

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Governance Risks			
1.1 Weak public financial management system	M	<p>Although Bhutan’s public financial management system is more robust than that of many comparable countries, there is room for improvement in strengthening Bhutan’s adherence to its medium-term fiscal framework to enhance the credibility of its forecasts. The risk of underinvestment in the maintenance of fixed assets for their full economic lifecycle is apparent in the urban development sector.</p> <p>Further enhancement of the public financial management system would require assessing and monitoring fiscal risks more systematically and increasing the macroeconomic stabilization focus of the fiscal strategy. A clear strategy for directing adequate investments in the maintenance of fixed assets in the urban development sector is required.</p>	MOWHS
1.2 Lack of transparency during the procurement process	L	<p>All procurement for ADB financing will follow ADB procurement guidelines and procedures. Procurement must adhere to strict formal protocols, which have multiple layered processes to check and balance the entire process. These begin with the advertisement of the procurement or notice inviting tenders in the media, and end with the naming of the winning bidder through the client's website. Unsuccessful bidders have 2 weeks to register complaints, if any. During procurement, the PAC holds meetings supported by project-funded consultants as needed.</p>	CDCL
1.3 Corruption	L	<p>Bhutan consistently scores high on global indexes for control of corruption. Bhutan has instituted a system of ethics-based governance to curb corruption. The two main integrity institutions are the Royal Audit Authority and the Anti-Corruption Commission, which are both widely respected for their independence and quality of work. ADB strengthened areas of vulnerability in accountability, internal control, and audit capacity under the SEMP I.</p>	DHI
2. Political Risks			
2.1. Political instability	L	<p>Bhutan is a constitutional monarchy with a stable political system. The King signed the Constitution of Bhutan on 18 July 2008. Local elections were held for the first time in January 2011, and the second parliamentary elections were successfully held in July 2013 with an</p>	GOB

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		overall voter turnout of 66.1%. The winning People's Democratic Party secured 32 of 47 National Assembly seats.	
2.2. Lack of government commitment to the implementation of reforms	L	The Government of Bhutan is strongly committed to achieving macroeconomic goals set in the Eleventh Five-Year Plan (2013–2018). ADB's continuous engagement with the SEMP II program steering committee under the MOF and regular monitoring of the reform measures will ensure full alignment with the policy initiatives taken by the government	GOB
3. Organizational Risks			
3.1. Weak capacity of the implementing agency	M	PICs will be engaged under the project to support and help improve the capacity of the CDCL, the implementing agency.	CDCL
3.2. Inadequate coordination among government agencies	M	The establishment of a high-level project advisory committee, comprising the Board and management of DHI and the CDCL, will help guide the project preparation and implementation to ensure strong commitment and coordination among stakeholders. In addition, ADB will continuously engage with all relevant agencies to ensure effective coordination and monitoring.	PAC
3.3. Inadequate monitoring and quality assurance	M	Consultant support and capacity building will be provided for project evaluation. Coordination with development partners with regard to projects and programs will continue to ensure that outcomes are comprehensively monitored.	CDCL
3.4. Adequate resources and budget support are not available to the implementing agency	L	The government has demonstrated strong commitment to implement the Phuentsholing Township Development Project successfully. TA support will be provided in targeted areas to help the CDCL, the implementing agency, carry out the project activities.	DHI
4. External Risks			
4.1. Bhutan's medium-term economic outlook is negatively affected by uncertainties in the global economy	L	Developing Asia, including the South Asia region, is forecast to grow in FY2017 and FY2018. After slowing in the first half of 2016, the United States, the euro area, and Japan are forecast to grow collectively in both 2017 and 2018. ¹	MOEA
4.2. Fall in exports and capital flows due to negative shocks to India's economy	L	India's economy is forecast to grow in FY2017 and FY2018 (footnote 1). Based on bilateral agreements, Bhutan will continue exporting electricity to India, which has an energy deficit. Capital flows associated with hydropower	MOEA

¹ Asian Development Bank. 2017. *Asian Development Outlook*. Manila.

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		projects will continue as scheduled.	
4.3 Lower-than-expected demand for leasable land.	H	Risk mitigation measures: <ul style="list-style-type: none"> <li data-bbox="727 348 1252 436">(i) Provide grant and loan financing at favourable terms to enable DHI to offer competitive lease rates; <li data-bbox="727 443 1252 531">(ii) Appoint a reputable firm to help DHI attract investors and provide transaction advisory services; and <li data-bbox="727 537 1252 688">(iii) Approve a package of financial and regulatory incentives (including tax exemptions, the removal of restrictions on subleases, and the extension of maximum lease terms). 	ADB and MOF DHI and CDCL DHI
5. Other Risks			
5.1 Disasters triggered by natural hazards and extreme weather conditions lead to implementation delays.	M	There are no plausible mitigation measures to manage disasters triggered by natural hazards that may prevent or delay implementation. Nevertheless, implementation delays are not expected, primarily because the works are routine and contract packages have already been prepared.	CDCL
5.2 Limited contractor interest in the works	L	Due to the differing nature of the works, there will be one ICB package for river training and reclamation works, followed by a single ICB contract for common urban infrastructure. The large value of the packages will attract international contractors.	CDCL
5.3 Inadequate safeguard compliance	L	No serious adverse social or environmental impacts are expected. The project's environmental impacts have been identified and mitigation measures proposed under the environmental impact assessment and environmental management plan, which shall form part of the contractors' contractual obligations. Due diligence confirmed that the project will not require any land acquisition or involuntary resettlement.	CDCL
5.4 Low level of supervision	L	The CDCL will deploy contract supervision engineers and safeguard specialists supported by the PICs. ADB will undertake review missions to ensure the timely and high-quality undertaking of contracts.	CDCL
5.5 Uncertain financial sustainability	M	The common urban infrastructure works contract will include an extended 5-year O&M period. The grant agreement will include financial sustainability covenants to ensure that DHI meets its commitment to allocate adequate resources for the O&M of the project infrastructure.	CDCL
5.6 Climate impacts	L	Flood protection works have been designed	CDCL

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exceed projections		based on a 100-year flood event and include a conservative freeboard between the design flood level and proposed building platform levels. Computer modeling was used to assess the impact of climate change projections on design flood levels, and the freeboard safely accommodates anticipated increases.	
Overall	M		

H = high, S = substantial, M = moderate, L = low.

Note: The fiscal year (FY) of the Government of India ends on 31 March. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 31 March 2016.

ADB = Asian Development Bank, CDCL = Construction Development Corporation Limited, DHI = Druk Holding and Investments Limited, GOB = Government of Bhutan, ICB = international competitive bidding, MOEA = Ministry of Economic Affairs, MOF = Ministry of Finance, MOWHS = Ministry of Works and Human Settlement, O&M = operation and maintenance, PAC = project advisory committee, PIC = project implementation consultant, PIU = project implementation unit, PMU = project management unit, SEMP = Strengthening Economic Management Program.

Source: ADB.