

### Governance and Accountability Action Plan (GAAP)

The GAAP explicitly specifies a set of specific measures to ensure good governance and accountability, by improving the effectiveness of the project activities, increasing transparency and managing risks of fraud and corruption. It includes measures to:

- Ensure effective implementation of project elements directly relevant to improving governance and accountability,
- Guard against and reduce fiduciary risks, especially those of fraud and corruption,
- Enable beneficiary and general citizen to receive and provide information about the project transactions and performance,
- Safeguard the credibility of implementing agencies.

#### **GAAP Matrix**

Issue	Risk and Rating	Mitigating Actions Already Taken or Included (and Estimated Cost*)	Additional Mitigation Actions Proposed, Responsible Agency (and Estimated Cost*)	Schedule and Milestones of GAAP Actions*
A. Will and Capacity for Implementation	1. Commitment for reform and capacity building can waver (Moderate)	Agreement reached with senior government officials on development objectives  Necessary TA built in the project (\$17 million)  ULB eligibility designed to reinforce performance	Explicit covenants on critical actions  Continuous dialogue with and support for state and local officials	On-going.  The first policy workshop to be held on reform monitoring and design in progress in 2009. Continuing series of policy workshops; official resolutions and legislation expected from Yr 3
	2. Inadequate staffing and training (Moderate)	Key professional staff, including a capacity building specialist in place	Additional positions with competitive terms have been authorized  Training plans are in place  (\$200,000)	Advertisement of key positions within a month of Board approval

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B. Sub-project identification and Design	1. ULBs that do not fit project approaches are given subloans and grants for political reasons (Moderate)	Clear selection criteria have been agreed, including reform commitment, existing financial capacity, audit compliance	CDMA to apply the criteria and Bank team to review all selections	The criteria clearly agreed and documented by negotiations
	2. Design specifications tailored to benefit particular constituents or contractors	Hire competent independent consultants, supervised by MSU, to prepare Detailed Project Reports (DPRs)  (\$7.8 million)  Detailed technical appraisal of specifications by the Engineer-in-Chief	Consultants hired for independent review  (\$1.2 million)  Public disclosure of DPRs  The Bank will review at least 50% of DPRs at least for the first two years	The consultants and public disclosure to be in place from the project start
C. Procurement	1. Collusion among bidders to seek higher prices, e.g. bids significantly higher than the ECE; similar names and addresses of different bidders; bids received from 'shell' companies which then outsource work to local	Wide publicity is given in newspapers  Tender notices published in different offices	Initially hire consultants to help manage the procurement process (\$450,000);  Train ULB, PHED, and MSU staff to manage procurement, detect evidence of collusion and coercion by bidders as part of the Capacity Enhancement component Package contracts to attract national (higher) level bidders;	Training of key MSU staff by effectiveness;  Broad ULB, PHED, and MSU staff training to be implemented from year 1

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	contractors (Moderate)		Provide oversight by reputable technical panel ;  Publish bid awards and trends;  Use of debarment provisions	
	2. Lack of competition; coercion to prevent potential bidders purchasing bidding documents (High)	Advertising in broadly circulated newspapers  Additional bidder workshops to publicize the opportunities and procedures	Modify qualification criteria in bid doc; Establish register of potential bidders and send bid notices; (\$90,000)  Make bidding documents available on the website;  Study the contracting industry (\$120,000)  e-Procurement as soon as the Bank-recommended modifications are made; Enhance use of Complaints line	The procedures to be established and provided to design consultants from year 1  Make bid documents available on websites from the start  Contracting Industry Study Yr 1-2
	3. Framing of specifications and selection criteria to favor particular suppliers (Moderate)	Designers alerted to such risks;  Review by MSU, PHED, and Bank	Train designers in minimizing risks  Review by third party specialists (\$1.2 M incl. in #1)	Starting from Yr 1

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	4. Delayed, inadequate or improper bid evaluation to favor particular suppliers (Moderate)	Detailed evaluation procedures are in place  Bid records are maintained, including evaluation records	Include consultants and reputable CSO representatives as evaluators;  Training of ULB and PHED engineers to help in evaluation;  Use of consultants to help evaluation (\$200,000)  Detailed bid records will be required for CDMA clearance and project financing	Training started using the national-level training institute in Hyderabad as well as Bank specialists  In Yr 1 and 2 consultants will be utilized heavily
	5. Delay or refusal of ULBs to award contracts to successful bidders (Low)	Procedures specify time limits for contract award	Enforce performance standards on timeliness of contract processing, at the penalty of refusal to finance	The procedures will be articulated as part of subloan contracts from project start
D. Supervision and management of contracts	1. Deliberate delays in payments to contractors, leading to corruption and/or inadequate contract performance (Moderate)	ULBs authorized to process partial payments when portions of the work is done; MSU scrutinizes and match monthly physical and financial progress reports	Independent inspectors match progress and payments (\$1.2 M); Implement a transparent dispute resolution system at CDMA upon grievances filed by contractors	Independent inspectors start work from the start of first subproject; Grievance Redressal mechanism to be operational in Yr 1.

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	2. Unjustified payments made for incomplete and/or sub-standard work, or sub-standard quality of goods delivered (Moderate)	Qualified and experienced engineers will be provided and held to strict rules that they ensure that payments match quality of work done, or products purchased	Responsibilities of PHED (engineers on deputation) and consultants (for inspection) will be tightly defined and enforced;  Third party consultants will be engaged for quality assurance (\$1.2 M)	Consultants and third-party inspectors will be hired as a pool at MSU from the project start
E. Financial Management System and Internal Controls	1. Delayed and incomplete reporting of expenditures by multiple implementing agencies, leading to poor planning and control (High)	Monthly reporting system is mandated at the ULB level	Closer follow-up and monitoring from CDMA (principal implementing agency); Supervision consultants to help report;  suspension of disbursement when reports overdue	This procedure will be made a part of subloan contracts from project start
	2. External auditors (CAG) provide an audit certificate but do not provide independent audit opinion nor identify internal control issues as part of the certification exercise (High)	This is a systematic issue for the country as a whole and its resolution will continue be sought at the national level	Private auditors will be hired for ULB audits (approx. \$500,000); management consultants hired under the Capacity Enhancement components will be asked to provide observations and recommendations on control issues (\$3 M)	Private auditors already being hired.  The TA to start in year 1

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	3. Delayed ULB audits and the neglect of key audit observations (High)	Only those ULBs that have up-to-date audits with key audit observations addressed will be eligible to participate in the project and receive subloans and grants	CDMA to help hiring and management of CA firms (\$500,00)	This has been agreed and is being applied.
	4. Failure of project progress reports to match financial disbursements with physical progress (Moderate)		Internal auditors or third party inspectors will certify concurrently the expenditure incurred by the ULBs and verify physical progress. (part of \$1.2 M). ULBs will address audit findings promptly, or risk suspension.	Third party inspectors will be hired upon start of project.
F. Compliance with Environmental and Social Safeguards	Non-compliance with environmental and social framework safeguards, causing adverse impacts and non-sustainability of the sub-projects (Moderate)	Social and environmental safeguard framework to be distributed to implementation agencies and design consultants	Safeguard specialists at MSU. Capacity building for the ULB / MSU staff on environmental and social safeguards;  Environmental and social audits to identify remedial measures;  Strict monitoring by MSU and independent inspectors;  Invite citizen participation in public consultation and Grievance Redressal System	Safeguard specialists to be on board by negotiations;  GRMS system to become operational in Yr 1.  Broad capacity building to be part of Capacity Enhancement TA

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G. Communication, Participation, and Feedback Mechanisms	1. Lack of relevant information or their limited accessibility limits citizens engagement and hence project benefits, safeguards, and deterrence against non-compliance and corruption (Substantial)	Rights to Information Act, Community Participation Law, and Public Disclosure Policies are actively enforced in AP  Environmental and social safeguards framework has been disclosed  Implementation of the public disclosure and participation will be monitored as part of progress reports	A proactive public disclosure system and communications strategy will be implemented to make information available in accessible languages, on websites and ULB offices or citizen centers, and to conduct effective public hearings (\$350,000)	An initial version of the communication strategy will be put into effect at start of project and refined during project.
	2. Inaccessible and ineffective complaints and grievance system limiting the broad input for better project management (Moderate)	Grievance Redressal and Monitoring System (GRMS) available on line	GRMS will also be available at offices of ULB, PHED, and DMA (\$\$1.2 M)  The GRMS and dispute resolution system will be overseen by MAUD	On-line GRMS now operational.  Off-line GRMS to be established by end of Yr 1.