office, also carries out compliance and performance audits annually, and the audit-related queries are reported to the State Assembly and Public Accounts Committee for recommendations and actions. Prevention of Corruption Act 1988 is the governing law which defines legal framework to prevent corruption in the country. The State Vigilance commission have jurisdiction and power to undertake an enquiry or cause an enquiry/investigation to be made on any information that a public servant has exercised or refrained from exercising his powers, for improper or corrupt purposes. It also has powers to call for any information from any department or undertaking of the state government or from any public servant on matters within its jurisdiction. Government Departments can also initiate Disciplinary Proceedings against the Public Servant on charges of misconduct, possessing disproportionate assets and violation under respective Civil Services (conduct) Rules.

96. GoK has a strong Lokayukta Act as well as Rules and Lokayukta has been functioning over the years. Normally judges of Supreme Court or High court with ten years of holding such post are appointed

as Lokayukta. The Act provides for the appointment of a Lokayukta and one or more Upalokayuktas to investigate and report on allegations or grievances relating to the conduct of public servants.

97. **After investigation into the complaint, if the Lokayukta considers that the allegation against a public servant is prima facie true action can be taken including suspension.** If after investigation into any complaint the Lokayukta is satisfied that the public servant has committed any criminal offence (and should be prosecuted) in a Court of law for such offence, then, he may pass an order to that effect and initiate prosecution of the public servant concerned.
98. **Institution of Karnataka Lokayukta consists of Enquiry Wing, Technical Audit Cell, and Police Wing.** The Enquiry Wing consists of Judicial officers and Prosecutors/Presenting Officers. The Technical Audit Cell consists of Engineers and Auditors who conduct investigation referred to them by Lokayukta/Upalokayuktas in the matters which require expert examination such as allegations of execution of substandard works by the public servants, misappropriation of money etc. The Police Wing deals with the cases registered under the Prevention of Corruption Act-1988. It also assists the Lokayukta/Upalokayuktas in conducting investigation into the complaints registered under the provisions of the Karnataka Lokayukta Act, 1984 as and when referred to it by the Lokayukta/Upalokayuktas.
99. **The Act also empowers the Lokayukta and Upalokayukta to initiate suo-moto investigations in respect of the public grievances and allegations.** In large number of cases having public interest, Lokayukta and Upalokayuktas have initiated suo-moto investigations and thereby appropriate steps are being taken to redress the grievance of general public.
100. **Lokayukta' s website provides the number of cases reported, pending and disposed every month.** Total cases added during the month of September 2022 was 806 cases and 258 cases were disposed of during the month. The balance cases which needs to be taken up are 9727 cases.
101. **GoK also has SAKALA services Act 2011 which guarantees services to the citizens within a prescribed timeframe and also imposes penalties on officers if services are not provided timely.** Complaints can be made online for not receipt of services. Additionally, the Chief Minister's Office has a special online grievance redressal system that is open to the public. Any individual who feels adversely affected by the Program can register a complaint/grievance online and can track the action taken on it. Review meetings are regularly convened by the Chief Minister's office with the nodal officers of each department/district to expedite the action.
102. **The WB "Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing" dated February 1, 2012 and revised on July 10, 2015, shall apply to all activities within**

the Program Boundary. Requirements under these guidelines include but not limited to: (a) borrower’s obligation on informing the World Bank about all Fraud & Corruption related allegations and investigations, (b) the World Bank’s right to conduct administrative inquiries, and (c) Ineligibility of debarred firms for contract awards.

103. **These guidelines shall be applicable only to all activities within the Program boundary (“P”) and does not apply to government program (“p”).** As an action item under the resulting Program, it is required that a) all bidding documents refer to the World bank’s Anti-Corruption guidelines and the bidders must agree to these clauses; and b) at the time of bid opening each procurement agency shall ensure that none of the participating bidders is listed in the World Bank’s latest online list (<https://www.worldbank.org/en/projects-operations/procurement/debarred-firms>) of debarred firms.

104. **An ACG Protocol has been drafted to operationalize the ACGs and it has been discussed with the government and added as annexure 1.** In order to operationalize implementation of the various areas covered in the ACGs, RDWSD shall maintain and compile an annual report on all fraud-and corruption-related allegations and investigations that are related to the Program and share it with the Bank in the prescribed format. If the Borrower, PMU, or the World Bank determines that fraud and corruption have occurred in connection with the Program, the Borrower and/ Project PMU /PIU will take timely and appropriate action, satisfactory to the World Bank, to remedy or otherwise address the situation and prevent its recurrence.

105. **The PMU and PIU will share incidences related to fraud and corruption with World Bank.** If the World Bank determines to conduct an administrative review into allegations or other indications of fraud and corruption in the Program, PMU will cooperate fully with representatives of the World Bank for carrying out review. The Implementing Agencies shall acknowledge and consent to the Borrower’s right of restitution of any amounts disbursed under the program with respect to which fraud and corruption has occurred, or with which an ineligible expenditure, has been paid.

Action: Implement fiduciary compliant mechanism including procurement and F&C *complaints*

106. **Implementing agencies shall implement its respective activities under the Program, in compliance with the Anti-Corruption Guidelines for the Program.** A workshop to sensitize on applicability of anti-corruption guidelines and protocol to be followed will be organized as part of the project launch.

107. **Implementing agencies shall implement its respective activities under the Program, in compliance with the Anti-Corruption Guidelines for the Program and accordingly the selected agencies shall:**

- a. *establish and/or maintain policies and procedures that would allow the Borrower and/or the Bank to carry out supervision and monitoring the implementation of the Selected State's activities under the Program*
- b. *prepare and furnish to the Borrower and/or the Bank, all such information that the Borrower, and/or the Bank shall reasonably request in relation to the Program*
- c. *accept the carrying out of inspections by the Borrower and/or the Bank for the monitoring of, and in relation to, the carrying out of the activities under the Program*

108. **Each of the procurement entity shall ensure incorporation of the Bank's debarment list in the filter used by implementing entities when they conduct due diligence.** This list may be found in the following website: <https://www.worldbank.org/en/projects-operations/procurement/debarred-firms> . IA's shall add to scope of Auditor to validate that, under Program Expenditure Framework, no contract is awarded to WB debarred firms.

109. **Implementing agencies shall implement their respective activities under the Program, in compliance with the Anti-Corruption Guidelines for the Program and ensure following actions:**

- Ensure each of the procurement entity shall ensure incorporation of the Bank's debarment list in the filter used by implementing entities when they conduct due diligence. This list may be found in the following website: <https://www.worldbank.org/en/projects-operations/procurement/debarred-firms> .
- For every bidding opportunity under the Program, each participating bidder shall submit (as part of the bidding process) a self-declaration to be included in SBD that the firm is not subject to ineligibility or has not been sanctioned under the World Bank system of debarment and cross-debarment.
- IAs shall add to scope of Auditor to validate that, under Program Expenditure Framework, no contract is awarded to World Bank debarred firms.
- The PMU would set-up a centralized procurement complaint redressal system to receive complaints and clearly defined rules and authorities to resolve/process the complaint/suggestions.

3.8 Disbursement Arrangements

110. **The DLIs form the basis of disbursement of funds for the Program.** PAD provides details on the DLIs, disbursement amounts against each indicator, and the protocols for their verification. Disbursements will be made against DLI irrespective of the program expenditure incurred at the time of releasing the DLIs. It is important to note that the actual expenditure at Program completion would be reconciled with disbursements at the end of the Program. Any amount disbursed by the Bank in excess of the actual expenditures spent under the Bank Program will be repaid to the Bank.

111. **The key principles guiding the World Bank disbursement of DLIs are as follows:**
- a. RDWSD will prepare technical reports to document the status of achievement of DLIs. The technical reports will be verified by an IVA, appointed as per terms of reference agreed with the World Bank. On validation of DLIs by an IVA, the PMU will communicate the achievement of DLIs and corresponding DLI values to the World Bank along with supporting documents. In case, the IA is unable to achieve the DLI target set out in any year, it will be rolled over for future years till such time the DLI target is achieved.
 - b. In the case of non-scalable DLIs, the World Bank will disburse the DLI value only upon full achievement of the DLI target. In the case of scalable DLIs, if partially achieved, the World Bank may authorize withdrawal of an amount lesser than the DLI value allocated to the said DLI target. The remaining amount of the DLI will be disbursed once the DLI target value is fully achieved.
 - c. In case the IA is unable to achieve the DLI target (scalable or non-scalable), the World Bank may reallocate the proceeds of the Loan to another DLI, in consultation with the state.
 - d. The World Bank will issue an official letter to the IA endorsing the achievement of the DLI target and value.
 - e. The IA will submit the disbursement claim of the DLI value to the Controller Aid, Accounts and Audits (CAAA) Division of the Ministry of Finance in the GoI.
 - f. The CAAA will submit the disbursement claim to the World Bank and the funds will be disbursed by the World Bank to the GoI under IBRD loan terms. The GoI will release funds to the GoK as per agreed financing norms between the Centre and the state.
112. **In the last year of the Program, the IA in coordination with the World Bank, will reconcile the audited program expenditure with the DLI amounts disbursed by the World Bank.** If the Borrower has failed to provide evidence satisfactory to the Bank that the disbursed amount does not exceed the total amount of Program Expenditures, the Bank will request a refund equivalent to such excess amount.

3.9 Implementation Support

113. **The mission would review the agreed fiduciary related PAPs provided in the PAD during every mission and agree on an action plan based on the work done by the project.** Continuous support would be given to the client for implementing PAP. The mission would review implementation progress report on a timely basis and monitor the finding of the PPR and audit report on a regular basis. The mission would review the fiduciary risk including relevant legal covenants. The mission would also review the program expenditure on a regular basis.

114. **The WB task team will carry out regular implementation mission to support the IA to achieve results.** The progress on agreed PAPs will be reviewed and any changes to the action plan will be made during the implementation phase. The PMU will regularly share KPI reports with the WB to monitor the FM and procurement performance, and fraud and corruption risks, identify gaps, and recommend actions. These reports will be reviewed, and issues identified will be addressed appropriately.

115. **The team will monitor the following performance indicators:**

Table 15: Performance Metrics

Indicator	Measure	Timeline
Adequate monitoring of the procurement activities	<ul style="list-style-type: none"> • Percentage of contracts awarded and completed within the original contract period. • Average number of quotation/ bids received. • Number of Procurement related complaints received and upheld. • No contract exceeds the threshold for high value contracts 	Annually
Adequate monitoring of FM activities	<ul style="list-style-type: none"> • Budget allocation as per annual work plan • Release of funds on timely basis • Payments done on timely basis • Accounting system operational and Program reports are generated on timely basis • Audits completed on timely basis and reports submitted to the Bank on timely basis 	Every mission Annually
Adequate monitoring of Fraud & Corruption activities	Reports submitted on receipt and action taken on Fraud and Corruption complaints	Every mission and Half yearly as part of program report

Annexure-1 : ANTI-CORRUPTION GUIDELINES PROTOCOL

Pursuant to Section 5.13 of the General Conditions: (i) as defined and incorporated by reference in the Loan Agreement for the financing of the “Karnataka Sustainable Rural Water Supply Program” (the “Program”), to be entered between India (the “Borrower”) and the International Bank for Reconstruction and Development (the “Bank”); and also (ii) incorporated by reference in the Program Agreement for the Program, to be entered between the Bank and the GoK (“Program Implementing Entity”), the Borrower and the Program Implementing Entity shall ensure that the Program is carried out in accordance with the provisions of the Bank’s “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing”, dated February 1, 2012 and revised on July 10, 2015⁷ (variously, the “Anti-Corruption Guidelines” or “ACG”). Set out below are the supplementary protocols to be followed in implementing the Anti-Corruption Guidelines for the Program.

1. Borrower Arrangements.

- a) The state office of the RDWSD will be the Borrower’s focal office for facilitating coordination among relevant agencies and assessing the implementation of such ongoing actions by those agencies to ensure that the Program activities are implemented in accordance with the provisions of the ACG and these protocols.
- b) As there is no distinction between Bank-financed activities and government-financed activities within the Program, the ACG shall be applied in an unrestricted manner on all activities within the Program boundary.

2. Reporting.

- a) For purposes of Section 6 of the ACG, RDWSD will collect, consolidate and provide the Bank, on a half yearly basis, with a report on: (1) any material and credible allegations and other indications of fraud and corruption under the Program that come to the attention of during such period, including those reported under the Whistle Blowers Protection Act (2014); (2) any investigations into such allegations; and (3) the progress of and outcomes from such investigations and any remedial or corrective actions taken or planned in response to such allegations or the findings of such investigations.
- b) It will also report therein that none of the contract awards under the Program are made to any of the Bank debarred or suspended persons or entities.

⁷ <https://policies.worldbank.org/en/policies/all/ppfdetail/3682>

- c) A template for reporting under paragraph 2.(a) above is attached to this Protocol as Appendix-A.
- d) Where such allegations might constitute a serious risk to the implementation of the Program, the reputation of the Borrower or the Bank, or to the proper use of the proceeds of the Loan, RDWSD will immediately inform the Bank.
- e) For purposes of Section 7(a) of the ACG, the Bank will, consistent with its policies and procedures, inform RDWSD of any material and credible allegations or other indications of fraud and corruption in connection with the Program that may come to its attention, for investigation by the Borrower under the relevant criminal and civil laws.

3. Conduct of Investigations and Inquiries.

- a) For purpose of Section 6(d) of the ACG, RDWSD will ensure the timely and appropriate action to get investigation conducted on allegation and indications of fraud and corruption; and inform the Bank of its progress and findings at quarterly intervals and no later than one month after the conclusion of any investigation,
- b) For purposes of Sections 6(f) and 7(b) of the ACG, in the event that the Bank decides to conduct its own inquiry into allegations or other indications of fraud and corruption in connection with the Program, the Borrower, the Program Implementing Entity, and other entities implementing the Program will cooperate fully with the Bank’s representatives and take all appropriate measures to ensure the full cooperation of relevant persons and entities, including in each case, allowing the Bank to access sites and facilities, meet with relevant persons and/or entities, and to inspect all of their relevant accounts, records, and other documents and have them audited by, or on behalf of, the Bank.
- c) Any inquiries undertaken by the Bank are administrative in nature. The Bank’s right to investigate or conduct review does not extend to criminal investigations, which is the exclusive jurisdiction of the Borrower. The World Bank may, however, sanction any individual or entity other than the Member Country (as defined in the ACG) on its own pursuant to its prevailing policies and procedures.

4. Suspension and Debarment.

- a) The Borrower and the Program Implementation Entity will ensure that any person or entity debarred or suspended by the Bank is not awarded a contract under, or otherwise allowed to participate in or benefit from, the Program during the period of such debarment or suspension by the Bank. To that end, the Borrower and the Program Implementation Entity will put in place appropriate measures, including but not limited to the following:

- (i) Bidding documents will include information regarding the applicability of the ACG to the Program, and exclusion of any debarred or suspended person or entity from a contract under or participation in the Program.
 - (ii) the Bank’s listing of debarred or suspended persons or entities will be incorporated in the filter used by implementing agencies when they conduct due diligence.
 - (iii) each participating bidder will be required to submit a self-declaration that the firm is not subject to ineligibility or has not been sanctioned under the Bank system of debarment and cross-debarment.
- b) Compliance with the Bank’s suspension and debarment lists will be verified by the Program auditor as part of its annual audit of the Program’s Financial Statements. In the event that a person or entity suspended or debarred by the Bank has been awarded a contract under, or has otherwise benefited or participated in the Program, any proceeds of the Loan expended in relation to such person or entity will be considered ineligible and promptly refunded to the Bank or, at the Bank’s discretion, reallocated to other eligible expenditures. The Borrower shall take timely and appropriate action to exclude such person or entity from the Program.
- c) Specific procedures for implementation of the Anti-Corruption Guidelines, including these protocols, will be set out in the Program Operations Manual for the Program.

ANTI-CORRUPTION: COMPLAINTS HANDLING REPORT

(Reporting Period: dd/mm/yyyy to dd/mm//yyyy)

(Date of Reporting)

1. Credible and Material Allegations of Fraud and Corruption under the Program

S.No	Complaint Summary	Complaint Date	Who received the complaint	Manners of complaint submission	Status	
					Interim Action	Final Action taken
				(e.g., phone, e-mail, writing, verbal)		

2. Suspension and Debarment.

This is to confirm that none of the contract awards under the Program are made to any of the Bank debarred or suspended persons or entities.

