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**KARNATAKA WATER SECURITY AND RESILIENCE PROGRAM
(P506272)**

INTEGRATED FIDUCIARY SYSTEMS ASSESSMENT

Final Version March 11, 2025

Governance Global Practice
South Asia Region

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ABBREVIATIONS AND ACRONYMS

BBMP	Bruhat Bengaluru Mahanagara Palike
BWSSB	Bengaluru Water Supply and Sewerage Board
CA	Chartered Accountant
CAG	Comptroller and Auditor General
CAGR	Compounded Annual Growth Rate
DDO	Drawing and Disbursing Officer
DLI	Disbursement Linked Indicator
FD	Finance Department
FM	Financial Management
GeM	Government e-Marketplace
GoI	Government of India
GoK	Government of Karnataka
HVC	High Value Contract
IA	Implementing Agency
IFSA	Integrated Fiduciary Systems Assessment
IPF	Investment Project Financing
KPI	Key Performance Indicators
KSDMA	Karnataka State Disaster Management Authority
MI	Minor Irrigation and Ground Water Development Department
MIS	Management Information System
OPRC	Operation Procurement Review Committee
PAP	Program Action Plan
PE	Procurement Entities
PFM	Public Financial Management
PforR	Program for Results
PMU	Program Management Unit
POM	Program Operation Manual
PPP	Public-Private Partnership
RA	Result Area
RD	Revenue Department
SDMA	State Disaster Management Authority
SDRMF	State Disaster Risk Management Fund
SPD	Standard Procurement Document
SPMU	State Program Management Unit
STD	Standard Tender Document
STP	Sewage Treatment Plant
SWD	Storm Water Drain
TOR	Terms of Reference
UDD	Urban Development Department

Integrated Fiduciary Systems Assessment

KARNATAKA WATER SECURITY AND RESILIENCE PROGRAM

(KWSRP)

Introduction

1. The World Bank carried out an Integrated Fiduciary System Assessment (IFSA) of the program, to determine whether the fiduciary systems provide reasonable assurance that funds will be used for the intended purposes. The conclusion of the IFSA is that the capacity and performance of the fiduciary systems of all Implementing Agencies (IA) are adequate to provide reasonable assurance that the program funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Based on the IFSA, the fiduciary risk of the Program is assessed as Substantial. To strengthen the existing systems of IAs and to mitigate the fiduciary risk, various action items have been recommended as part of the Program Action Plan (PAP) and Legal covenants.

2. **Scope of the IFSA:** A fiduciary system assessment of the arrangements under the Program concludes that the systems for financial management, procurement, and mitigating risk of fraud and corruption meet the requirements of the World Bank's PforR Policy and Directive and are adequate for achievement of the Program objectives. The IFSA has been conducted in accordance with the principles governing PforR programs as set out in the PforR Policy and other World Bank's internal guidelines. The IFSA focused on determining whether the Program systems provide reasonable assurance that financing proceeds will be used for the intended purpose with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The salient features of the Program are: (i) the Program uses the GoK's and the involved implementing agencies' own procurement and financial management systems; (ii) the Program seeks to strengthen some of these systems; and (iii) the number of contracts and the value of expenditure under the Program is relatively small when compared to the scale of operations of the agencies involved. The Program financial management systems have been assessed for the effectiveness of planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing procedures. The Program procurement systems have been assessed for effectiveness of the procurement planning, bidding, evaluation, contract award, and contract administration procedures. The IFSA has also assessed how the Program systems address the risks of fraud and corruption and have mechanisms to redress complaints. The IFSA reviewed the existence and adequacy of existing rules, policies, and procedures and the extent of their implementation in gaining assurance that the Program objectives shall be met. The IFSA has identified certain risks and mitigation actions have been included in the PAP as appropriate. The performance of the systems was carried out based on discussions with the operational staff, review of documents and experience on several ongoing and recently closed projects in the state.

3. **Program Institutional and Implementation Arrangements:** The Program will be coordinated and managed by the Revenue Department (RD) at the state level. The main IAs will fall under Urban Development Department (UDD) that is, Bengaluru Water Supply and Sewerage Board (BWSSB) and Bruhat Bengaluru Mahanagar Palike (BBMP). The Program will be implemented following the Government's fiduciary and legal framework. The primary implementing agencies under the Program are as follows:

a. RD is the nodal agency for the Program and a Program Management Unit (PMU) will be established at the RD will have overall responsibility for compliance, monitoring, and implementation of the Program. The PMU will include specialized technical personnel as well as environment, social, financial management (FM), and procurement experts. The staff may either be brought in on deputation or hired from the private market. Karnataka State Disaster Management Agency (KSDMA) will fall under RD and lead on the disaster risk management activities and institutional reform. Activities relating to lake rejuvenation (outside Bengaluru) will be undertaken by Minor Irrigation and Groundwater Development Department (MI). KSDMA has very little own expenditure in the past and has mostly been used as a vehicle for distribution of relief under various state/national schemes. However, it will be playing a more central role in implementation of the activities relating to

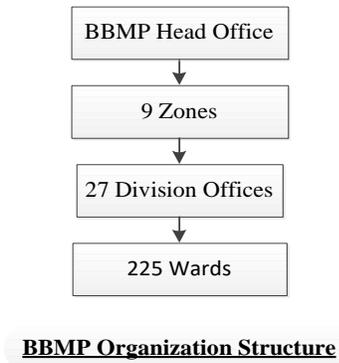


Figure 1

the RD under this program. Thus, the IFSA focusses heavily on the two implementation entities which are responsible for most of the DLIs as well as around 85 percent of the Program Expenditure; these are the BBMP and the BWSSB.

b. BBMP is the fourth largest municipal corporation in India and its role and responsibilities include development of the city, health, hygiene, licensing, solid waste, and education etc. BBMP is the administrative municipality responsible for greater Bengaluru metropolitan area. Under the Program, BBMP will be responsible for the construction of Storm Water Drainages (SWD), lakes, and integrated flood management.

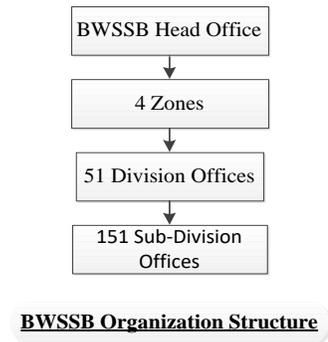


Figure 2

c. Formed in 1964, BWSSB is one of the first water supply and sanitation utilities in India with jurisdiction of entire BBMP. It will lead the implementation on Sewage Treatment Plants (STP), non-revenue water, energy efficiency and Public Private Partnerships.

4. Program expenditure framework and Program financing: The Program’s Expenditure Framework will include GoK and World Bank’s financing in disaster mitigation, urban water supply, storm water drains, sewerage system as well as program management. The identified expenditure items will provide financing to BBMP, BWSSP, KSDMA, and MI for undertaking project specific investments, reforms and institutional development activities.

5. **The overall fiduciary risk is Substantial as explained in the subsequent sections; this is after implementation of the proposed financial management, procurement and contract management system strengthening measures.** Government of Karnataka’s (GoK) procurement system meets the basic principles of public procurement. Open tendering is the preferred procurement method and mandates the use of an e-procurement platform above the threshold of INR 500,000. The GoK also gives general guidance on stipulating the key qualification criteria. The assessment provides a few strengthening measures to enhance the efficacy of the GoK’s procurement system in line with Program for Results (PforR) principles of economy, efficiency, effectiveness, transparency, and accountability.

Table 1 PFM System Strengthening and Mitigation Measures

Description	Type	Measure of completion
As an annex to the Program Operation Manual (POM), prepare a procurement and contract management manual and disclose it on the official websites	Legal covenant (POM Description)	An Annex/detailed chapter to the POM, PMU prepares a comprehensive procurement and contract management manual, and displays it on the agencies / State Program Management Unit’s (SPMU) official websites after the World Bank’s review and concurrence.
Update the GoK’s Standard Tender Documents (STD) by including the World Bank’s Technical, Environmental, and Social standards, and Governance (mandatory condition Bank’s ACG for PforR) requirements	PAP Before undertaking the procurement through the Program	Updated GoK’s STDs satisfactory to the Bank, adopted for the Program’s procurements, and may be displayed on the Procurement Entities’ (PE) website(s).

Description	Type	Measure of completion
Prepare the consolidated procurement plan as per the GoK's GO and display it on the official website.	Procurement Key Performance Indicators (KPI); semi-annual	Based on the approved Annual Work Plan and Budget, the PEs prepare the procurement plan as per the format in the POM and update it periodically. SPMU prepares the consolidated PP for reviewing and monitoring and shares it with the Bank along with the Work Plan.
SPMU develops an information and communication technology platform for monitoring the procurement cycle including contract Management and displays procurement KPIs on the dashboard as per the IFSA.	PAP Within six months of the Program's effectiveness and semi-annual report	As part of the overall Program MIS or standalone, the SPMU operationalizes the procurement and contract management monitoring system and displays KPIs as per IFSA on its dashboard and discloses necessary information in the public domain.
Publish the contract award details in the e-GP	Procurement KPI semi-annually	Program's PE's disclose the contract award details on the e-GP website and share the summary as per the format in the POM
Provide need-based training to the staff on the GoK's procurement and contract management	Procurement KPI report semi-annually as per the format in the POM	Number of training days (staff multiplied by days) semi-annually
Submit fiduciary KPIs report as per the Table in the IFSA	PAP semi-annually	Submit the fiduciary KPI semi-annual report as per the agreed format in POM
Establish a fiduciary complaint-redressal mechanism at the Program's agencies to redress procurement, FM, and corruption-related complaints	PAP Redressal Mechanism established within three months of Program Effectiveness, submit semi-annual reports regularly	Establish a fiduciary complaint redressal mechanism and display the nodal officer details for receiving the complaint on the official website. Submit semi-annual reports within the two months after the semi-annual reporting using the formats provided in the POM.
Undertake a post-procurement review as per the TOR in the POM	Legal covenant (POM Description)	Program's PEs undertake the post-procurement review as per the TOR in the POM as part of the internal/external audit or a separate review, as appropriate. The PEs submit an action taken report along with the report periodically.
BBMP and BWSSB to conduct studies to assess various business software (including accounting software) and implement recommendations.	PAP Within 12 months of the Program's effectiveness	Conduct study on how various fiduciary systems can be linked/ improved and implement the recommendations of the studies within a reasonable timeframe.
BBMP to improve financial reporting, and transparency	DLI 7	Disclosure of audit report, annual financial statements.
Strengthen internal audit in BWSSB by introducing a ToR for internal audit and an annual Work Plan	PAP Within 12 months of the Program's effectiveness	Internal audit strengthened to (i) broaden scope, (ii) include qualitative aspects, and (iii) to cover a range of procurement aspects.

Description	Type	Measure of completion
Reduce backlog Statutory Audit BWSSB	Within 18 months of the Program's effectiveness	BWSSB to prepare a roadmap to reduce backlog of audit and implement it in a timebound manner
High level of vacancies in Accounts Section could lead to control weakness	Within 18 months of the Program's effectiveness	To fill in the vacancies and update on periodic basis.

6. **Procurement Exclusions:** At this stage, the Program does not have any High-Value Contracts (HVC) exceeding the prescribed threshold set by the World Bank's Operation Procurement Review Committee (OPRC). The Procurement risk is 'Substantial' and will be reviewed during the preparation and implementation. The OPRC prescribed thresholds for 'Substantial' procurement risk are US\$75 million for Works, US\$50 million for Goods and Non-Consulting services, and US\$20 million for Consultant Services. For envisaged procurement activities¹ close monitoring at key stages (after the approval of cost estimates through technical sanction, before tendering is initiated, and before the contract is awarded) is required to ensure that contracts above the prescribed HVC threshold are excluded from the Program. The Program's PEs periodically report as per the format provided in the POM.

7. **Expenditure Profile:** The Program's expenditure profile comprises civil works like Storm Water Drains (SWDs) and Sewage Treatment Plants (STPs), which will be executed by the two main procurement entities, BBMP and BWSSB, respectively. These works constitute approximately 85 percent of the Expenditure Framework (Table 2). The STPs are expected to be contracted with an extended Operations and Maintenance period and evaluated on a life cycle costing basis with performance conditions. The Program's PEs (SPMU, Implementation Agencies: BBMP, BWSSB KSDMA and MI) will also procure the required consultancy services, project management, supervision, office equipment, and studies for strategic and policy-related advisory services. Table 2 below summarizes the Program expenditure; this denotes the capital 'P'.

Table 2 - Program Expenditure (in US\$mn)

	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	Total
BBMP	74.28	79.26	80.44	81.70	83.03	398.71
BWSSB	33.10	35.52	35.83	36.15	36.49	177.09
KSDMA	12.00	13.00	13.00	13.00	13.70	64.70
MI	3.50	4.50	5.50	7.00	9.00	29.50
Grand Total						670.00

Institutional Responsibilities

8. The IAs involved in the project, namely, BBMP, BWSSB, and KSDMA are autonomous bodies formed by the State legislature/notification. BBMP and BWSSB have their own revenue sources (property tax, cess etc for BBMP and water tax for BWSSB) and receive capital grants from the Government as well. MI is a Government Department of GoK implementing irrigation schemes in areas up to 2,000 hectares. In terms of legal structure, these entities are an Urban Local Body, a Board, a Statutory Body, and a Government Department, respectively. Procurement and financial management for BBMP and BWSSB fall outside that of the core government (that is, state departments). However, these are well defined, and the implementation arrangements are defined by different rules which have been found to be reasonable and effective under implementation. Table 3 below describes the Governance arrangements under the Program.

¹ As per the defined institutional and implementation arrangements, GoK's Departments / Agencies / Organizations within the Program Boundary.

Table 3 – Governance Framework

Institution	Function	Legal Status	Governing Act	Accounting and Reporting	Audit Arrangements
BBMP	Planning and promoting and securing the development of Bengaluru	Urban Local Body	Bruhat Bengaluru Mahanagara Palike Act, 2020	Several customized standalone software	Chief Audit Officer from Karnataka State Audit and Accounts Department
BWSSB	Water supply and sewage disposal within the jurisdiction of BBMP area	Board	Bangalore Water Supply and Sewerage Act, 1964	Manual supported by software compilation for reporting	Comptroller and Auditor General of India (CAG)
KSDMA	Manages the state disaster response fund (SDRF) for payment of input subsidy and gratuitous relief for draught / floods.	Statutory Body	Governed by the rules and regulations of GoK	State Treasury	CAG
MI	Planning, designing and constructing tanks, water reservoirs, barrages and lift irrigation schemes	Government Department	Governed by the rules and regulations of GoK	State Treasury	CAG

Review of Public Financial Management (PFM) Cycle

9. **PFM and accountability systems, processes and practices:** Public Financial Management (PFM) refers to the set of laws, rules, systems and processes used to mobilize revenue, and allocate and account for the use of public funds. 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 is an ongoing process and needs to be reviewed from time to time and aligned to achieve the objectives.

10. **Planning and Budgeting: Adequacy of Budgets:** The GoK has an established a budget preparation process that is guided by a Budget Manual. It follows a six-tier budget classification system; and budget instructions are issued by the Finance Department (FD) (generally in the month of August) each year to all administrative departments; in turn the departments prepare budget estimate for the current year and advance estimate for the next two years; which are examined by the FD and negotiations ensure that budget allocations are adequate and expenditure commitments are within the fiscal targets set in the Karnataka Fiscal Responsibility and Budget Management Act.

11. **Budget preparation process: BBMP** prepares its budget in accordance with Bruhat Bengaluru Mahanagara Palike Act, 2020 and in the manner and form specified therein. BBMP has notified Bruhat Bengaluru Mahanagara Palike (Fiscal Responsibility and Budget Management) Rules, 2021 which aims to increase transparency in its fiscal management systems and attain budgetary stability. For preparing its budget, BBMP uses budget codes which are a combination of function heads and account heads. Budget is prepared using a bottom-up approach. Budget preparation process starts in December with every zonal committee, in consultation with wards, preparing a budget estimate comprising of the required budgetary support for the implementation of the existing schemes, list of capital expenses, required manpower etc. Public consultation is also invited during the preparation of budget. This budget is submitted to Chief Commissioner, who forwards it to ‘standing committee for taxation and finance and appeals. After review, it submits the draft of budget to the Administrator² (generally in the first week of February) for passing.

² This is generally submitted to the house of elected representatives. However, presently, there is no house of elected representatives,

12. **BWSSB** prepares its annual budget in accordance with section 17 of the Bengaluru Water Supply and Sewerage Act, 1964, the PWD departmental code, and instructions issued by GoK from time to time. The annual budget of BWSSB is required to be submitted to GoK in February. The said statement includes estimates for capital and revenue receipts and expenditure, salaries of members, officers and employees of the Board and other particulars as prescribed. On receipt of the said statement, it is laid on the table of both Houses of the State Legislature and open to discussion therein (though it is not subject to vote). The Board takes into consideration any comments made on the said statement in the State Legislature.

13. **KSDMA and MI** prepare annual Program budget requirements and submit to GoK as per the state budget schedule so that the requirements can be incorporated in the state budget.

Table 4 – Date of passing of budgets for last three years

Budget Year	BBMP	BWSSB
2022-2023	07 May 2022	25 March 2022
2023-2024	24 February 2023	20 March 2023
2024-2025	15 March 2024	29 February 2024

14. **Procurement Planning:** Based on the delegation of financial power (PE specific and not in the public domain), the PE³ initiate the procurement activities after the approval of administrative sanction and technical sanctions to their Annual Work Plan (AWP), Budget, and Detailed Project Reports (DPRs). The PEs are expected to prepare the procurement plan (PP) in line with the GoK’s Government Order⁴ (GO). The referenced GO provides detailed guidance on the essence of PP and its paragraph (2) mentions that after the packages are decided and approved, the appropriate Method of Procurement and Procurement Schedule (showing the timing of the various procurement activities) should be framed depending on their approved cost estimate. As per the referenced GO, PEs are not preparing the PP in line with GoK’s GO, which is an essential planning and monitoring tool that helps the PEs to link the Program’s procurement activities with the outputs and outcomes expected under the Program and Program Expenditure Framework (PEF). **Strengthening measure:** Prepare the procurement plan in line with GoK’s GO using the format in PoM (Procurement KPI).

15. **Budget Execution:** Expenditure for both BBMP and BWSSB have been showing increasing trend during the last three years. BBMP’s annual expenditure has grown at a Compound Annual Growth Rate (CAGR) of 7.36 percent from US\$885mn (FY 2019-2020) to US\$1,095mn (FY 2022-2023). For BWSSB, the expenditure during last four years has a CAGR of 5.90 percent from US\$568mn (FY 2019-2020) to US\$674mn (FY 2022-2023). Together the two entities may spend more than US\$10 billion over the next five years. The share of capital expenditure as percentage of total expenditure stands at 65 percent for BBMP and 59 percent for BWSSB.

Table 5 - Annual Expenditure of BBMP and BWSSB during last 3 years (in US\$mn)

Year	BBMP			BWSSB		
	Capital Expenditure	Total of Expenditure	Share of Capital Expenditure as % of Total Expenditure	Capital Expenditure	Total of Expenditure	Share of Capital Expenditure as % of Total Expenditure
2020-21	317.61	885.47	35.87%	315.06	568.28	55.44%
2021-22	472.07	947.22	49.84%	366.52	613.84	59.71%
2022-23	714.07	1095.65	65.17%	401.56	674.89	59.50%

it is submitted to Administrator.

³ As per the defined institutional and implementation arrangements, GoK’s Departments / Agencies / Organizations within the Program Boundary.

⁴ [Hyperlink: [https://finance.karnataka.gov.in/storage/pdf-files/PWD%201359%20SOF%202001%20\(P-2\)_25OCT2002.pdf](https://finance.karnataka.gov.in/storage/pdf-files/PWD%201359%20SOF%202001%20(P-2)_25OCT2002.pdf)]

16. **Budget Outturn:** The budget outturn for BBMP during FY 2020-21 to 2022-23 for receipts as well as expenditure was around 70 percent. During the year 2022-23, it improved to over 87 percent indicating efficient resource planning. Budget outturn for the BWSSB between FY 2020-21 and FY 2022-23 for receipts for the financial years 2020-21, 2021-22 and 2022-23 was 88 percent, 80 percent, and 71 percent respectively. With regard to the expenditure, the budget outturn for the financial years 2020-21, 2021-22 and 2022-23 was at 123 percent ⁵, 81 percent, and 95 percent again reflecting efficient resource and expenditure planning and execution. Thus, the budget planning and executing for BWSSB also showed an improved trend.

Table 6 – Budget Outturns

Year	Budget Outturn BBMP		Budget Outturn BWSSB	
	Receipts	Expenditure	Receipts	Expenditure
2020-21	70%	70%	88%	123% ⁶
2021-22	86%	77%	80%	82%
2022-23	87%	87%	71%	95%

17. **Dependency on GoK Grants:** BBMP and BWSSB are dependent on state finances and budget to the extent of annual grants received from GoK for capital works. In BBMP, in two out of last three years, the receipts from GoK are in excess of capital expenditure. BWSSB tends to invest in the creation of infrastructure for water supply and sewerage. However, water charges have not been revised since the past ten years and collection of bills and arrears needs improvement. As a result, fiscal situation of BWSSB is weak and it has been unable to pay the interest or repay the principal on the loans received from GoK.

Table 7 - Total expenditure and Grant Received from GoK (in US\$mn)

Year	BBMP*			BWSSB**		
	Capital Expenditure	Grant Received from GoK	GoK Receipts as a % of Capital Expenditure	Capital Expenditure	Grant Received from GoK	GoK Receipts as a % of Capital Expenditure
2019-20	406.02	263.75	64.96%	255.04	24.61	5.45%
2020-21	317.61	419.77	132.17%	315.06	14.15	3.69%
2021-22	472.07	571.61	121.09%	366.52	29.52	5.98%

*Source: BBMP - 5th State Finance Commission Data; BWSSB - Budget documents.

18. **Capacity to absorb allocations:** The capacity of BBMP and BWSSB to absorb the allocated funds is shown by the total spending compared to program expenditure. The cash flows during the project life cycle to BBMP and BWSSB are expected to be around US\$80mn and US\$35mn respectively, which is relatively small compared to their current annual spending of US\$1,095mn and US\$674mn. In terms of program size, the total expenditure of the implementing entities for the Program period (next five years) assuming a notional growth rate of 6 percent is US\$1,408mn. This is the small 'p'. The World Bank-financed PforR is expected to contribute US\$426mn.

Table 8 - Projected Expenditure during next 5 years (in US\$mn)

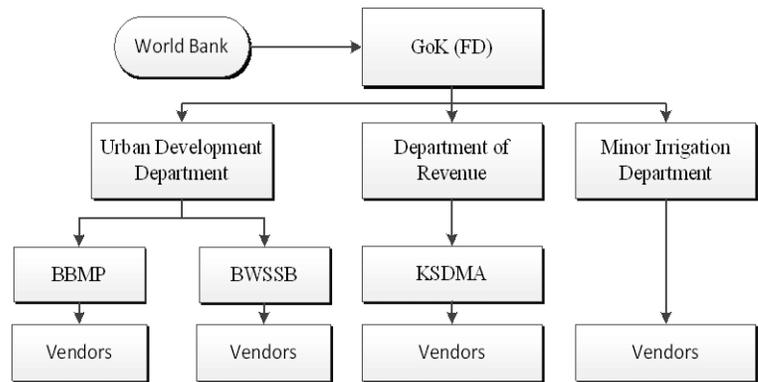
Implementing Agency	Base Year	Year 1	2	3	4	5	Total
BBMP	114.61	121.48	128.77	136.50	144.69	153.37	684.81
BWSSB	45.88	48.64	51.55	54.65	57.93	61.40	274.16
KSDMA and MI	75.26	79.78	84.57	89.64	95.02	100.72	449.73
Total in US\$ mn	235.75	249.90	264.89	280.79	297.63	315.49	1,408.71

⁵ This achievement is over 100% because of the surpluses of previous year spent during 2022-23.

⁶ See footnote 4 above.

19. **Funds Flow/ Disbursements:** The expenditure under the Program will be made by each Implementing Agency (IA) from its own budgetary sources, either through state government allocations, transfers, or its own source revenue. State Finance Department (FDs) will create a separate budget line for the externally aided project and transfer funds to the implementing agencies as grant in aid. This is consistent with how state FDs have been allocating funds to all World Bank-financed Projects/ Programs in India irrespective of the lending instrument.

Figure 3: Fund Flow Arrangements



20. The GoK will undertake the Program activities and receive reimbursements from the World Bank on completion of DLIs. Disbursements will depend on the borrower providing evidence satisfactory to the World Bank, that DLI targets have been achieved as per the agreed verification protocol detailed in the POM. Disbursements will be made against DLIs, irrespective of the Program expenditure incurred at the time of releasing the DLIs. In the last year of the Program, the RD, in coordination with the World Bank, will reconcile the audited Program expenditure with the DLI amounts disbursed by the World Bank. Any shortfall in the Program expenditure in relation to DLI disbursement will be adjusted from the final DLI claim or refunded. As per PforR Policy, and the nature of underlying investments, the World Bank will provide GoK an advance of up to 10.5 percent of the loan.

21. The GoK may submit claims for prior results achieved on the basis of DLRs prior to the signing date but on or after August 1, 2024. The prior results cannot exceed 19.5 percent of the total loan amount. The prior results and advance taken together cannot exceed 30 percent of the total loan amount. The RD 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. Upon validation of DLIs by the IVA, the PMU will communicate the achievement of DLIs to the World Bank along with supporting documents. If the RD is unable to achieve the DLI target set out in any year, it will be rolled over for future years till the DLI target is achieved.

22. **Budget Heads: BBMP:** The budget heads considered for the program are:
- (a) Code 05-200101 Pay of Officers and Staff
 - (b) Code 05-220702-02 Repairs and Maintenance of SWD
 - (c) Code 05-400402 to 05-400499 Capital Works – Development/ Improvement of Surface Drains, Storm Water Drains, others
 - (d) Code 05-400301 to 400399 and 05-400601 to 400699 Capital Works – Development/ Improvement of Lakes, UGD, Water Supply, others.

BWSSB is in the process of rolling out a software based financial module which will have codification structure of budget heads.

Procurement and Contract Management:

23. **The Program’s Procurement Entities (PE)⁷ follow GoK’s procurement procedures.** The PEs apply the World Bank’s Anti-Corruption Guidelines (ACG) for PforR mandatorily for all the Program’s procurement

⁷ As per the defined institutional and implementation arrangements, GoK’s Departments / Agencies / Organizations within the Program Boundary.

activities. GoK enacted the Karnataka Transparency in Public Procurement Act⁸ (KTPP) and issued KTPP Rules⁹ in 2000 and issued government orders (GOs) and these are disclosed on the GoK's website. GoK was the first state to mandate the Standard Tender Documents (STD)¹⁰ in 2005 and issued instructions to prepare the Procurement Plan (PP) in 2002. The Program's Procurement Entities (PEs) rely on fragmented guidance across various government orders, especially for Works (substantive Program spend). They also have limited experience with consultancy contracts.

24. **e-Procurement platform:** The GoK has mandated the use of e-government procurement¹¹ (e-GP) for contracts above INR 500,000 (US\$ 5,952 @ INR 84 per US\$). The PEs use the e-GP to manage tendering from publication to award, with an offline evaluation of the tender. Agencies seldom publish contract award details on their website or through the e-GP platform. The contract management module is often not utilized. **Strengthening measure:** PEs shall publish the contract award details in the e-GP platform (procurement KPI) and submit the KPI through the Fiduciary Report.

25. **Procurement methods.** Open tendering is the preferred method of procurement. The other methods such as limited tendering and direct procurement methods are included in the KTPP Act and Rules. The consultancy selection methods are also included in the KTPP Act and Rules.

26. **Standard procurement documents:** GoK is the first state to mandate the STD¹² in 2005. However, the STDs were not updated periodically to include the recent changes in the procurement and contracting approaches like life cycle costing, performance-based contracts, etc. Before starting procurement through the Program, the PEs must incorporate the ACG for PforR, including STDs for consultancies and resulting contract agreements. In line with the ACG for PforR, STDs should include before any Program procurement:

- (a) In the Datasheet: (i) a list of World Bank's ineligible firms/individuals (www.worldbank.org/debarr). The PEs should screen during the evaluation and before the award of the contract and shall not award the contract to World Bank's ineligible firms/individuals. (ii) a point of contact for receiving the procurement appeals/complaints during the tendering, evaluation, and before award of contract. If any procurement related appeals/complaints are received, resolve as per the KTPP Act (Appeal) and report to the World Bank as per the ACG protocol using the format in the POM.
- (b) The World Bank's ACG for PforR during the tendering process and include this section as part of resulting contracting agreement.
- (c) The Definitions of (i) World Bank, and (ii) ACG for PforR in the General Conditions of the contract for the interpretation of these terms. **Strengthening measure:** Update the GoK's Standard Tender Documents (STD) by including the World Bank's Technical, Environmental, and Social standards, and Governance (mandatory condition World Bank's ACG for PforR) requirements, and adopt these STDs for the Program's procurement and display in their official website(s) (PAP).

27. **Eligibility, Preferences, and Exemptions:** The PEs confirm that the GoI's Make in India policy does not apply to the Program's procurement as most of the envisaged procurements are above INR 1 crore. The KTPP Act and Rules provide several preferences and exemptions to encourage participation from specific

⁸ <https://finance.karnataka.gov.in/storage/pdf-files/BAREACT-Updatedason31-03-2024.pdf>

⁹ <https://finance.karnataka.gov.in/storage/pdf-files/BARERULES-Updatedason31-03-2024.pdf>

¹⁰ <https://finance.karnataka.gov.in/info-3/Acts+and+Rules+-+KTPP/Standardisation+of+Tender+Documents+and+Related+Orders+and+Circulars/en>

¹¹ <https://kppp.karnataka.gov.in/#/portal/portal-home>

¹² <https://finance.karnataka.gov.in/info-3/Acts+and+Rules+-+KTPP/Standardisation+of+Tender+Documents+and+Related+Orders+and+Circulars/en>

groups and streamline procurement processes. The following are:

28. **Preferences to Micro and Small Enterprises (MSEs):** MSEs registered with the National Small Industries Corporation under a single point vendor registration scheme are facilitated by providing tender sets free of cost and exempting them from payment of Earnest Money Deposit during purchases by all Government Departments and State-owned PSUs (KTPP Rules, Rule 26(5)). Government Departments and State-owned PSUs shall procure 358 items exclusively from MSEs registered with the Director of Industries and Commerce, Government of Karnataka, under the Micro, Small, and Medium Enterprises Development Act, 2006. The enterprise must produce a certificate obtained from the said authority certifying that it is an MSE (KTPP Rules, Rule 26(6)). Goods manufactured by MSEs located in the State shall be given a fifteen percent price preference against large and medium industries of the State and industries of other States during Government Department purchases, up to 31.08.2025, subject to certain conditions (KTPP Rules, Rule 25(2)(e)).

a) **Preferences to Scheduled Castes and Scheduled Tribes:** In the notified Departments, out of those construction works, the value of which does not exceed INR 1.00 Crore, such number of works not exceeding 17.15 percent shall be tendered only among the tenderers belonging to the Scheduled Castes Category and such number of works not exceeding 6.95 percent shall be tendered only among tenderers belonging to the Scheduled Tribes Category. If no tender from people belonging to the Scheduled Castes or Scheduled Tribes is received in response to the invitation in two attempts, such works may be tendered among others (KTPP Act, Section 6).

b) **Exemptions for Startups:** Startups registered with the Karnataka Innovation and Technology Society (KITS) as an entity in Karnataka shall be exempted from payment of Earnest Money Deposits during the procurement of technology products or goods or solutions as may be notified by the Government from time to time (KTPP Rules, Rule 26(7)).

c) **Procurement through Government e-Marketplace (GeM):** Goods and services available on the GeM portal and meeting the requisite standards of quality, specification, and delivery period may be procured directly through any of the available suppliers by following the procedure provided on the GeM portal. The concessions and exemptions provided on the GeM Portal may be availed while procuring the goods and services (KTPP Rules, Rule 3(2)).

29. **Evaluation and Negotiation:** The KTPP Act and Rules, provide clear guidance on the evaluation and negotiations. Negotiation with the Lowest Tenderer: The Tender Accepting Authority may negotiate with the lowest tenderer before passing an order accepting a tender. The KTPP Act and Rules also provide rules for the negotiation of consultancy services.

30. **Contract Management:** Activities undertaken by the procurement entity for construction works, goods, and services after issuing the final letter of acceptance to the selected bidder, including creation of milestones, delivery schedules, inspection, processing of bills, and payment (KTPP Act, Section 2(aa)). The Arbitration clause is excluded from the STDs by the GoK. The Engineers have the primary responsibility of managing the awarded Works contracts and may take advisory/supervisory support from project management or supervision consultants. The Engineer records the Measurement Book (MB), verifies it, and certifies the completed work for payment. The payment is made to the provider's commercial bank account electronically. **Strengthening measure:** Cost overrun and time overrun measurement (KPI).

31. The "Performance Audit of Management of Storm Water in Bengaluru Urban area (Government of Karnataka Report no. 2 of the year 202113)" by the Comptroller and Auditor General (CAG) of India highlights several key findings and recommendations regarding the procurement and contract management of storm water

¹³ https://cag.gov.in/uploads/download_audit_report/2021/10.%20Full%20Report-061430461ae16f4.22975494.pdf

drains (SWD) in Bengaluru.

Key Findings:

1. **Delays in Completion:** The audit identified significant deficiencies in the execution of projects involving the remodelling of storm water drains. In 25 works that were test-checked, there were delays in completion ranging from one month to 33 months.
2. **Emergency Works:** The BBMP entrusted 22 SWD-related works to Karnataka Rural Infrastructure Development Limited (KRIDL) without inviting tenders, treating them as emergency works. An amount of ₹15.02 crore was paid to KRIDL for these works.

Recommendations:

1. **Timely Completion:** BBMP should ensure that SWD works identified as emergency works are completed within the prescribed time schedule.
2. **Technical Wing:** Establish a separate technical wing for meticulous scrutiny of estimates to ensure the economical and efficient execution of works.

BBMP's Response:

32. In the response report (Report Number 39 of Year 2023-24), BBMP justified the delays due to the nature of work in a developed city.

33. Institutional Arrangements: BBMP's SWD Engineer in Chief is tendering centrally and managing the awarded contract through the zonal offices. The IFSA also included the following strengthening measures:

1. **Procurement Planning:** Strategizing procurement activities and preparing a procurement plan in line with GoK's Government Order - KPI
2. **Contract Management:** Implementing a procurement and contract management information system as part of the overall Program MIS or standalone - PAP
3. **Post Procurement Review:** Undertake the post procurement review in line with the ToR included in the POM- Legal Covenant
4. **Key Performance Indicators (KPIs):** Proposing key KPIs related to contract management - PAP.
5. **Capacity Development:** Provide need-based training to the staff on the GoK's procurement and contract management - KPI

34. **Procurement and Contract Management monitoring:** The PEs undertake the Procurement and Contract Management monitoring during their regular progress review meetings. However, the review with the support of the PP and a few salient KPI enhances the efficacy of review and monitoring of the procurement and contract management system. Hence, the Program requires a web-based MIS platform to track each procurement activity's physical and financial progress, including procurement KPIs to cover the procurement and contract management stages. **Strengthening measure:** SPMU to develop the procurement and contract management information system as part of the Program MIS or standalone, as appropriate (PAP).

35. **Procurement Performance Data:** BBMP awarded the sampled contracts with an average procurement turnaround time of 165 days with an average publication period of 25 days. The system is required to expedite

the evaluation and award the contracts. The average participation in the sampled contracts is 3.04 and with an average price is 5.56 percent below the cost estimate. The participation and discovered price appear to be adequate and economical. The average time overrun is 38.67 percent, which requires close monitoring and supervision.

Table 9: BBMP Procurement System Performance

BBMP	Unit	Average	Maximum	Minimum
Contracts sampled in previous three FYs (above INR 10 Crore)	27			
Cost Estimate of Sampled contracts	INR Crore	21.02	110.00	10.00
	US\$ million	2.50	13.10	1.19
Publication Period	Days	28.11	35	13
Procurement Leadtime	Days	165.19	457	122
Competitive Tension or level of participation	Number	3.04	7	2
Price Dispersion Contract amount with cost estimate	Percentage	-5.56%	-3.76%	-15.17%
Cost Overrun	Percentage	Work in Progress		
Time Overrun ~ (as of 7 Dec 2024)	Percentage	38.67%	71.32%	0.00%
Source of Data: Analysis based on the data provided by the BBMP in coordination with Karnataka e-procurement portal.				

36. BWSSB awarded the sampled contracts with an average procurement turnaround time of 79 days with an average publication period of 18 days. The average participation in the sampled contracts is 4.59. The participation was adequate. Disclosure and the contract management data was not available.

Table 10: BWSSB Procurement System Performance

BWSSB	Unit	Average	Maximum	Minimum
Contracts sampled in previous three FYs (above INR 10 Crore)	39			
Contracts sampled in previous three FYs (above INR 10 Crore)	INR Crore	17.84	81.26	1.04
@ INR 84 per US\$	US\$ million	2.12	9.67	0.12
Publication Period	Days	16.87	41.00	7.00
Procurement Leadtime	Days	78.67	203	20
Competitive Tension or level of participation	Number	4.59	9.00	1.00
Source of Data: Analysis based on the data provided by The BWSSB in coordination with Karnataka e-procurement portal; The contract management data was not available.				

37. **Strengthening measure:** The Procurement Entities, including the key PEs, BBMP, BWSSB, and MI need to ensure that the procurement KPIs (please refer to the Table in the IFSA) are prepared and used for review & monitoring. **Specific measure for BBMP:** The system to expedite the evaluation and award the contracts.

38. **Procurement Appeal/Complaint:** The KTPP Act and Rules have provision to submit procurement-related appeals (KTPP Section 16: Appeal and KTPP Rules Chapter - VII, APPEALS. The aggrieved tenderer shall submit an online appeal within a specified period to the Appellate Authority specified in the tender schedule through the Karnataka Public Procurement Portal). The STDs should mention the procurement-related appeals (during the tendering, during the evaluation, and before/after the notification of award) in the tendering schedule and provide the Head of PE to receive and redress the procurement-related appeals. During the

execution, the contract has provisions to resolve any disputes (adjudication/arbitration) as per the country's Law. **Action:** The PEs to consolidate these procurement appeals/complaints during the tendering and contract execution, as part of the semi-annual report and share it with the Bank semiannually using the format in the PoM (Annex 1).

39. **Procurement Staffing and Capacity Development:** In the absence of a dedicated procurement cadre, the procurement focal points (officials and engineers) at PEs play a crucial role in articulating the procurement process and managing the awarded contracts. These were provided with training on the e-GP, GeM, and training on KTPP Act/Rules. **Strengthening measure:** Throughout the Program period, all PEs to deploy the procurement focal person(s) for managing the procurement and contract management and impart need-based procurement training periodically (Procurement KPI).

40. **Accounting and Reporting:** BBMP has a hybrid (automated and manual) system of accounts where a large part of the transactions (such as collection of property tax, payment of fee etc) are captured in separate standalone software (more than 10 such standalone software are in operation). Its daily cash books (at different locations) are also maintained manually. The data from the software and manual books is entered in an off-the-shelf accounting software (Tally) to generate periodic financial statements. BWSSB has a manual system of accounting. But recently, it has decided to implement a Financial Solution for its accounting functions. Both BBMP as well as BWSSB are aware of the risks associated with different software and have taken steps to consolidate. Both have (in different ways) hired consultants to help them consolidate and interface the different IT solutions – this will strengthen internal controls and management reporting. Also, it will lead to process efficiency improvements. KSDMA and MI use the treasury systems. Accounting for the bank program will be done using the current mechanism and that system will be able to identify expenditure under the World Bank-financed Program (i.e. the 'P') and report on it.

41. **Internal Controls, FM Staffing, Internal Audit:** Internal controls are in place and are included in the financial rules, respective incorporating act, accounting rules and supplemented by defined delegation of financial powers. Oversight regarding compliance with internal controls is vested with the head of IA. Commissioner (BBMP) and Chairman (BWSSB). BBMP has separate verticals for finance and accounts function which is led by a Special Commissioner - Finance (generally an officer from Indian Administrative Services or India Revenue Services). Both BBMP and BWSSB have large Finance and Accounts sections which comprise Chief Accounts Officer, Accounts Officers, Accountants etc. Clear delegation of powers exists which defines all activities at the divisional levels. Also, regular reconciliation of bank accounts is carried out.

42. At BBMP as well as BWSSB, schemes are implemented at division level and hence payments are initiated at the division level. When work is done, the executive engineer verifies the work and enters in the Measurement Book. Then bill is processed by the division. Once the bill is ready, it is sent to the head office for approval after which payment is made from the head office account (for BWSSB) and division (for BBMP). The head office continuously monitors payments.

43. **Staffing:** The BBMP Act, 2020 provides the ULB with the power and responsibility to prepare and implement schemes for the 18 functions provided for in the Constitution (74th Amendment) Act, 1992. Further, as per the Acts governing ULBs, the State Government has the powers to regulate classification, method of recruitment, conditions of service, pay and allowances, discipline and conduct of the staff and officers of ULBs. The Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010 and the Karnataka Municipal Corporations (Common Recruitment of Officers and Employees) Rules, 2010, list out the Appointing Authorities for various categories of posts for BBMP. Thus, the authority to appoint/depute personnel to ULBs vests mainly with the State Government.

44. Overall, both BBMP and BWSSB has high vacancies against the sanctioned posts (48 percent and 62 percent respectively). However, the BBMP, with the growth in population of the city, has hired over 18,000 employees on a contractual basis.

Table 11 - Status of Vacant Posts

Entity	Sanctioned	Vacant	%
BBMP	12,923	6,149	48%
BWSSB	4,606	2,839	62%

45. **Internal Audit:** In addition to statutory audit, BBMP has system of audit by Chartered Accountants (which is in the nature of internal audit) as well. Also, for processing of capital expenditure, which accounts for over 51 percent of the total expenditure, there exist a system of pre-verification of bills by designated engineers (an officer of the cadre of Executive Engineer of works department). BWSSB has an in-house system of internal audit. However, the team is not commensurate to the size of its activities and there is a backlog. KSDMA and MI make their payments through state treasuries which acts as a pre-verification system of all payments.

46. The BWSSB Internal Audit function can be made more effective by strengthening the terms of reference of audit in line with good industry practices, such as increase in the scope and coverage through risk-based audits, specialized review in the functional areas including procurement aspects and an effective compliance and follow-up mechanism. These have been recorded as a PAP item in the project documents.

47. **Auditing:** In BBMP, external audit is conducted by Chief Audit Officer (CAO), who is an officer of the rank of Joint Director from State Accounts Department. CAO has a separate wing with sanctioned strength of over 53 personnel. There also exists a system of technical guidance and supervision by Comptroller and Auditor General of India (CAG), though it is not being practiced. Audit of BWSSB is conducted by CAG and audits till FY 2020-2021 are complete; so there is a significant backlog. KSDMA and MI are covered by CAG in its annual audit of accounts of GoK.

Table 12 - Status of Audit

Entity	Audit Completed till FY
BBMP	2022-23
BWSSB	2020-21

48. **Program Audit:** The GoK will have to submit an audit report of the Program within nine months of closing of each Financial Year. This audit confirms that expenditure that the IAs have incurred on the Program. As part of the legal agreement, the expenditure to be incurred on the Program should be equal to or greater than the value of disbursements from the World Bank by the end of the Program period. The budget heads of big ‘P’ will be covered under audit of the program.

49. Since the IAs are independent of each other and also have different legal structures, it will not be possible to have a single audit covering the Program. Different ‘Special Purpose Program Audits’ will be required. The auditors will however follow a Terms of Reference (ToR) which is acceptable to the World Bank. The following was agreed with the IAs. *Though there is still a risk that these audits may be delayed, this risk has been mitigated to some extent in case of BWSSB since the audit will be conducted by a firm of Chartered Accountants instead of the CAG.* Further, the World Bank will follow up regarding timely ‘submission on financial statements to the auditors’ since this aspect significantly contributes to delays in audit in case of the World Bank’s overall portfolio in India.

- a. BBMP: Audit report to be issued by the Karnataka State Audit Department
- b. BWSSB: Audit report to be issued by a firm of Chartered Accountants
- c. KSDMA and MI: Audit will be extracted from the State Finance Accounts prepared by the CAG for the entire GoK

50. **Procurement Review/Audit:** Though the PE’s expenditure is subjected to various audits, the scope of procurement review is not included in the scope of audit and reports. **Strengthening measure:** The Program’s PEs to undertake the post-procurement review as per the TOR in the POM as part of the internal/external audit or a separate review, as appropriate. Scope of the post-procurement review would include the following specific points:

- (a) Review of contracts to ensure that contracts are not awarded to the World Bank's debarred/suspended entities and individuals.

- (b) Verification on a sample basis of all contracts to ensure no high-value contracts over the OPRC limits are funded under the program without approval.
- (c) Complaints received were satisfactorily addressed in line with the established procurement complaint handling system.
- (d) Review and comment on whether adequate checks and balances are built into the procurement system and procedures are adhered to.

Program Governance and Anti-Corruption Arrangements

51. Governance and Anti-corruption arrangements operate at three levels: a) National level; b) State level; and c) Program level.

52. National level existing governance and accountability arrangements include audits by the CAG of India, review of audit reports by Public Accounts Committee, Right to Information (RTI) Act 2005, Prevention of Corruption Act 1988, and reporting complaints to Prime Minister's Office.

a. **Right to Information (RTI) Act 2005:** In India, under the larger governance framework of the country, all states including all departments and government agencies are covered under the RTI Act 2005. Under the provisions of RTI Act 2005, any citizen of India may request information from a public authority, which is required to reply within 30 days. The RTI Act 2005, also requires all public authorities to computerize their records for wide dissemination and proactively disclose certain categories of information so that the citizens need minimum recourse to request information formally.

b. **CAG (Duties Powers and Condition of Services) 1971:** The Constitution of India has mandated CAG as auditor to the Central and State governments. Independence of the CAG from the Executive is provided in Article 148 of the Constitution. Duties and Powers of CAG of India in relation to accounts of Union and States are given in Article 149 and 150 of the Constitution. Article 151 prescribes that the reports are to be submitted to the President/ Governor and placed before the respective legislatures. The CAG, through its state office, carries out compliance audits annually and unresolved audit paras are reported to the State Assembly and Public Accounts Committee for recommendations and actions. CAG, being a constitutional body, carries out certification audits as well as transaction audits of GoK.

c. **Prevention of Corruption Act in 1988:** To combat corrupt practices in government departments and public sector agencies, the Parliament of India enacted the Prevention of Corruption Act in 1988. In 2011, India ratified the United Nations Convention against Corruption. Accordingly, an amendment to the Prevention of Corruption Act was notified in 2018 to ensure harmonization between the two. **At the state level, multiple agencies are responsible for prevention of corruption.** This includes, Karnataka Lokayukta.

d. **The Karnataka Lokayukta Act came into force in 1984.** The office of Lokayukta in Karnataka has jurisdiction to conduct inquiries on all complaints pertaining to allegations against any 'public servant'. An action before the Lokayukta office is considered to be a judicial action. Karnataka State Legislature enacted the Karnataka Lokayukta Act 1984 for investigating into allegations or grievances in respect of administrative actions relating to matters specified in List II or List III of the 7th Schedule to the Constitution of India. Governor of Karnataka appoints Lokayukta and Upalokayukta(s), handles declarations for public servant removal, and presents the Lokayukta's annual report to the State Legislature. Lokayukta investigates high-level public servants, can initiate suo-motu investigations, refer cases, declare removals, initiate prosecutions, and submit annual reports. Upalokayukta(s) investigates other public servants, can be assigned matters by Lokayukta, discharge Lokayukta functions if vacant, declare removals, initiate prosecutions, and conduct disciplinary proceedings. The Lokayukta and Upalokayukta have the power to punish for contempt, similar to a High Court. Any person can file a complaint with the Lokayukta or Upalokayukta, supported by an affidavit. The forms are displayed on the official website. Karnataka Lokayukta Act prescribes the timeframes for Preliminary Inquiry, Investigation, and Report Submission. The Lokayukta or Upalokayukta submits reports to the competent authority based on their investigations. If an allegation is substantiated, the Lokayukta can

recommend the removal of the public servant. The Annual reports are displayed on <https://lokayukta.kar.nic.in/adminreportmain.php> till 21-22 as of 17 Nov 2024. In Karnataka, Public servants with a fixed pay exceeding INR 20,000 per month must submit annual statements of their assets and liabilities to the Lokayukta.

53. **For the Program, complaints on corrupt activities can be made to Karnataka Lokayukta and Program PEs.** Details of the nodal officer (Head of the Procurement Entity) for receiving complaints will be displayed on the official website and tenders, including the RFP for consultancies.

54. **The World Bank ‘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.** These guidelines shall be applicable to all activities within the Program boundary (‘P’) only and do not apply to the government program (‘p’). The procurement-related centralized fiduciary complaint handling mechanism will receive complaints and have clearly defined rules and authorities to resolve/process the complaints/suggestions. The POM provides the details of streamlining the complaint handling system for the Program including reporting formats. A workshop to sensitize on the applicability of anti-corruption guidelines and the protocol to be followed will be organized as part of the operation launch. An ACG Protocol has been drafted and discussed with the government and added as Annex 1. The PEs will take all appropriate measures to ensure that the Program is carried out in accordance with these Guidelines and report semi-annual reports to SPMU for consolidation and submission to the World Bank.

55. **Program PEs shall implement their respective activities under the Program, in compliance with the ACG for the Program and ensure the following actions.** Procurement-related appeals, if any, are processed by following the KTPP Act and Rules. The bidder who is not satisfied may approach the Court of Law to seek redress.

- (a) Ensure each procurement entity incorporates the World Bank’s debarment list¹⁴ in its tender documents and filters used by implementing entities when conducting due diligence.
- (b) 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 the common TD that the firm is not subject to ineligibility or has not been sanctioned under the World Bank system of debarment and cross-debarment.
- (c) Program PEs shall add to the scope of the auditor to validate that, under the PEF, no contract is awarded to World Bank-debarred firms.

56. **The SPMU will share incidences related to fraud and corruption with the World Bank as soon as they come to their attention or within 3 business days.** If the World Bank determines to conduct an administrative review into allegations or other indications of fraud and corruption in the Program, SPMU and Program PEs will cooperate fully with representatives of the World Bank in carrying out the review. The SPMU and Program PEs 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 have occurred or with which an ineligible expenditure has been paid.

57. **The following are the agreed action:** SPMU and Program PEs establish a fiduciary complaint redressal system and submit ACG reports using the formats provided in the POM as per agreed timelines. **Key Performance Indicators:** The following KPIs will be monitored during the Program:

¹⁴ <https://www.worldbank.org/en/projects-operations/procurement/debarred-firms>

Table 13. Performance Metrics

Area	Indicator	Calculation Methodology	Timeline
Adequate ¹⁵ monitoring of the procurement activities ¹⁶	1. Procurement Plan	Based on the approved Workplan, budget, procurement plan prepared and used for review	Semi-annually
	2. Procurement cycle time - measured in days	Time taken from the date of advertisement to date of contract signing	
	3. Competition of bidders measured in numbers and price measured in percentage	Average number of bidders and average discovered price below/above the estimated cost	
	4. Publish the contract award details in the e-GP	Program PEs disclosed the contract award details on the e-GP website	
	5. Time overrun - number of contracts and average percentage of delays	Time exceeded in comparison to original closing date.	
	6. Cost overrun - number of contracts and average percentage of variance	Cost/savings in comparison to original contract value	
	7. Average payment period - number of days and percentage over the stipulated payment period	Time taken from the date of acceptance of the bill to payment to contractors	
	8. Number of Procurement staff trained in the procurement and contract management	Number of training days (staff multiplied by days) semi-annually	
Adequate monitoring of FM activities	9. Budget allocation as per annual work plan	Variance of budget allocation with budget demand of agencies for the Program	Semi-annually
	10. Release of funds on timely basis	Funds released from the GoK to the agencies	
	11. Audits completed on timely basis	Audit reports submitted to the World Bank as per the agreed schedule	Annually
Adequate monitoring of fraud and corruption activities	12. Reports submitted on receipt and action taken on Fraud and Corruption complaints	Number of complaints received and addressed with timelines	Semi-annually
	13. Number of procurement-related complaints and average resolution time	Number of complaints received and redressed with timelines	

58. **Implementation Support:** The World Bank will carry out regular implementation mission to support the implementing agencies to achieve results. The progress on agreed DLIs and PAPs will be reviewed and any additions/changes to the action plan will be made during the implementation phase. The reports on budget allocation and execution by implementing agencies, procurement progress, contract management and financial reports, internal and external audit reports and annual financial statements of the Program Boundary will be reviewed from an FM and procurement perspective. The FM and procurement issues / risks identified during the implementation phase will be addressed appropriately.

¹⁵ For the procurement activities above INR 50 million (highest contract award amount/estimated cost) covering all procurement categories (works/goods/consultancy/non-consultancy services).

¹⁶ The first semiannual report will be considered as a baseline if baseline details are not available in the procurement performance historical data.

Annex 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 Water Security and Resilience Program (KWSRP)’ (the ‘Program’), to be entered between India (the ‘Borrower’) and the International Bank for Reconstruction and Development (the ‘Bank’), and (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, 2015¹⁷ (variously, the ‘Anti-Corruption Guidelines’ or ‘ACG’). Set out below are the supplementary protocols to be followed in implementing the ACG for the Program.

1. Borrower Arrangements

- (a) The office of State Program Management Unit (SPMU, KWSRP), Revenue Department, Government of Karnataka will be the GoK’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 Section 6 of the ACG, SPMU, KWSRP, RD, GoK will collect, consolidate, and provide the Bank, on a half-yearly basis, with a report on (i) any material and credible allegations and other indications of fraud and corruption under the Program that come to their attention during such period, including those reported under the Whistle Blowers Protection Act (2014); (ii) any investigations into such allegations; and (iii) 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 persons or entities debarred or suspended from the Bank.
- (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 Program's implementation, the reputation of the Borrower or the Bank, or the proper use of the loan's proceeds, SPMU, KWSRP, RD, GoK 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 SPMU, KWSRP, RD, GoK 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 Section 6(d) of the ACG, SPMU, KWSRP, RD, GoK will ensure timely and appropriate action to get investigations conducted on allegations 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 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

¹⁷ <https://policies.worldbank.org/en/policies/all/ppfdetail/3682>

relevant persons and/or entities, and inspect all 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 a review does not extend to criminal investigations, which is the exclusive jurisdiction of the Borrower. The 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 SPMU, KWSRP, RD, GoK 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. If 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 ACG, including these protocols, will be set out in the Program Operations Manual (POM) for the Program.

APPENDIX A

ANTI-CORRUPTION: COMPLAINTS (Procurement Appeal) 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
				(for example, phone, email, 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.

3. High-Value Contracts

The program does not have contracts above the applicable thresholds across three procurement categories: (a) works: US\$75 million; (b) goods, IT, or non-consulting services: US\$50 million; and (c) consulting services: US\$20 million.

Note: The estimated value of works contracts includes the applicable taxes (goods and services tax [GST] and other statutory deductibles). Works also includes the capital expenditure and operation expenditure / Operations and Management covered during the defect’s liability period. If the contract's estimated cost is within the OPRC threshold before tendering and the discovered contract price/amount is above the prescribed OPRC threshold during the procurement process, these contracts above the prescribed HVC threshold are excluded from the Program.

Annex 2: List of Key Procurement Activities

BWSSB List of Key Procurement Activities

Sl. No	110 Village Zone with PMC	Project Packages	Cost Estimate for the Project Packages (INR Crores) CPAX including GST @ 18%	O&M Costs for 10 years (INR Crores) (without power costs)	Total in INR Crore (10 million)	Total Cost Estimate in US\$ million (1 US\$ = INR 84.67)
1	RR Nagar & Dasarahalli-5MLD capacity WwTP, 3 Lift pumping stations of 0.9 MLD each and 80 km UGD network.	WBS-1	111.48	12.60	124.08	14.65
2	Byatarayanapura- 15 MLD capacity WwTP &1 No. ISPS	WBS-2a	70.00	24.50	94.5	11.16
3	Byatarayanapura- 200 Km UGD network	WBS-2b	225.46		225.46	26.63
4	Bommanahalli – 5 MLD, 15 MLD, 10MLD & 35 MLD WwTP’s, 2 Nos. ISPS, 1 Lift Pumping station and 75 Km UGD network.	WBS-3	365.00	91.14	456.14	53.87
5	Bommanahalli – 28 MLD & 15 MLD capacity WwTP, 2 Nos ISPS, 2 Lift Pumping Station and 10 Km UGD Network.	WBS-4	197.31	53.06	250.37	29.57
6	Mahadevapura – 1 No. 20 MLD WwTP and 50 Km UGD Network	WBS-5	130.20	27.17	157.37	18.59
7	PMC		15.55		15.55	1.84
	Total Cost (Rs. Crores)		1115.00	208.47	1323.47	156.31
	Grand Total Cost (Rs. Crores)		1323.47			156.31

BBMP List of Key Procurement Activities (As of 25 Feb 2025)

Sl no	Name Of Work	Project Cost Amount in Cr.	US\$ million (INR 84.67 per US\$)
	East Zone		
1	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in East zone Package-1	85.00	10.04
	Sub Total	85.00	
	West Zone		
2	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in West zone Package-1	45.00	5.31
	Sub Total	45.00	
	South Zone & Koramangala valley		
3	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in South zone including KVP Package-1	85.00	10.04
	Sub Total	85.00	
	Yelahanka zone		
4	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Yelahanka zone- YNK Package-1	101.02	11.93
5	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Yelahanka zone- YNK Package-2	100.55	11.88
6	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Yelahanka zone- YNK Package-3	81.73	9.65
	Sub Total	283.30	
	Mahadevapura Zone		
7	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retainion Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-01 of Mahadevapura Zone	106.42	12.57

Sl no	Name Of Work	Project Cost Amount in Cr.	US\$ million (INR 84.67 per US\$)
8	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-02 of Mahadevapura Zone	107.20	12.66
9	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-03 of Mahadevapura Zone	113.55	13.41
10	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-04 of Mahadevapura Zone	106.25	12.55
11	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-05 of Mahadevapura Zone	107.00	12.64
12	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In K R Puram Package-07 of Mahadevapura Zone	89.03	10.51
	Sub Total	629.45	
Bommanahalli			
13	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Bommanahalli zone Package-1	205.25	24.24
	Sub Total	205.25	
Rajajeshwari Nagar			
14	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Rajajeshwari Nagar zone Package-1	226.12	26.71
15	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Rajajeshwari Nagar zone- Package-2	232.27	27.43

Sl no	Name Of Work	Project Cost Amount in Cr.	US\$ million (INR 84.67 per US\$)
	Sub Total	458.39	
Dasarahalli			
16	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Dasarahalli Zone Package-01	208.61	24.64
	Sub Total	208.61	
	GRAND TOTAL	2000.00	236.21

Sr.	Name of Work	Contract Estimate	
		In INR Crore	In US\$ million
5	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-05 of Mahadevapura Zone	106.25	12.65
6	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program (KWSRP) With Externally Funded Project[World Bank] In Mahadevapura Package-06 of Mahadevapura Zone	106.15	12.64
Bommanahalli			0.00
1	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Bommanahalli zone Package-1	102.58	12.21
2	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Bommanahalli zone- Package-2	102.67	12.22
Rajajeshwari Nagar			
1.	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Rajajeshwari Nagar zone Package-1	127.07	15.13
2	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Rajajeshwari Nagar zone- Package-2	99.05	11.79
3	Construction of flood protection structures to SWD including RCC retaining walls, Water retention structures, Nature based solution structures / Bridges and culverts under Karnataka Water Security and Resilience Programme (KWSRP) with externally funded project (World Bank) in Rajajeshwari Nagar zone- Package-3	232.27	27.65
Dasarahalli			
1	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] In Dasarahalli Zone Package-01	108.17	12.88
2	Construction of Flood Protection Structures to Storm Water Drain including RCC Retaining walls, Water retention Structures, Nature Based Solutions Structures, Culverts and Bridges Under Karnataka Water Security and Resilience Program(KWSRP) With Externally Funded Project[World Bank] in Dasarahalli Zone Package-02	100.44	11.96
GRAND TOTAL		2238.10	266.44

Annex 3 – Auditing Arrangements at BBMP and BWSSB

BBMP

1. The external audit is conducted by CAO, who is an officer of the rank of Joint Director from State Accounts Department. CAO has a separate wing with sanctioned strength of over 53 personnel. There also exists a system of technical guidance and supervision by CAG, though it is not being practiced.
2. Some of the key observations made by auditors include: (a) procurement procedure not followed; (ii) excess/doubtful payment to vendors; (iii) extending excess benefits to employees; (iv) benefits to ineligible beneficiaries; (i) inadequate recovery of income / fee etc.
3. During the financial year 2021-22, the auditors have objected to an amount of Rs. 2010.20 Crores, out of which Rs. 422.76 Crores have been advised for recovery.
4. BBMP does not have a separate system for internal audit, however it has system of audit by Chartered Accountants which is in the nature of internal audit. Also, for processing of capital expenditure, which accounts for over 51 percent of the total expenditure, there exist a system of pre-verification of bills by designated engineers (an officer of the cadre of Executive Engineer of works department).

BWSSB

5. The external audit is conducted by CAG and audits till FY 2020-2021 are complete; so there is a significant backlog.
6. Some of the key observations made by the auditors include: (i) imprudent financial decision resulting in additional expenditure; (ii) delays and inefficiencies in procurement procedure; (iii) excess/ineligible payment to vendors; (iv) revenue loss due to deficiencies in internal controls etc.
7. BWSSB has an in-house system of internal audit. However, the team is not commensurate to the size of its activities and there is a backlog.
8. The BWSSB internal audit function can be made more effective by strengthening the terms of reference of audit in line with good industry practices, such as increase in the scope and coverage through risk-based audits, specialized review in the functional areas including procurement aspects and an effective compliance and follow-up mechanism.