

PHUENTSHOLING TOWNSHIP DEVELOPMENT PROJECT

PROCUREMENT CAPACITY ASSESSMENT

May 2018

ABBREVIATIONS

ADB	–	Asian Development Bank
ALDTP	–	Amochhu Land Development and Township Project
CAB	–	Construction Association of Bhutan
CDB	–	Construction Development Board
CDCL	–	Construction Development Corporation Limited
DHI	–	Druk Holdings and Investments
ICB	–	international competitive bidding
IRB	–	Independent Review Body
JV	–	joint venture
MOF	–	Ministry of Finance
NCB	–	national competitive bidding
Nu	–	Bhutanese Ngultrum
PAM	–	Project Administration Manual
PE	–	procuring entity
PFMPR	–	Public Financial Management Performance Report
PMU	–	Project Management Unit
PIC	–	Project Implementation Consultant
PIU	–	Project Implementation Unit
PPP	–	public-private partnership
PPPD	–	Public Procurement Policy Division
PPTA	–	project preparatory technical assistance
PRR	–	Procurement Rules and Regulations
PTDP	–	Phuentsholing Township Development Project
RGB	–	Royal Government of Bhutan
SBD	–	Standard Bidding Documents
TC	–	Tender Committee
TEC	–	Tender Evaluation Committee
TOC	–	Tender Opening Committee

TABLE OF CONTENTS

	Page No.
EXECUTIVE SUMMARY	iii
I. INTRODUCTION	1
Description of the Investment Project	1
II. PROJECT PROCUREMENT RISK ASSESSMENT	2
A. Overview	2
i. Legislative and Regulatory Framework	2
ii. Organization and Staff Capacity	3
B. Competitiveness and Participation of Private Sector in Public Procurement	7
i. Information Management.	8
ii. Procurement Manual and Guidelines	8
iii. Procurement Practices	9
C. Summary of Procurement Assessment carried out by ADB	10
i. E-Procurement	11
ii. Effectiveness	11
iii. Accountability Measures	12
D. Strengths	14
E. Weaknesses	15
F. Procurement Risk Assessment and Management Plan (P-RAMP)	15
III. PROJECT SPECIFIC PROCUREMENT THRESHOLDS	17
IV. PROCUREMENT PLANS	18
V. CONCLUSIONS	19
ANNEXES	
Annex 1: Completed Procurement Capacity Assessment questionnaire of CDCL	21
Annex 2: Bhutan NCB Annex	30
Annex 3: Information about Project Procurement Entities	33
Annex 4: Draft Procurement Plan of PTDP	41

EXECUTIVE SUMMARY

A. Overall Assessment of project procurement risk

The procurement classification for the PTDP investment is assessed as moderate (Category B). Detailed completed questionnaire for CDCL, the implementing agency, is presented in **Annex 1**. No changes to ADB's Bhutan country procurement thresholds and prior review limits are proposed.

B. Summary of Identified Weaknesses and Risks

- Inadequate experience in procuring large contracts through competitive mode.
- Every procuring agency tends to interpret the Procurement Rules and Regulations 2009 (PRR) differently based on its own needs and convenience and there is no uniformity in the implementation of the PRR.
- CDCL has limited prior experience as an Employer, procurement and implementation of externally aided projects.
- The private sector in Bhutan is still developing; small in size and reach with no capacity for large contracts; professionalism is lacking.
- Planning and design of projects and articulation of specifications in bid documents are inadequate.
- For foreign contractors and consultants some difficulties are expected for them to participate due to barriers to entry (registration, labour etc.). Any joint venture (JV) between foreign firm(s) and Bhutanese companies or foreign firms (independently) wishing to participate in projects in Bhutan need to be registered with CDB. JV's between Bhutanese firm(s) and foreign firms will be issued contract specific CDB certificate and they can participate in the specified work only.
- Underbidding is practiced widely by local contractors, leading to time overruns and disputes.
- Vocational training institute graduates of Bhutan have to be mandatorily employed by contractors as per RGB requirements. However, skill levels and willingness of such graduates to work for contractors is inadequate.
- Banks need collateral +3% bank commissions for loans. High interest of 14% for overdraft increases cost of finance for bidders.
- Skilled labor numbers are insufficient within the country and are sourced from neighboring countries, which is a complicated process. The Ministry of Labor rules require labor to be sourced only through authorized labor contractors with labor being subject to health and security clearance. Bhutanese law prohibits the employment of foreigners without permits from the Chief Labor Administrator. The Ministry of Labor and Human Resources is empowered to set maximum numbers of foreigners who may work in Bhutan, and may limit the number of foreigners working in any field or industry.

C. Summary of Mitigation and Management Measures to be Adopted

- CDCL has limited prior experience as employer and will require support from ADB and project consultants till PTDP completion.
- Provide training on ADB procurement to CDCL procurement unit in PMU and PIU plus to local contractors (preferably in association with CDB and CAB). Such capacity is presently limited. Special efforts to be made for retention of trained staff.

- Provide training budget (about \$150,000) in the PTDP. Training to be provided by ADB and institutions specialized in international procurement (such as Administrative Staff College of India, Hyderabad). Training locations could be in Bhutan and abroad. More training sessions to be scheduled during 2017-18 which can be followed up by annual refresher courses from 2019 onwards.
- Ensure PPTA / project consultants/ ADB's involvement in drafting procurement specifications and contract conditions in the initial set of bid documents and consultant procurement.
- Administer specifically ADB's training module on consultant procurement and management to all CSC members and CDCL procurement unit staff.
- Consultant evaluation system and case studies on consultant performance evaluation to be part of procurement training under PTDP.
- The capacity of local contractors is limited to small-size contract packages. For PTDP (including future phases) CDCL to encourage local contractors to bid in joint venture with capable foreign bidders.
- Due to the heavy monsoon the working period is limited annually to 8 months. Consequently, specifications should consider advance preparedness and maximizing precast construction elements.

I. INTRODUCTION

1. Project procurement capacity assessment for the Phuentsholing Township Development Project (PTDP, the project) was prepared in accordance with ADB's "Guide on Assessing Procurement Risks and Determining Project Procurement Classification."¹ The assessment was undertaken from September 2016 to April 2017 during ADB's project preparation. Meetings and discussions were carried out with Public Procurement Policy Division (PPPD), Construction Development Board (CDB), Construction Association of Bhutan (CAB), Construction Development Corporation Limited (CDCL) and Druk Holdings and Investments (DHI). Preparation activities included reviewing documents, review of reports and information from internet (notably those of PPPD, CDB, CAB, CDCL and DHI), ADB's Bhutan portfolio experience, field visit to Phuentsholing and discussions with ADB staff, PPTA consultants and project stakeholders. Information has been extensively excerpted from "BHUTAN- Public Financial Management Performance Report - Based on Public Expenditure and Financial Accountability 2016 Framework", September 2016, prepared by International Bank for Reconstruction and Development / The World Bank.

2. Key institutions related to PTDP procurement in Bhutan are:

- i. Public Procurement Policy Division, Ministry of Finance, Royal Government of Bhutan. (Website <http://www.pppd.gov.bt>)
- ii. Construction Development Board, Government of Bhutan. (Website www.cdb.gov.bt)
- iii. Construction Association of Bhutan. (Website www.cab.org.bt)
- iv. Construction Development Corporation Limited, Implementing Agency of PTDP. Website www.cdcl.bt
- v. Druk Holdings and Investments, (Executing Agency of PTDP)

Description of the Investment Project

3. The project investment will assist the government complete the PTDP which is a key priority of the Government of Bhutan (GOB). PTDP will develop approximately 66 hectares of land near the city of Phuentsholing that is located adjacent to the Amochhu River on Bhutan's south-western border with India. The project will provide protection from floods and erosion and construct smart urban infrastructure. The PTDP is the first phase of the government's proposed multi-phased Amochhu Land Development and Township Project (ALDTP).

4. ALDTP is divided into five zones: A, B, C, D and E. Zone D represents Kaileshwar Hill and is not included in the project for development. The remaining four zones comprise development on Amochhu riparian land that will require about 15 km of riverbank protection with new common urban infrastructure (roads, water supply, waste water management, municipal solid waste management, power and telecommunications) to support habitation for up to 50,000 people. Implementation of the project will be phased in relation to the scale and demand for the development. PTDP is Phase 1 and will develop Zone A while subsequent phases will develop the remaining zones.

5. Phase 1 of the investment will finance an estimated \$63 million, with \$53 million from ADB's (both concessional ordinary capital resources and ADF Grant) and \$10 million from the government. Phase 1 will be implemented over 7 years from 2017 to 2024.

¹ ADB. 2014. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*.

II. PROJECT PROCUREMENT RISK ASSESSMENT

A. Overview

i. Legislative and Regulatory Framework

6. Good governance is one of the four pillars of Bhutan's overarching development paradigm, gross national happiness. The procurement guidelines issued by Ministry of Finance (MOF), Bhutan have the backing of the country's laws and are applicable to all government institutions inclusive of ministries, departments, state owned enterprises, Dzongkhags and autonomous bodies for the procurement of works, goods and services. These guidelines have been drafted with the assistance of the World Bank and are available on the PPPD website as downloadable documents in English language.

7. The Financial Rules and Regulations of 2001 is a set of over-arching documents governing public financial management in Bhutan and consists of a main document, the Financial Management Manual and six technical documents, the Finance and Accounting Manual; the Budget Manual; the Aid and Debt Management Manual; the Property Management Manual; the Procurement Manual; and the Revenue Manual. Further guidance is contained in the Revised Procurement Rules and Regulations (PRR) 2009.²

8. The ministries and departments have Administration and Finance Divisions; the Dzongkhags and autonomous bodies have Administration and Finance Sections to manage their financial affairs. Finance personnel (budget officials, accounts officials, revenue and customs officials, procurement officials and internal auditors) are placed in all the budgetary bodies across the country (footnote 2).

9. PPPD was established under the Ministry of Finance in August 2008 which issued a revised PRR in April 2009. With the establishment of the PPPD, a number of regulatory and oversight functions have been elevated to a higher strategic level, leading towards a well-regulated and closely monitored procurement system. With the assistance of the World Bank, a detailed organizational structure and staffing for PPPD was developed for strengthening Institutional Capacity of the PPPD. The purpose of PPPD was to facilitate a public procurement system which is open, transparent, effective and efficient plus providing value for money.

10. MOF and the PPPD are consistently guided by procurement rules and regulations. Public Procurement Strategic Framework (Phase 1: 2011-15) has been recently formulated which outlines the reform strategies of the RGB. Further to the PRR, PPPD has issued the Standard Bidding Documents (SBD). Use of the SBD is required by the PRR, and reason for amendment must be recorded (PRR rule 5.1.1.2).

11. Public procurement functions are decentralized. The line ministries, departments and state-owned enterprises are responsible for procurement within their organizations. Delegation of power with financial thresholds is pre-determined in PRR except for state owned enterprises which can determine their own thresholds.

² Country Background Information, Bhutan: Public Financial Management Performance Report, 2016, IBRD/WB.

12. Staff undertaking procurement are required to have adequate qualifications and knowledge or training on procurement; the PPPD has reported inadequate capacity in many procuring entities (PE). The PPPD continues with PEs capacity needs assessment and training.

ii. **Organization and Staff Capacity**

13. The executing agency for the PTDP is Druk Holding and Investments (DHI). A full-time Project Director leads the Project Management Unit (PMU). The Project Director reports directly to the CEO of CDCL. CDCL will second staff to the support the PMU and Project Implementation Unit (PIU). PIU will be headed by Project Manager and would be based in Phuentsholing whereas PMU would be based within CDCL office in Thimphu. Both the PMU and PIU will be supported by a Project Implementation Consultant (PIC). CDCL is one of the fully owned subsidiary companies of DHI. The Project Director and Project Manager would be supported by construction, procurement, accounts and administration staff. The project organization structure is shown in **Figure 1**.

14. **Druk Holding and Investments (DHI)**, the commercial arm of the Royal Government of Bhutan, was established in 2007 upon issuance of Royal Charter in 2007 "to hold and manage the existing and future investments of the Royal Government for the long-term benefit of the people of Bhutan". DHI, the only government-owned holding company in Bhutan, has shares in 20 different companies operating in the manufacturing, energy, natural resources, financial, communication, aviation, trading and real estate sectors. Of the 20 portfolio companies 11 are fully owned (DHI-Owned Companies), 3 are controlled (DHI Controlled Companies - 51% and above) and 6 are linked (DHI-Linked Companies - below 51%). The Ministry of Finance is the sole shareholder of DHI.

15. DHI does not carry out any procurement of works, goods or services except for small value office equipment and vehicles for its own organizational use.

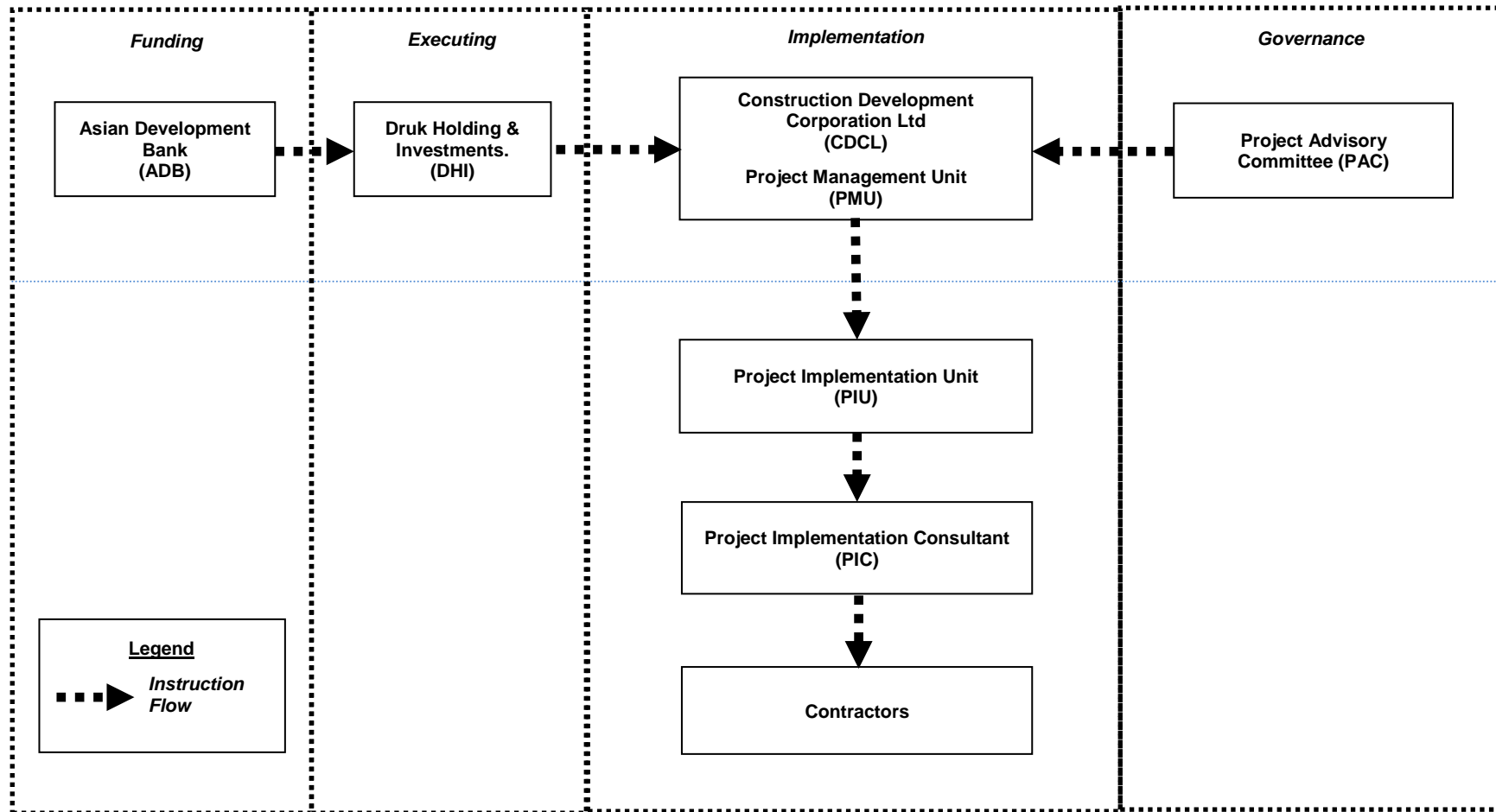
16. **CDCL Offices and Structure.** CDCL Head office is in Thimphu, with regional offices at;

- i. Western Region, Hesothingkha, Wangdue
- ii. Central Region, Gelephu, Sarpang
- iii. Eastern Region, Lingmethang, Mongar

17. Total employees in CDCL exceed 300 (as of 2016). Board of Directors has 7 members including a Chairman. CDCL is headed by a Chief Executive Officer who also is the member secretary of the Board of Directors.

18. CDCL has a Tender Opening Committee (TOC) and a Tender Evaluation Committee (TEC) plus a supporting Tender Committee (TC). TC, TOC and TEC members are drawn from within CDCL. The members of TOC / TEC are appointed by TC. CDCL also has a separate Procurement Unit with 10 staff at CDCL's Head office in Thimphu and two regional offices at Sarpang (central region) and Mongar (eastern region). The procurement unit guides all procurement of works and consultancy services. Procurement of equipment is done by the procurement unit while works are procured by the operational departments of CDCL with guidance of the procurement unit. CDCL has adopted, with very minor modifications, the SBDs issued by MOF for works, goods and consultants. Specifications, bill of quantities, drawings are provided by concerned operational departments. Procurement documents are based on the template and contract conditions specified by the standardized guidelines issued by PPPD.

Figure 1: PTDP Organization Structure.



19. PPTA Procurement Expert had discussions on 21 December 2016 with Head of CDCL Procurement Unit who provided the following. CDCL procures labor contractors but uses its own machinery and staff to implement contracts. The largest civil works contract implemented by CDCL to date was Nu 233 million (approximately \$6 million). To date it has only had 2 arbitrations (one with a labor contractor and another with a cement supplier, both claims of small value). CDCL gets on average 4 contracts per year. Equipment procurement is a problem since auditors sometimes do not understand goods / equipment supply schedule constraints and ask questions. **Annex 3** provides detailed Information about project procurement entities (CDCL-Implementing Agency, DHI- Executing Agency, PPPD, CAB and CDB).

20. **Table 1** summarizes the procurement carried out (as Employer) by CDCL during past 4 years, more specifically through PTDP's proposed PMU/PIU which were part of DHI Infra which merged with CDCL in November 2016. Therefore, it can be stated that CDCL has obtained the experience as Employer, through its merger with DHI Infra, more so since the same staff who were handling PTDP are part of PMU/PIU for PTDP in CDCL. Following inferences can be drawn from analysis of information in the table:

- Works contracts are small (< \$1.0 million), contract durations ranged from few months to 21 months.
The larger three works contracts were not awarded due to financial reasons explained as follows. The Jigmeling SEZ was not awarded because the budget for the project was from the Government of India (GOI) fund which did not allow for pre-financing. Award of the contract was kept on hold and cancelled due to funding delay. Two separate turnkey contracts for the DHI Corporate Office Building and Bhutan Telecom Corporate Office Building (both under DHI-INFRA) were not awarded due to the implications of the country's Indian rupee crunch and the economic situation of the country. DHI decided to cancel the projects.
- Experienced in procuring varied type of consultants (for Special Economic Zone planning and construction, Environmental Impact Assessment, hired and managed consultants for designing the corporate office buildings, detailed project reports etc.)
- Both works and consultant procurement followed Bhutan's PPR and were based on standard procurement documents of PPPD
- In Table 1, Amochhu DPR consultant recruitment (at sl. no. 7 under heading of consultancy) was international, rest of the consultancies were national recruitment. All works were national procurement.
- No major contractual issues (cost, time overruns, disputes) reported in any of the contracts.

21. A key concern is CDCL has limited prior experience as an Employer implementing large projects. Most projects implemented by CDCL are on direct contracting basis from government or other government agencies; this has changed in past few years where CDCL is competing with the private sector. In a sense, CDCL has mostly worked as implementing arm of the government¹. Most of implemented projects are road/ bridge contracts with some recent projects in hydropower, buildings and a tech park. CDCL has its own equipment, in house design capacity, skilled manpower and supplements it with labor from market to implement projects.

¹ CDCL was earlier the Mechanical Division under Department of Road, Ministry of Works & Human Settlement. It was separated from the Ministry to take up Construction Works and improve the quality of construction in Bhutan. Due to lack of expertise in markets for works like construction of bailey bridge and since CDCL had the manpower and equipment required for these works, they were awarded directly to CDCL. There were also cases of emergency works which private contractors could not take up and were awarded directly to CDCL. No procurement rules were violated in the above process.

Table 1: Procurement carried out as Employer by CDCL during past 4 years

Sl.no	Project Name	Month & Year awarded	Month & Year Completed	Project Value (Nu.)	Problems & Issues (if any)
Works					
1	Bhutan Education City Road	February 2013	November 2014	53,138,000	
2	Bhutan Education City Bridge	February 2013	September 2014	49,610,000	
3	Motanga SEZ (Road & Fencing works)	January 2014	April 2015	25,000,000	
4	Jigmeling SEZ (Road & Fencing works)			41,000,000	Not awarded
5	DHI Corporate Office Building	2013		380,000,000	Not awarded
6	Bhutan Telecom Corporate Office Building	2014		300,000,000	Not awarded
7	Drukair Customer Service Building	January 2017	Expected to be completed by December 2017	19,188,707	Ongoing
8	Construction of the roofing for the Terrace for Thimphu TechPark	June 2016	September 2016	2,000,000	
9	Construction of the Day Care Centre for Thimphu TechPark, Thimphu	June 2016	November 2016	3,300,000	
Consultancy					
1	Consultancy Services for Bhutan Education City (PPP Model)		December 2012	30,000,000	
2	Consultancy Services for carrying out EIA for the construction of Bhutan Education City	June 2012	November 2013	1,197,500	
3	Consultancy Services for carrying out EIA for construction of Industrial Estate at Motanga , Samdrupdzongkhar	February 2013	December 2014	1,055,000	
4	Consultancy Services for carrying out EIA for construction of Industrial Estate at Jigmeling, Sarpang	July 2013	December 2014	1,463,073	
5	Consultancy Services for Bhutan Telecom Corporate Office Building, Thimphu.	April 2013	October 2013	4,000,000	
6	Consultancy Services for Drukair Customer Service Building, Thimphu	January 2016	July 2016	1,000,000	
7	Consultancy Service for the preparation of Integrated DPR for Amochhu Land Development & Township Project	November 2015	Expected to be completed by April 2017	80,000,000	Ongoing
8	Consultancy Services for the Design of the roofing for the Terrace and Day Care Centre for IT Park	February 2016	April 2016	155,870	Completed
9	Consultancy Services for the preparation of DPR for the expansion project for Wood Craft Center Ltd.	January 2016	January 2017	3,360,000	Completed

22. As a contractor, CDCL did the ADB financed Samdrupcholing-Samrang Road. Project which started in October 2011, scheduled completion in May 2014, and actual completion in March 2015. Contract value was Nu333,747,095 (\$5.56 million equivalent). Work was completed with no cost overrun. Hence to some extent, CDCL is aware of ADB's works procurement procedure.

23. Organization and functions of other key institutions related to procurement domain in Bhutan (i.e. PPPD, CAB, CDB) are presented in **Annex 3**. Brief highlights of their roles are discussed here. CDB functions as an overseer as well as a promoter of the construction industry. One of the key functions of the Construction Development Board (CDB) is the registration, classification and monitoring of contractors, consultants and engineers/ architects. CDB acts as a bridge between the private and public sectors.

24. Contractors Association of Bhutan (CAB) was established for the development and promotion of Bhutanese construction industry. CAB's stated mission is to develop and promote the Bhutanese construction industry and to represent the Bhutanese construction industry at regional, national and international level. The role of the CAB is to provide a forum for the construction industry in Bhutan and address problems and policy issues at all levels for the development and promotion of Bhutan construction industry.

25. Role of PPPD has been discussed in the earlier sub-section of this report.

B. Competitiveness and Participation of Private Sector in Public Procurement

26. The private sector needs to be equally efficient, competent, honest and vigilant if public procurement is to function effectively. Relevant extracts from the private sector assessment carried out by ADB as part of CPS 2014-18 are presented in next four paragraphs.

27. **Critical Constraints to Private Sector Development.** To accelerate private sector development and allow the private sector to play a more pivotal role in the economy, Bhutan needs to create an enabling environment for private investment. Bhutan's overall rank in the World Bank's annual 'ease of doing business' assessment deteriorated from 126th of 183 countries in 2009 to 148th of 185 in 2012. While it moved up slightly to 141th of 189 in 2013, its ranking remains the lowest in South Asia. Key impediments to private sector development include: (i) limited access to finance; (ii) inadequate infrastructure, particularly in transport; and (iii) limited access to workers with necessary skills and a mismatch between the demand and supply of skills in the labor market.

28. **Lack of access to finance.** A 2013 diagnostic report on Bhutan's critical development constraints noted that access to and the cost of finance continue to be key obstacles to private investment, especially for micro, small, and medium-sized enterprises. Firms in Bhutan tend to perceive access to finance as a major constraint. Of the small and medium-sized firms assessed, 30% reported that access to finance was a major obstacle.

29. **Inadequately skilled labor force.** Labor costs are higher in Bhutan than in neighboring countries. An inadequately skilled labor force is cited as a major constraint by businesses in Bhutan. The issue in Bhutan is less about overall education levels than the fact that the education and skills that would-be workers have do not match those demanded by the labor market. Firms in Bhutan often try to meet their labor requirements by recruiting foreign workers, mostly from India and Nepal. Firms indicated that difficulty in accessing foreign workers was a major or severe obstacle to their operations. They considered the required use of third-party

agents licensed by the government to hire unskilled foreign workers to be costly and cumbersome.

30. It should be emphasized, however, that Bhutan also has outstanding advantages over other countries in South Asia for prospective private sector business. These include its political stability, good governance, low levels of corruption and crime, access to electricity, abundant natural resources, preferential access to India's large market, and access to skilled and unskilled labor in India.

i. Information Management

31. At present a nationwide comprehensive procurement monitoring system for all types of contract does not exist in Bhutan. The Ministry of Finance has awarded the contract to a consulting firm to design an e-Government Procurement system that shall cover all these aspects. Procurement of works covers almost 50% of the Government Procurement. The CDB maintains an online evaluation, monitoring and reporting system and a ciNet system through which data is maintained for Construction works contracts. Most procuring agencies through their own initiative maintain such data on procurement of goods, works and services. While a centralized data system would provide for monitoring the efficiency and effectiveness of the procurement system, currently data maintained by procuring agencies have been serving this purpose. Realizing the difficulties in doing so, an e-GP is being initiated by the Ministry of Finance.²

32. As required by the PRR, information on procurement opportunities are made available in the newspapers, on e-Tool system of the CDB for construction works, announced on the TV and made available on the procuring agency's website. Information on procurement opportunities, amendments to the bidding documents and any other information can be seen on any government agency website. In addition, the notification on award of contracts is displayed on the notice board of the procuring agency concerned.

ii. Procurement Manual and Guidelines

33. As per section 1.1.2.4 of the Procurement Rules and Regulations (2009) of the Ministry of Finance, companies, financial institutions, and trust funds fully or partly owned by the RGB may adopt separate rules and regulations for the management of their procurement, provided such rules are within the broad principles of these rules and approved by the respective boards of directors or trustees.

34. The CDCL procurement manual was prepared in 2016 based on the PRR guidelines and SBD's with minor modifications. CDCL Tender Committee composition is defined under clause 5.2 of their procurement manual. The TC will be responsible for all aspects of procurement and is independent of the CDCL Chairman. CDCL has four levels of Tender Committee (all are standing committees) as per threshold limits specified in the Delegation of Power;

- i. Board Level Tender Committee comprising minimum two Board Directors, Chief Executive Officer, Head of the Concerned Department and General Manager of the Department of Finance. The Chairperson of the Committee shall be appointed by the

² Sourced from "BHUTAN- Public Financial Management Performance Report- Based on Public Expenditure and Financial Accountability 2016 Framework, September 2016. International Bank for Reconstruction and Development/ The World Bank.

- Chairman of the Board. The Board Level Tender Committee shall be responsible for procurement whose estimate value exceeds Nu100 million (\$1.5 million).
- ii. Corporate Level Tender Committee responsible for procurement whose estimated cost is between Nu5 million to Nu100 million (\$0.076 million to \$1.5 million) comprising Chief Executive Officer as the chairman, head of the concerned Department, General Manager of the Department of Finance and any other General Manager.
 - iii. Departmental Level Tender Committee responsible for procurement between Nu.1 million to Nu5 million (\$0.015 million to \$0.076 million) comprising General Manager of concerned Department as chairman, Manager of the Department of Finance, head of the Division, Project Manager and any other General Manager appointed by the CEO.
 - iv. The Field Level Tender Committee shall be responsible for procurement whose estimated cost is below Nu1 million (\$0.015 million).

35. As per the PRR Guidelines, in the case of a foreign-funded project, if the foreign funding agency mandates the use of procurement guidelines of such funding agency, such funding agency guidelines shall prevail over these Guidelines to the extent applicable. In the event of a conflict between these Guidelines and that of the funding agency, the funding agency guidelines shall take precedence over these Guidelines. CDCL Manual and SBDs for government financed projects are up to date but do not cover foreign-assisted projects, so would not be used for PTDP.

36. NCB annex E.3 of ADB's Procurement Plan template has the following conditions related to foreign bidders which would be applicable to PTDP. "Foreign suppliers and contractors from ADB member countries shall be allowed to apply for pre-qualification and to bid, without national registration, licensing and other government authorizations, leaving compliance with these requirements until after notice of award and before signing of contract. Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification".

iii. Procurement Practices

37. There is no separate procurement cadre or procurement core group in Bhutan government. Most staff carrying out procurement functions are from engineering and accounting cadres, and are not trained specifically in procurement. Contract administration is perceived to be a bit weak. This has resulted in cost and time overruns. Each procuring entity (PE) is required to establish a procurement unit or designate a unit with responsibility for procurement and contract management. Each PE must also form an evaluation committee. It is expected that there would be one Tender Evaluation Committee in CDCL for the PTDP.

38. Open competition is defined as the default method for procurement in the PRR 2009 (revised in July 2015) Clause No. 4.2.2.1. A threshold value above which open competition is the default method is defined in the PRR, which is above Nu. 1M in the case of procurement of Works, and above Nu. 0.2 M in case of Goods and Services.

39. As per the data collected through e-tool database maintained by Construction Development Board covering 1430 contracts in year 2016, all followed open competition. There is a lack of management information system for goods and services. Bhutan Public Financial

Management Performance Report (cited earlier), reviewed a small sample from the Ministry of Education for goods and services and Thimphu Thromde for construction works. Out of 26 contracts the Ministry of Education had tendered out in 2014/15, 13 were done through limited bidding, which accounted for 13% of the total procurement value. In the case of Thimphu Thromde, out of 24 contracts, 6 were tendered out through limited bidding and 1 through limited enquiry/ shopping. Limited bidding is a competitive method but for a shorter bidding period of 14 days. Based on these findings, it can be seen that except those which are below the threshold value defined in the PRR, all tenders are done through open competition.

40. Discussions were held by PPTA Procurement Expert on 21 December 2016 with PPPD's Chief Program/Procurement Officer and Senior Procurement Officer, who provided the following information. Contract duration is kept short by IAs, resulting in huge time overrun of contracts. Project preparation is inadequate, Bhutan IAs performance up to contract award is good but contract management is poor; the project planning period have been typically short with limited emphasis on project planning and details that leads to problems during implementation. Also, the management of contractors by the IAs is poor due to lack of their technical expertise. Underbidding is a serious problem in Bhutan. Mostly open bidding is the norm, even CDCL participates, and direct contract awards are minimal. The majority of problems are caused by the employer rather than the contractor.

C. Summary of Procurement Assessment carried out by ADB³

41. **Portfolio performance.** Bhutan has managed to maintain a relatively good record in portfolio performance, despite some signs of deterioration. The contract award ratio improved from 55% in 2011 to 59% in 2013, exceeding the respective ADB-wide averages of 26% and 20% in these years. In contrast, the disbursement ratio decreased slightly from 28% in 2011 to 26% in 2013, although these rates were better than the overall ADB averages of 20% in 2011 and 19% in 2013. As of 31 December 2013, none of the 15 ongoing projects in Bhutan were rated problem projects, and only two were rated potential problem projects.

42. ADB country operations and programs in Bhutan were rated successful by both a country assistance performance evaluation conducted in 2010 and the CPS final review validation report in 2013. The CPS final review and its validation report both stressed the need for more emphasis on project readiness and strengthening of the capacity of counterpart agencies in procurement, safeguards, and financial management.

43. **Public financial management, public procurement, and anticorruption.** Bhutan's public financial management system is more robust than those of many comparable countries, but capacity in financial management is weak at the local level. Procurement vulnerabilities reside in the inability of the institutions and staff involved to fully apply enhanced rules and regulations, and a lack of government capacity to effectively implement increasingly complex procurement packages in some key sectors. Some vulnerability to corruption remains because of weakness in internal accountability measures.

44. As an update to information till 2013, the following inferences can be drawn from ADB's Bhutan portfolio information on contract awards/commitments and disbursements (loans and grants) during past 6 years (2010-2016);

- There are 10 ongoing ADB project Loans / grants for transport, energy, water and other urban infrastructure, information and communication sectors.

³ From ADB's Bhutan Country Partnership Strategy 2014-18.

- Contract Award/Commitment Performance is excellent. Cumulative contract award amount is 95% of projected (\$147.8 million / \$155.4 million)
- Disbursement Performance is excellent. Cumulative disbursement amount is of 94% of projected (\$44.0 million /\$46.7 million)
- Of the 10 projects, 2 transport projects (South Asia Subregional Economic Cooperation Road Connectivity Projects) and an Urban Infrastructure Project have overall rating as 'Potential Problem' projects, rest 7 are 'On Track'.

i. E-Procurement

45. The Central Public Procurement Portal of Government of Bhutan facilitates all the Central Government Organizations to publish their Tender Enquiries, Corrigendum and Award of Contract details. The system also enables the users to migrate to total electronic procurement mode. The primary objective of this portal is to provide a single point access to the information on procurements made across various central government organizations. As of now, E-procurement is not mandatory for state owned enterprises. Even for Central Government Organizations, only tenders are advertised on the Central Public Procurement Portal. Submission of bids, evaluation and all downstream activities are done in physical mode.

46. The procurement of works account for majority of procurement in Bhutan and the e-tool allows for comprehensive web-based advertisement and contract management system. The site is www.cdb.gov.bt. The Ministry of Finance has awarded a contract to a consulting firm to design an e-Government procurement system in three phases. The first phase contract is signed and outputs expected to be delivered in 2017.

ii. Effectiveness

47. Improvements in procurement include the publication of contract awards on the notice boards of procuring entities: the risk of any mis-procurement is reduced by this public exposure. The procurement complaints process, that was new and untried in FY2009/10, is now fully operational.⁴

48. The PRR, Standard Bidding Documents and related guidelines and manuals are available on the PPPD website and are accessible to the public. These standard documents were also printed and distributed to all Ministries, Dzongkhags and Gewogs, in 2012.

49. The Bhutan Annual Audit Report 2014 does not mention any concerns on reliability of any of the information published in the media or on the websites of the Procuring Agencies (footnote 6).

50. Transparency International's Corruption Perceptions Index 2016 places Bhutan at rank 27 of the 176 countries assessed with a score of 65/100. This is the highest rating amongst developing countries in Asia.

51. The Public Financial Management Performance Report (PFMPR) (footnote 6) has assessed Bhutan's procurement performance which is summarized in **Table 2**. Previous PFMPR was in 2010, changes in rating from 2010 to 2016 show substantial improvement in

⁴ From Executive summary of "BHUTAN- Public Financial Management Performance Report- Based on Public Expenditure and Financial Accountability 2016 Framework, September 2016. International Bank for Reconstruction and Development/ The World Bank.

scores. CDCL's procurement effectiveness could be inferred to be similar since CDCL is mandated to follow country's procurement system.

Table 2: PFMA Report Procurement indicators assessment rating

Procurement Indicator/Dimension	Score in 2010 PFMPR*	Score in 2016 PFMPR*	Brief Justification for the score
Procurement monitoring.	Not available	C	Records are maintained on works contracts showing what is procured, its cost, and who is awarded the contracts. These cover the majority of all procurement.
Procurement methods	D	B	70% or more of total value of contracts are awarded through competitive methods.
Public access to procurement information.	D	B	Public has access to information on procurement rules and procedures, bidding opportunities and contract awards and data on resolution of procurement complaints.
Procurement complaints management.	C	A	The complaints system meets all six criteria.
Overall score for Procurement Indicator	C	B	

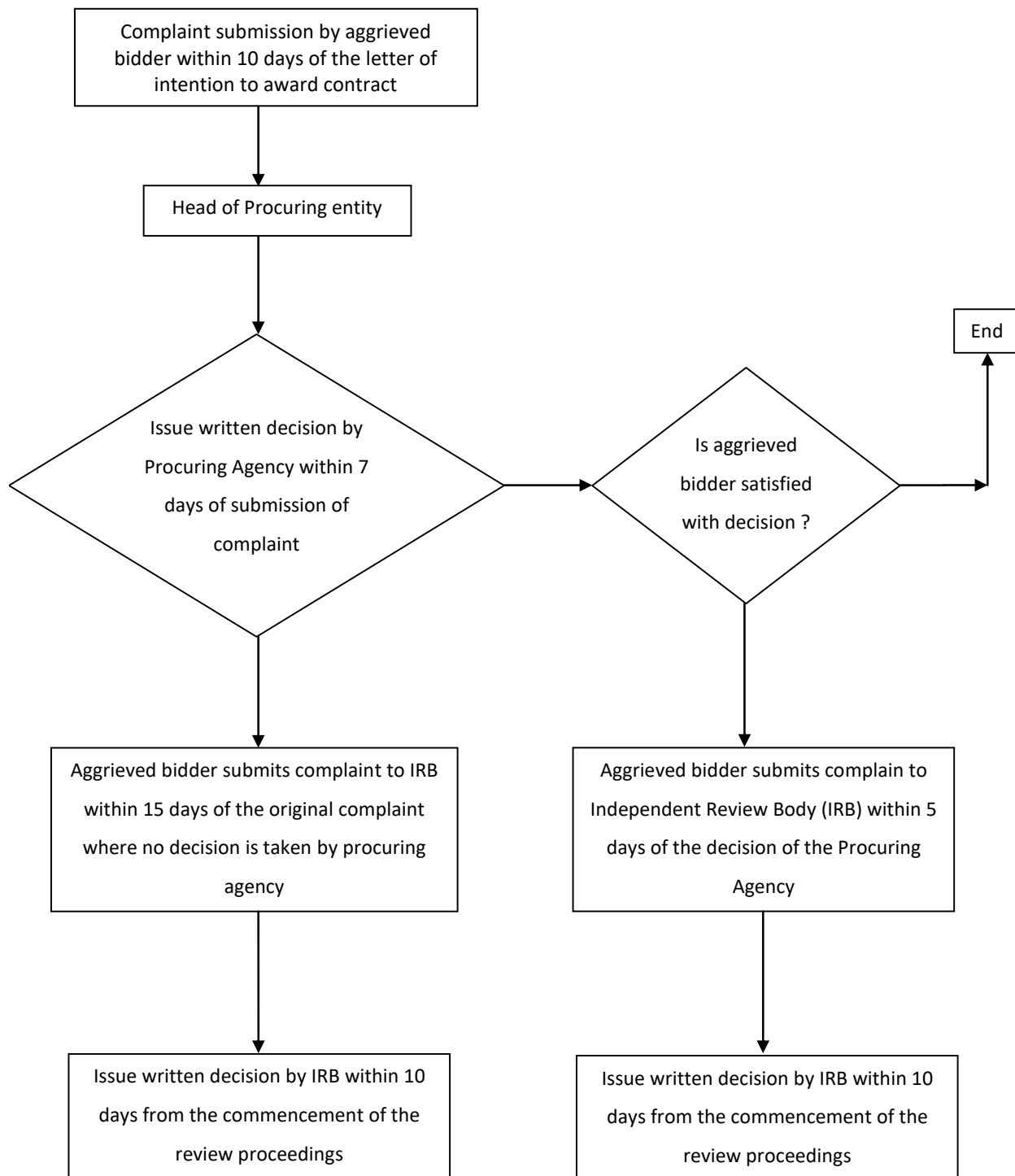
* A is the best in class, D is the lowest rating. Details of scores and scoring method are in page 92 and 156 of PFMPR report available for download at website; <http://documents.worldbank.org/curated/en/535311479288163001>

iii. Accountability Measures

52. At national level an Independent Review Body (IRB,) totally independent of any PE was established in February 2015 by Government of Bhutan. Any supplier, contractor or service provider who has or is likely to suffer, loss or injury resulting from an alleged breach of the PRR by a PE is entitled to seek review of PE's decision by submitting a written application to IRB. The applicant has to first seek review of PE. If either PE has not delivered a decision within the timeline specified in PRR (10 working days) or the complainant is not satisfied with PE's decision, complainant can approach IRB. IRB too is expected to provide its decision within 10 working days. The scope of review is limited to procurement decisions up to the award stage of procurement process and/or where the contract has not been concluded. After contract award, any complaints about corruption during contract implementation would have to be addressed to Anti-Corruption Commission of Bhutan or to courts.

53. MOF has formulated Rules and Procedures of IRB, Feb 2015, which is available on its website.⁵ The process for complaint handling (including membership of IRB, standstill period in which pending procurement awards are put on hold until the investigations are completed and a resolution has been made regarding the complaint, who does the investigation, is it independent from the PE, etc.) are fully described in the Rules and Procedures of IRB. **Figure 2** shows flowchart of IRB complaints handling process.

⁵ <http://www.egp.gov.bt/Independent%20Review%20Body%20-%20Rules%20and%20Procedures.pdf>.

Figure 2: Flowchart of IRB complaints handling process

54. Clause 64 of Rules and Procedures for IRB requires that after resolving a complaint, IRB Secretariat is required to publish on the website of the PPPD, such as summary of decisions made. The IRB was introduced recently and is functional. The decisions of the IRB are published on the PPPD website.

55. Clause 16 (l) of Rules and Procedures of the IRB ensures that no members of the IRB have conflict of interest pertaining to issues to be discussed and refrain from participation in the specific meetings, if any, and requires that members sign a confidentiality and Declaration of interest form in every meeting.

56. Clause 8.1.3 of the PRR allows a supplier, contractor or service provider, in the event of a perceived breach of a duty imposed upon a Procuring Agency in respect of a specific procurement procedure, to submit a written complaint to the head of the procuring agency responsible for such procedure promptly and in any event within 10 days of the letter of intent to award the contract. Bidders have to pay a nominal complaints registration fee of Nu5,000. The intention of having registration fee is not to discourage Bidders to complain but to prevent (least to certain extent) baseless complaints. While developing the Rules and Procedures for Independent Review Body, the Bhutan Chamber of Commerce & Industry and CAB representing the interest of bidding community were actively involved as the main stakeholders at each stage of discussion.

57. The Rules and Procedures of IRB clearly define the processes for submission and resolution of complaints that are clearly defined and publicly available. The Rules and procedures also provide for the IRB to exercise the authority to suspend the procurement process; issue decisions within the timeframe specified in the rules/regulations; and issue decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

58. At the country level, the Anti-Corruption Commission and Royal Audit Authority have statutory backing and are perceived to be powerful and fair.

D. Strengths

59. The strengths of CDCL and Bhutan related to procurement are summarized as follows:
- i. Corruption is almost nonexistent, contractor and employer sign an Integrity Pact for every contract to avoid all forms of corruption or deceptive practice by following a system that is fair, transparent and free from any influence/ unprejudiced dealings in the bidding process and contract administration. The Integrity Pact is part of the Bhutan Standard Bidding Document (SBD).
 - ii. CDCL has well established procurement committees and procedures and has implemented numerous projects, albeit as a contracting arm of the RGB. The PTDP PMU and PIU comprise of staff who have experience as Employer.
 - iii. Procurement functions are decentralized and follow the organizations procurement guidelines and SBDs. Procurement Methods have been clearly defined in the Procurement Guidelines and SBDs for Goods, Works, and consultant Services are published online on CDCL's website and available for use.
 - iv. Clear separation of engineering, procurement and regulatory functions exist. Grievance redress is by IRB.
 - v. Separate well-staffed and well-equipped Procurement Unit functions independently within CDCL.

- vi. Procurement process based on excellent legislative and regulatory framework of RGB.
- vii. Good institutional framework and management capacity.
- viii. For contracts, contract administration and dispute resolution are well defined and practiced.

E. Weaknesses

60. The weaknesses of CDCL and Bhutan related to procurement are summarized as follows:

- i. Inadequate experience in procuring large contracts through competitive mode.
- ii. Every procuring agency seemingly interprets the PRR differently based on its own needs and convenience and there is no uniformity in the implementation of the PRR.
- iii. CDCL has limited prior experience as an Employer of procurement and implementation of externally aided projects.
- iv. The training and capacity building of government sector staff appears inadequate to meet large and externally financed projects.
- v. Private sector is still developing, small in size and reach with no capacity for large contracts, professionalism is lacking. Large contracts segment is dominated by foreign players.
- vi. Planning and design of projects and specifications in bid documents are inadequate.
- vii. Some difficulties are perceived by foreign contractors and consultants to participate due to barriers to entry (registration, labor etc.). Any joint ventures (JV) between foreign firm(s) and Bhutanese companies or foreign firms (independently) wishing to participate in projects in Bhutan need to be registered with CDB. JV's between Bhutanese firm(s) and foreign firms will be issued contract specific CDB certificate and they can participate in the specified work only.
- viii. Underbidding is practiced widely by local contractors, leading to time overruns and disputes.
- ix. Vocational training institute graduates have to be mandatorily employed by contractors as per RGB requirements. However, skill levels and willingness of such graduates to work for contractors is inadequate.
- x. Banks seek collateral +3% bank commissions for loans from contractors. High bank interest of 14% for overdraft increased cost of finance to contractors.
- xi. Skilled labor is inadequate within the country and is sourced from neighboring countries, which is a complicated process. The Ministry of Labor has rules which require labor to be sourced only through authorized labor contractors with labor being subject to health and security clearance. Bhutanese law prohibits the employment of foreigners without permits from the Chief Labor Administrator. The Ministry of Labor and Human Resources is empowered to set maximum numbers of foreigners who may work in Bhutan, and may limit the number of foreigners working in any field or industry. The Ministry of Home and Cultural Affairs, Department of Immigration, also oversees and coordinates all foreign workers.

F. Procurement Risk Assessment and Management Plan (P-RAMP)

61. The project procurement risks, their assessed impact, likelihood of occurrence and recommended mitigation measures are summarized as follows:

PROJECT PROCUREMENT RISK ANALYSIS AND MANAGEMENT PLAN

SL. No / Ref	Risk	Impact	Likelihood	Mitigation Measures / Risk Management Plan
I. Project Procurement Risk Analysis				
A.9.	CDCL does not have a regular procurement training program	H	Likely	<ul style="list-style-type: none"> - Procurement training of PMU / PIU and CDCL Procurement Unit staff on ADB procurement processes to be carried out. - Retention of trained staff. - Provide training budget (about \$150,000) in the PTDP. Training to be provided by ADB and institutions specialized in international procurement (such as Administrative Staff College of India, Hyderabad). Training locations could be in Bhutan and abroad. More training sessions to be scheduled during 2017-18 which can be followed up by annual refresher courses from 2019 onwards.
C.1	<p>Has CDCL undertaken procurement of goods or works related to foreign assistance recently (last 12 months or last 36 months)? If yes, indicate the names of the development partner/s and project/s.</p> <p><i>CDCL has implemented one ADB financed road contract, completed in 2015 as Contractor.</i></p>	H	Likely	<ul style="list-style-type: none"> - Ensure PPTA / project consultants/ ADB's involvement in drafting procurement specifications and contract conditions in the initial set of bid documents and consultant procurement. - ADB may provide intensive procurement handholding support during project preparation and first year of Loan / Grant.
C.11	Bidders not provided a copy of the bid opening minutes	S	Unlikely	- PTDP would follow ADB procurement guidelines. Hence CDCL will provide copy of bid opening minutes.
C.22 and C.23	<p>CDCL has not undertaken foreign- assisted procurement of consulting services previously. However, an international consulting firm for preparing the Integrated Detailed Project Report (IDPR) for Amochhu Land Development and Township Project (ALDTP) was procured by CDCL. This procurement was financed by CDCL itself. Major challenges in procurement were;</p> <ul style="list-style-type: none"> -Difficulty in getting EOI from reputed international firms - Difficulty in verifying the CVs 	S	Likely	<ul style="list-style-type: none"> - Provide intense support of PPTA / project consultants/ ADB during the first package of consultant selection. - Administer specifically ADB's training module on consultant procurement and management to all CSC members and procurement unit staff of CDCL.

SL. No / Ref	Risk	Impact	Likelihood	Mitigation Measures / Risk Management Plan
	and experience of key personnel - Difficulty in verifying the experience of the firm. - Not enough online information available about the firm.			
C.37 and C.42	Consultant recruitment; minutes of the technical and financial opening are not distributed to consultants	S	Unlikely	- PTDP would follow ADB procurement guidelines. Hence CDCL will provide copy of technical and financial opening minutes.
C. 46	Negotiations are usually done to negotiate the proposed cost, person-months for key personnel, and equipment. Negotiation of cost is done when estimated budget is exceeded (budget not revealed to consultants). If the quoted amount is within the range of +/- 10% of the estimated budget the negotiations are not done.	S	Unlikely	- PTDP would follow ADB's consultant and procurement guidelines. - During training of CDCL procurement staff it would be addressed. Key differences between Bhutan consultant recruitment procedures and ADB procedures would need to be understood. Trainees to be informed ADB procedures would prevail for PTDP.
C.49	No evaluation system for measuring the outputs of consultants exists	S	Likely	PTDP training program to provide specific guidance on consultant performance evaluation and discuss case studies on consultant performance evaluation.

H - High, S - substantial

III. PROJECT SPECIFIC PROCUREMENT THRESHOLDS

62. Procurement classification for the project investment is assessed as Moderate (Category B). The completed Project Procurement Classification checklist is provided in **Annex 1**.

63. Based on the procurement capacity assessment carried out it is recommended that prior review limits and procurement thresholds for PTDP remain same as shown in the ADB's Procurement Plan template for Bhutan. Project specific procurement thresholds are not warranted. Civil works contracts above \$3 million will be through international competitive bidding (ICB) and those costing less than \$3 million will be under national competitive bidding (NCB) procedures acceptable to ADB. Single-stage two-envelope bidding with post-qualification will be adopted for all NCB and ICB contracts under the project. ADB review of bid documents and evaluation shall be prior for first NCB only and all advance contracting packages. Domestic preference is not applicable. For the procurement of goods and related services, ICB will be used for contracts of at least \$1.0 million and NCB for contracts of less than \$1.0 million. For contracts valued at less than \$100,000 ADB's shopping procedures will be followed. Works by government-owned entities (for activities which cannot be done by competitive contracting) shall be done by Force Account method. Procurement under the investment project will conform to ADB's Procurement Guidelines (2015) and Guidelines on the Use of Consultants (2013) as amended from time to time. No changes are suggested to the NCB Annex of Bhutan Procurement Plan template; the NCB Annex is included in **Annex 2**.

IV. PROCUREMENT PLANS

64. An 18-month indicative procurement plan showing threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is provided in **Annex 4**.

65. All advance contracting and retroactive financing will be undertaken in conformity with ADB Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The issuance of invitations to bid under advance contracting and retroactive financing will be subject to ADB approval. The borrower, DHI and CDCL have been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the project.

66. **Advance contracting** is required. **Table 3** lists the works and services packages to be financed by the project through advance contracting. PMU and PIU setting up expenses (office equipment, vehicles and personnel) would also be part of advance contracting and retroactive financing. Recruitment for the Project implementation consultant (CS-01) is in progress, Submission-1 was sent by CDCL to ADB on 20 February 2017. Bid documents for the main civil works package (CW-01) for constructing the river wall and raising Zone A's ground level are nearing completion and bidding is expected to begin in May 2017. The intention is to award both CS-01 and CW-01 packages after completing all procurement steps concurrent with loan effectiveness.

67. **Retroactive financing.** A maximum amount of eligible expenditures up to US\$ 9 million, the equivalent of 20% of the total ADB loan and grant, incurred before loan effectiveness, could be made, but not more than 12 months before the signing of the loan agreement.

Table 3: PTDP advance contracting packages

Package	Description	Type	Amount (\$ 000's) ^a
Works			
CW-01	River training, cross drainage and land reclamation ^b	ICB Works	37,200
Consulting Services			
CS-01	Project implementation consultant ^b	QCBS	5,700

ICB = international competitive bidding, QCBS = quality-cost based selection, ICS = Individual Consultant Selection

^a includes contingencies

^b includes provisional items for preparation of traffic management study, emergency management plan, and biodiversity monitoring and benchmarking survey.

V. CONCLUSIONS

68. Based on the procurement capacity assessment of CDCL and other agencies likely to be involved with the PTDP, the following measures for improvement of procurement capacity are recommended:

- i. Since the capacity of local contractors is limited to small-size contract packages, for PTDP (including future phases) CDCL should encourage local contractors to bid in joint venture with capable foreign bidders.
- ii. The annual working period is limited to 8 months due to heavy monsoon. For such works, specifications should consider advance preparedness and maximizing use of precast elements.
- iii. There is a need to upscale the capacity of experienced small Bhutanese contractors to enable them to carry out large works by encouraging joint ventures with foreign firms. ADB could consider technical assistance to build Bhutan contractors capacity.
- iv. Provide training, preferably in association with CDB and CAB, specifically on ADB procurement processes and capacity building to procurement unit, PIU and PMU of CDCL and local contractors by allocating earmarked training budget in PTDP. Such capacity is limited at present. More effort should be devoted to capacity building in contract management, disbursements and procurement.
- v. CDCL, being a state-owned enterprise, has worked mostly as a single source contractor of RGB, has limited prior experience as employer, needs to be supported by ADB and project consultants till PTDP completion.
- vi. Skill development of contractors needed in areas of preparation of bids and to reduce underpricing of bids.
- vii. Existing procedure for sourcing skilled workers from outside Bhutan needs to be simplified and time taken to get workers into Bhutan expedited by adjusting the RGB's labor policy.

69. Overall, it can be stated that the procurement policy framework of Bhutan is robust and grounded in sound and fair principles. The project arrangements with appropriate mitigation measures as recommended in P-RAMP are satisfactory.

ANNEX 1

PROCUREMENT CAPACITY ASSESSMENT OF CDCL

Risk Ratings	High (H)	Substantial (S)	Moderate (A)	Low (L)
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I. Specific Assessment and Ratings:

QUESTION	RESPONSE	RISK ¹
A. ORGANIZATIONAL AND STAFF CAPACITY		
PROCUREMENT DEPARTMENT/UNIT		
A.1 Does the agency or Government have a Procurement Committee that is independent from the head of the agency?	<p>Yes.</p> <p>CDCL has a Tender Committee (TC), whose composition is defined under clause 5.2 of their Procurement Manual. The TC will be responsible for all aspects of procurement. TC is independent of Chairman of CDCL.</p> <p>CDCL has following four levels of Tender Committees as per threshold limits specified in the organizational Delegation of Power</p> <p>(a). Board Level Tender Committee comprising:</p> <ul style="list-style-type: none"> i. Minimum two (2) board directors; the Chairperson of the Committee shall be appointed by the Chairman of the Board ii. Chief executive officer iii. Head of the Concerned Department iv. General Manager, Department of Finance <p>The Board Level Tender Committee shall be responsible for procurement whose estimate value exceeds Nu. 100 million (USD 1.5 million).</p> <p>(b). Corporate Level Tender Committee comprising:</p> <ul style="list-style-type: none"> i. Chief Executive Officer as the chairman ii. Head of the concerned Department iii. General Manager, Department of Finance iv. Any other General Manager appointed by the CEO <p>The Corporate Level Tender Committee shall be responsible for procurement whose estimated cost is between Nu. 5 million to Nu. 100 million (USD 0.076 to 1.5 million). Corporate Level TC has full authority for specialized repair works/services of a particular make/brand of machine, equipment or vehicle already with CDCL from manufacturer/authorized dealers/service centers without inviting tenders or quotations.</p> <p>(c). Departmental Level Tender Committee</p>	L

¹ Questions indicated with * are associated with potentially 'High' or 'Substantial' risks due to the impact being 'High', therefore the strategy for managing those risks should be addressed in the Project Procurement Risk Analysis (Appendix 3).

QUESTION	RESPONSE	RISK ¹										
	<p>comprising:</p> <ul style="list-style-type: none"> i. General Manager of concerned Department as chairman ii. Manager, Department of Finance iii. Head of the Division iv. Project Manager v. Any other General Manager appointed by the CEO <p>Departmental Level TC shall be responsible for procurement whose estimated cost is between Nu. 1 million to Nu. 5 million (USD 0.015 to 0.076 million).</p> <p>(d). Field Level Tender Committee comprising:</p> <table border="1" data-bbox="732 674 1302 1045"> <thead> <tr> <th data-bbox="732 674 1016 716">Regions</th> <th data-bbox="1016 674 1302 716">Projects</th> </tr> </thead> <tbody> <tr> <td data-bbox="732 716 1016 789">Regional Manager as Chairman</td> <td data-bbox="1016 716 1302 789">Project Team Leader as Chairman</td> </tr> <tr> <td data-bbox="732 789 1016 894">Manager, Administration & Finance</td> <td data-bbox="1016 789 1302 894">Work Supervisor</td> </tr> <tr> <td data-bbox="732 894 1016 968">Dy. Manager, Fleet Section</td> <td data-bbox="1016 894 1302 968">Project Accountant</td> </tr> <tr> <td data-bbox="732 968 1016 1045">Dy. Manager, Workshop Section</td> <td data-bbox="1016 968 1302 1045">In-charge, Store/Fleet</td> </tr> </tbody> </table> <p>The Field Level Tender Committee TC shall be responsible for procurement whose estimated cost is below Nu. 1 million (USD 0.015 million).</p>	Regions	Projects	Regional Manager as Chairman	Project Team Leader as Chairman	Manager, Administration & Finance	Work Supervisor	Dy. Manager, Fleet Section	Project Accountant	Dy. Manager, Workshop Section	In-charge, Store/Fleet	
Regions	Projects											
Regional Manager as Chairman	Project Team Leader as Chairman											
Manager, Administration & Finance	Work Supervisor											
Dy. Manager, Fleet Section	Project Accountant											
Dy. Manager, Workshop Section	In-charge, Store/Fleet											
<p>A.2 Does the agency have a procurement department/unit, including a permanent office that performs the function of a Secretariat of the Procurement Committee?</p>	<p>Yes.</p> <p>Tender Opening Committee (TOC) and Tender Evaluation Committee (TEC) support TC. TC and TEC are embedded within the respective organizations. The members of TOC / TEC are appointed by TC. Also CDCL have a separate procurement Unit based at Head office, Thimphu.</p>	L										
<p>A.3 If yes, what type of procurement does it undertake?</p>	<p>Procurement Unit is involved in all procurement works and consultancy services. Procurement of machineries are done by this unit. Specifications are to be given by concerned department. Also, all the office consumables, project materials, etc. for day to day functioning of office/ project is taken care by this unit.</p>	L										
<p>A.4 How many years' experience does the head of the procurement department/unit have in a direct procurement role?</p>	<p>Six years of Experience</p>	L										
<p>A.5 How many staff in the procurement department/unit are:</p> <ul style="list-style-type: none"> i. full time 	<p>Total of 10 (Ten) staff in the Procurement Unit.</p> <p>Head Office – 6 No.</p> <p>Regional Office (Phuentsholing) – 4</p>	L										

QUESTION	RESPONSE	RISK ¹
ii. part time iii. seconded	All full time staff	
A.6 Do the procurement staff have a high level of English language proficiency (verbal and written)?	Yes	*L
A.7 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	Existing staff are capable to do the job. If need be, additional staff will be hired. Existing staff would need training in ADB procurement processes.	*A
A.8 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	Yes, Procurement unit is fully equipped.	L
A.9 Does the agency have, or have ready access to, a procurement training program?	No Provision needs to be made in the project.	*H
A.10 At what level does the department/unit report (to the head of agency, deputy etc.)?	General Manager, HR & Administration Division.	A
A.11 Do the procurement positions in the agency have job descriptions, which outline specific roles, minimum technical requirements and career routes?	Yes	L
A.12 Is there a procurement process manual for goods and works?	Yes	L
A.13 If there is a manual, is it up to date and does it cover foreign-assisted projects?	Manuals up to date but do not cover foreign-assisted projects.	A
A.14 Is there a procurement process manual for consulting services?	Yes	L
A.15 If there is a manual, is it up to date and does it cover foreign-assisted projects?	Manuals up to date but do not cover foreign-assisted projects.	A
PROJECT MANAGEMENT UNIT		
A.16 Is there a fully (or almost fully) staffed PMU for this project currently in place?	Being set up as per recommendations of PPTA/ ADB	*A
A.17 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	It will be ensured.	*A
A.18 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	It will be ensured.	A

QUESTION	RESPONSE	RISK ¹
A.19 Are there standard documents in use, such as Standard Procurement Documents/Forms, and have they been approved for use on ADB funded projects?	Standard procurement documents and forms are available, but have not been used previously for ADB funded projects. ADB SBDs will be used for PTDP.	*A
A.20 Does the agency follow the national procurement law, procurement processes, guidelines?	Yes	*L
A.21 Do ToRs for consulting services follow a standard format such as background, tasks, inputs, objectives and outputs?	Yes	L
A.22 Who drafts the procurement specifications?	The concerned department of CDCL.	A
A.23 Who approves the procurement specifications?	Depending on the threshold of procurement as set out in CDCL's procurement guideline, it is approved by General Manager or Director or CEO or by the CDCL Board of Directors.	L
A.24 Who in the PMU has experience in drafting bidding documents?	Department Director, Project Director, Urban Planner, Environment Manager, Engineers.	*A
A.25 Are records of the sale of bidding documents immediately available?	Yes	*L
A.26 Who identifies the need for consulting services requirements?	Concerned Department of CDCL	A
A.27 Who drafts the Terms of Reference (ToR)	Concerned department of CDCL	A
A.28 Who prepares the request for proposals (RFPs)	Concerned Department of CDCL	A
B. INFORMATION MANAGEMENT		
B.1 Is there a referencing system for procurement files?	Yes	L
B.2 Are there adequate resources allocated to record keeping infrastructure, which includes the record keeping system, space, equipment and personnel to administer the procurement records management functions within the agency?	Yes	*L
B.3 Does the agency adhere to a document retention policy (i.e. for what period are records kept)?	Yes. For 10 years	*L
B.4 Are copies of bids or proposals retained with the evaluation?	Yes	L
B.5 Are copies of the original advertisements retained with the pre-contract papers?	Yes	L
B.6 Is there a single contract file with a	Yes	L

QUESTION	RESPONSE	RISK ¹
copy of the contract and all subsequent contractual correspondence?		
B.7 Are copies of invoices included with the contract papers?	Yes	L
B.8 Is the agency's record keeping function supported by IT?	Yes.	L
C. PROCUREMENT PRACTICES		
Goods and Works		
C.1 Has the agency undertaken procurement of goods or works related to foreign assistance recently (last 12 months or last 36 months)? If yes, indicate the names of the development partner/s and project/s.	No.	*H
C.2 If the answer is yes, what were the major challenges faced by the agency?	Not applicable	*
C.3 Is there a systematic process to identify procurement requirements (for a period of one year or more)?	Yes.	L
C.4 Is there a minimum period for the preparation of bids and if yes, how long?	Yes. Three Months	*L
C.5 Are all queries from bidders replied to in writing?	Yes	*L
C.6 Does the bidding document state the date and time of bid opening?	Yes	*L
C.7 Are bids opened in public?	Yes	*L
C.8 Can late bids be accepted?	No	*L
C.9 Can bids (except late bids) be rejected at bid opening?	No. If any, the bids are rejected after evaluation, which is approved by Tender Committee.	*L
C.10 Are minutes of the bid opening taken?	Yes	*L
C.11 Are bidders provided a copy of the minutes?	No	*S
C.12 Are the minutes provided free of charge?	Not applicable	*
C.13 Who undertakes the evaluation of bids (individual(s), permanent committee, ad-hoc committee)?	The evaluation committee will be formed by Tender Committee depending on the threshold value as provided for in CDCL procurement manual.	L
C.14 What are the qualifications of the evaluators with respect to procurement and the goods and/or works under evaluation?	Selected CDCL project officials with experience and Qualification	*L
C.15 Is the decision of the evaluators final	The decision of the evaluators is not final. They	*A

QUESTION	RESPONSE	RISK ¹
or is the evaluation subject to additional approvals?	are subject to approval from the Tender Committee of CDCL.	
C.16 Using the three 'worst-case' examples in the last year, how long from the issuance of the invitation for bids can the contract be awarded?	Seven Months	A
C.17 Are there processes in place for the collection and clearance of cargo through ports of entry?	Yes	L
C.18 Are there established goods receiving procedures?	Yes	L
C.19 Are all goods that are received recorded as assets or inventory in a register?	Yes	L
C.20 Is the agency/procurement department familiar with letters of credit?	Yes	L
C.21 Does the procurement department register and track warranty and latent defects liability periods?	Yes	L
Consulting Services		
C.22 Has the agency undertaken foreign-assisted procurement of consulting services recently (last 12 months, or last 36 months)? (If yes, please indicate the names of the development partner/s and the Project/s.)	Yes, HCP Planning & Management consultant, a consulting firm from India, for carrying out the Integrated Detailed Project Report (IDPR) for Phuentsholing Township Development Project (PTDP). This procurement was financed by CDCL itself, no external assistance.	*S
C.23 If the above answer is yes, what were the major challenges?	Difficulty in getting EOI from reputed international firms Difficulty in verifying the CVs and experience of key personnel Difficulty in verifying the experience of the firm. Not enough online information available about the firm.	*S
C.24 Are assignments and invitations for expressions of interest (EOIs) advertised?	Yes	*L
C.25 Is a consultants' selection committee formed with appropriate individuals, and what is its composition (if any)?	Yes, There are different levels of committee based on the threshold value and complexity of assignment.	A
C.26 What criteria is used to evaluate EOIs?	Similar work experience of the firm Overall work experience of the firm Qualification and experience of key personnel.	A
C.27 Historically, what is the most common method used (QCBS, QBS, etc.) to select consultants?	QCBS	*L

QUESTION	RESPONSE	RISK ¹
C.28 Do firms have to pay for the RFP document?	Soft copy is free of cost. Minimum amount is charged for the hard copy.	*L
C.29 Does the proposal evaluation criteria follow a pre-determined structure and is it detailed in the RFP?	Yes	*L
C.30 Are pre-proposal visits and meetings arranged?	Yes	L
C.31 Are minutes prepared and circulated after pre-proposal meetings?	Yes	*L
C.32 To whom are the minutes distributed?	To all the firms who attend the pre proposal meeting and to those who have expressed interest for the assignment and request minutes.	*L
C.33 Are all queries from consultants answered/addressed in writing?	Yes	*L
C.34 Are the technical and financial proposals required to be in separate envelopes and remain sealed until the technical evaluation is completed?	Yes	*L
C.35 Are proposal securities required?	Yes	*A
C.36 Are technical proposals opened in public?	Yes	*L
C.37 Are minutes of the technical opening distributed?	No	*S
C.39 Who determines the final technical ranking and how?	The Tender Committee of CDCL	*A
C.40 Are the technical scores sent to all firms?	Yes	*L
C.41 Are the financial proposal opened in public?	Yes	*L
C.42 Are minutes of the financial opening distributed?	No	*S
C.43 How is the financial evaluation completed?	Financial evaluation will be completed based on the format provided in the Bid Data Sheet in the RFP.	*L
C.44 Are face to face contract negotiations held?	Yes, if necessary.	*A
C.45 How long after financial evaluation is negotiation held with the selected firm?	Within 15 days	L
C.46 What is the usual basis for negotiation?	Negotiations are usually done to negotiate the proposed cost, person months for key personnel and equipment.	S
C.47 Are minutes of negotiation taken and signed?	Yes	*L

QUESTION	RESPONSE	RISK ¹
C.48 How long after negotiation is the contract signed, on average?	Within 15 days	L
C.49 Is there an evaluation system for measuring the outputs of consultants?	No	S
Payments		
C.50 Are advance payments made?	Yes, 10% of contract price.	L
C.51 What is the standard period for payment included in contracts?	Payments are based on the completion of milestones or work done on ground which is reflected in the contract.	L
C.52 On average, how long is it between receiving a firm's invoice and making payment?	Within 15 days, provided that the milestone have been achieved.	L
C.53 When late payment is made, are the beneficiaries paid interest?	Not paid so far.	A
D. EFFECTIVENESS		
D.1 Is contractual performance systematically monitored and reported?	Yes	L
D.2 Does the agency monitor and track its contractual payment obligations?	Yes	L
D.3 Is a complaints resolution mechanism described in national procurement documents?	Yes, at national level an Independent Review Panel (IRP) has been set up by Government of Bhutan. Anyone affected by the decision and feeling aggrieved can approach IRP.	L
D.4 Is there a formal non-judicial mechanism for dealing with complaints?	Yes, as above in response to D3	L
D.5 Are procurement decisions and disputes supported by written narratives such as minutes of evaluation, minutes of negotiation, notices of default/withheld payment?	Yes	*L
E. ACCOUNTABILITY MEASURES		
E.1 Is there a standard statement of ethics and are those involved in procurement required to formally commit to it?	Yes. Contractor and employer sign an Integrity Pact for every contract to avoid all forms of corruption or deceptive practice by following a system that is fair, transparent and free from any influence/unprejudiced dealings in the bidding process and contract administration. The Integrity Pact is part of the Bhutan Standard Bidding Document (SBD)	*L
E.2 Are those involved with procurement required to declare any potential conflict of interest and remove themselves from the procurement	Yes	*L

QUESTION	RESPONSE	RISK ¹
process?		
E.3 Is the commencement of procurement dependent on external approvals (formal or de-facto) that are outside of the budgeting process?	No	L
E.4 Who approves procurement transactions, and do they have procurement experience and qualifications?	Board/CEO/Head of the Department of CDCL, depending on the threshold value.	*A
E.5 Which of the following actions require approvals outside the procurement unit or the evaluation committee, as the case may be, and who grants the approval?		
a) Bidding document, invitation to pre-qualify or RFP	None	L
b) Advertisement of an invitation for bids, pre-qualification or call for EOIs	None	L
c) Evaluation reports	None	*L
d) Notice of award	None	*L
e) Invitation to consultants to negotiate	None	L
f) Contracts	Management Level	*L
E.6 Is the same official responsible for: (i) authorizing procurement transactions, procurement invitations, documents, evaluations and contracts; (ii) authorizing payments; (iii) recording procurement transactions and events; and (iv) the custody of assets?	No	*L
E.7 Is there a written auditable trail of procurement decisions attributable to individuals and committees?	Yes	*L

II. General Ratings

Criterion	Risk
A. Organizational and Staff Capacity	A
B. Information Management	L
C. Procurement Practices	A
D. Effectiveness	L
E. Accountability Measures	L
OVERALL RISK RATING	A

Annex 2

NCB Annex

National Competitive Bidding

1. General

The procedures to be followed for national competitive bidding shall be the open tendering/bidding method set forth in the [Procurement Rules and Regulations 2009](#) issued by the Ministry of Finance of the Royal Government of Bhutan with the clarifications and modifications described in the following paragraphs.

2. Domestic Preference

No preference of any kind shall be given to domestic bidders or for works of domestically manufactured goods. Clause 1.1.2.2 of the [Procurement Rules and Regulations 2009](#) shall not apply.

3. Registration

Foreign suppliers and contractors from ADB member countries shall be allowed to apply for pre-qualification and to bid, without national registration, licensing and other government authorizations, leaving compliance with these requirements until after notice of award and before signing of contract.

Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

4. Exclusion of Bidders / National Sanctions List

Exclusion of bidders for reasons cited in paragraph 2.1.4.1 of the BPM, including inclusion on national sanctions lists may be applied only with prior approval of ADB. Rejection of bids on account of "past poor performance" of bidders shall also be subject to ADB's prior approval.

5. Qualifications

Post qualification shall be used unless prequalification is explicitly provided for in the loan agreement/procurement plan.

If prequalification is undertaken, the prequalification criteria shall be based on ADB's User's Guide to Prequalification of Bidders.

From the date of advertisement, a minimum period of 28 days shall be allowed for the preparation and submission of prequalification applications.

6. Eligibility of Bidders

The eligibility of bidders shall be as defined under Eligibility provisions of ADB's Procurement Guidelines ("Guidelines") (March 2013, as amended from time to time), accordingly, no bidder or potential bidder should be declared ineligible for reasons other than those stated the Guidelines.

7. Procurement Thresholds and Procurement Methods

In cases of conflict between the thresholds as prescribed in Clause 4.1 of the BPM and the Procurement Plan, the lower threshold shall prevail. The procurement methods specified on the Procurement Plan shall be followed.

8. Procurement Process

One envelope open bidding process shall be used unless two stage process is explicitly provided for in the loan agreement/procurement plan.

9. Advertising

Bidding of contracts estimated at \$500,000 or more for goods and related services or \$1,000,000 or more for civil works shall be advertised on ADB's website via the posting of the Procurement Plan.

10. Bidding Documents

Procuring entities shall use standard bidding documents acceptable to ADB for the Procurement of Goods, Works and related Services.

11. Packaging

Slicing or splitting of contracts within a package shall not be used to change the contract sizes and the corresponding methods of procurement indicated in the loan agreement/procurement plan.

12. Bid Security and Performance Security

Where required, bid security (earnest money), retention money (or security deposit) and performance security (or performance guarantee) shall be in the form of a demand draft, certified check, letter of credit, or bank guarantee from a reputable bank.

The terms and conditions of bid security as well as retention money and performance security shall be clearly specified in the forms provided and/or conditions of contract in terms of periods of validity and grounds for forfeiture, or release of the bank guarantees, or refund of the cash security deposits.

13. Rejection of All Bids and Re-bidding

Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

14. Low Bids and Unbalanced Bids

Bids shall not be rejected solely because the bid price seriously lower or unbalanced. The bidder whose bid is determined to be the lowest evaluated substantially responsive bid may be required by the Executing Agency/Implementing Agency (EA/IA) to provide a higher performance security to a level sufficient to protect the EA/IA against financial loss in the event of default of the successful bidder under the Contract.

15. Disclosure of Decision on Contract Awards

At the same time that notification on award of contract is given to the successful bidder, the results of bid evaluation shall be published in a local newspaper, or a well-known freely accessible website identifying the bid and lot numbers and providing information on (i) name of each Bidder who submitted a Bid, (ii) bid prices as read out at bid opening; (iii) name of bidders whose bids were rejected and the reasons for their rejection, and (iv) name of the winning Bidder, and the price it offered, as well as duration and summary scope of the contract awarded. The executing agency/implementing agency/contracting authority shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids are not selected.

Annex 3

Information about Project Procurement Entities

A. Construction Development Corporation Limited, PTDP Implementing Agency

1. The Construction Development Corporation Limited (CDCL) has its genesis in the erstwhile Mechanical Division of the roads department under Ministry of Works and Human Settlement. On July 1, 2006, it was delinked from the ministry to function as a self-sustaining commercial unit. Three years later, on December 7, 2009, CDCL was incorporated under the Companies Act of the Kingdom of Bhutan, 2000. Thereon, it became a full-fledged state-owned enterprise.

2. A major shift in the company came when, after five years of operations as a state-owned enterprise, it joined the many companies under Druk Holding and Investments (DHI) in January 2015 to become a part of the country's investment arm. With the change in ownership, CDCL was required to amend its registration and Articles of Incorporation under the Companies Act. Authorized Capital of CDCL is 2 million equity shares of Nu. 1,000 each and subscribed equity is Nu. 421.38 Million.

B. Mission of CDCL

- i. Lead the construction industry in Bhutan by setting benchmarks in quality, timeliness and cost efficiency of projects
- ii. Engage in construction of hydropower and infrastructure related projects
- iii. Provide professional services in roads, bridges, buildings and other infrastructure
- iv. Hire, repair and maintain construction machinery and equipment apart from manufacturing ancillary products needed in the construction industry
- v. Enhance human resource capacity in technical construction skills and competencies through training and collaboration for gainful employment

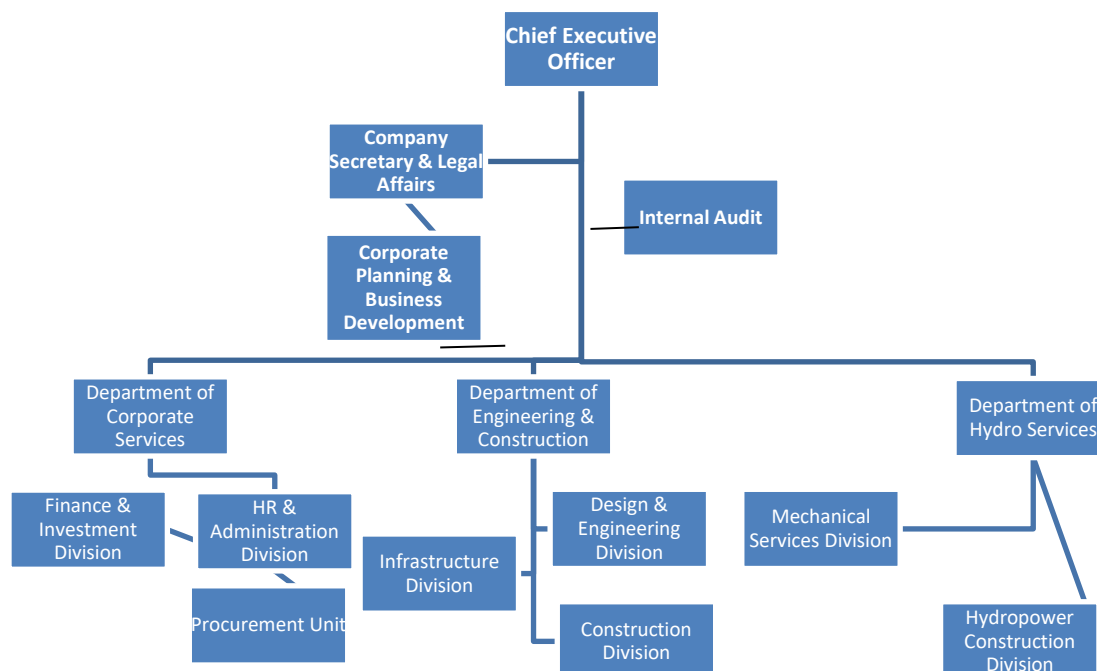
CDCL Offices and Structure.

3. Head office of CDCL is in Thimphu, Bhutan and regional offices at;

- i. Western Region, Hesothingkha, Wangdue
- ii. Central Region, Gelephu, Sarpang
- iii. Eastern Region, Lingmethang, Mongar

4. Total number of employees in CDCL exceeds 300. Board of Directors has 7 members including a Chairman. CDCL is headed by a Chief Executive Officer who also is the member secretary of the Board of Directors. Organogram of CDCL is shown in **Figure 3**. There is a procurement unit under the HR and Administration division.

Figure 3: Organogram of CDCL



5. A key concern is CDCL has limited experience as a implementing agency for a large project. Most projects implemented by CDCL are on direct contracting basis from government or other government agencies. From past few years CDCL has been participating in bidding process. In a sense, CDCL has worked mostly as implementing arm of the government. Majority of implemented projects are road/ bridge contracts with some recent projects in hydropower, buildings and a tech park. CDCL has its own equipment, in house design capacity, skilled manpower and supplements it with labor from market to implement projects.

6. As a contractor, CDCL has done an ADB financed contract of Samdrupcholing-Samrang Road. Project start was in October 2011, scheduled completion was May 2014, actual completion in March 2015, contract value Nu 333,747,095 (US\$ 5.56 million equivalent). Work was completed with no cost overrun. Hence to some extent, CDCL is aware of ADB's works procurement procedure.

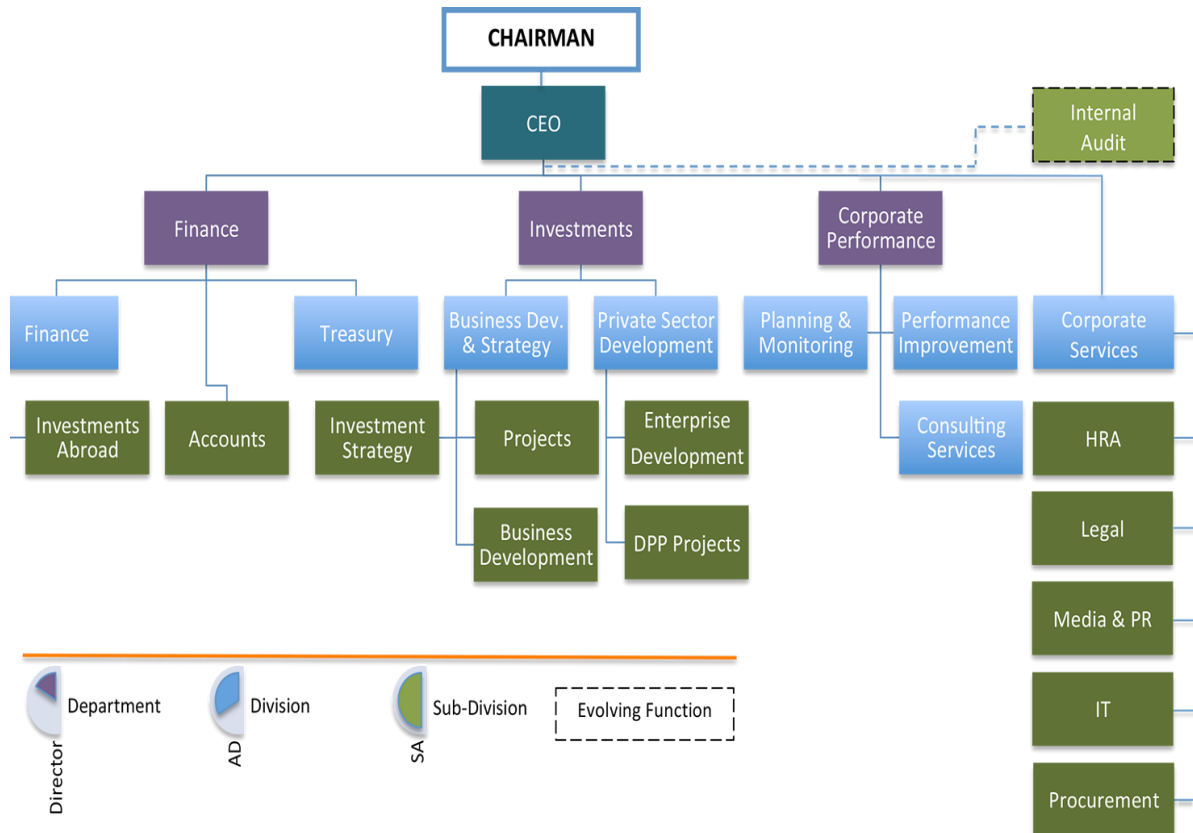
B. Druk Holdings and Investments, PTDP Executing Agency¹

7. Druk Holding and Investments (DHI), the commercial arm of the Royal Government of Bhutan, was established in 2007 upon issuance of Royal Charter in 2007 "to hold and manage the existing and future investments of the Royal Government for the long term benefit of the people of Bhutan". DHI, the largest and only government-owned holding company in Bhutan, has shares in 20 different companies operating in the manufacturing, energy, natural resources, financial, communication, aviation, trading and real estate sectors. Of the 20 portfolio companies 11 are fully owned (DHI-Owned Companies), 3 are controlled (DHI Controlled Companies - 51% and above) and 6 are linked (DHI-Linked Companies - below 51%). The Ministry of Finance is the sole shareholder of DHI.

¹ Information in this section is sourced from DHI website <http://www.dhi.bt/>

8. DHI does not carry out any procurement of works, goods or services except for small value office equipment and vehicles. Organizational structure of DHI and graphic showing DHI portfolio companies is presented in **Figure 4** and **Figure 5** respectively.

Figure 4: Organizational Structure of the DHI



Abbreviations; AD - Associate Director (head of division), SA - Senior Analyst (head of sub-division)
 HRA - Human Resources Administration, IT - Information Technology, CEO - Chief Executive Officer

Figure 5: DHI portfolio companies



DHI Portfolio Companies

Financial Services	 80% Bank of Bhutan Ltd.	 11.5% Bhutan National Bank Ltd.	 18.4% Royal Insurance Corporation of Bhutan Ltd.
Real Estate & Construction	 100% Construction Development Corporation Ltd.	 100% Thimphu Tech Park Ltd.	
Communication & Transportation	 100% Druk Air Corporation Ltd.	 100% Bhutab Telecom Ltd.	 57% Sate Trading Corporation of Bhutan Ltd.

Energy & Resources

 100% Natural Resources Development Corporation Ltd.	 100% Bhutan Power Corporation Ltd.	 100% State Mining Corporation Ltd.	 100% Druk Green Power Corporation Ltd.
-------------------------------------------------------------------	--------------------------------------------------	--------------------------------------------------	------------------------------------------------------

Manufacturing

 40.3% Penden Cement Authority Ltd.	 30% Koufuko International Pvt. Ltd.	 25.7% Bhutan Ferro Alloys Ltd.	 80% Dungsam Cement Corporation Ltd.	 100% Wood Craft Center Ltd.	 51% Dungsam Polymers Ltd.	 47.7% Bhutan Board Products Ltd.
--------------------------------------------------	---------------------------------------------------	----------------------------------------------	---------------------------------------------------	-------------------------------------------	-----------------------------------------	------------------------------------------------

DHI Owned Companies - 100%
 DHI Controlled Companies - 51%- 80%
 DHI Linked Companies - 50% and below

C. Construction Development Board (CDB), Government of Bhutan²

9. CDB functions as an overseer as well as a promoter of the construction industry. One of the key functions of the Construction Development Board (CDB) is the registration, classification and monitoring of contractors, consultants and engineers/architects. CDB acts as a bridge between the private and public sectors. Started by RGB and functioning under the umbrella of Ministry of Works & Human Settlement, CDB has the responsibility to play the role of a coordinator, enabler and facilitator, address the pertinent issues and problems faced by the industry and create an atmosphere for a more vibrant development in the Bhutan construction industry.

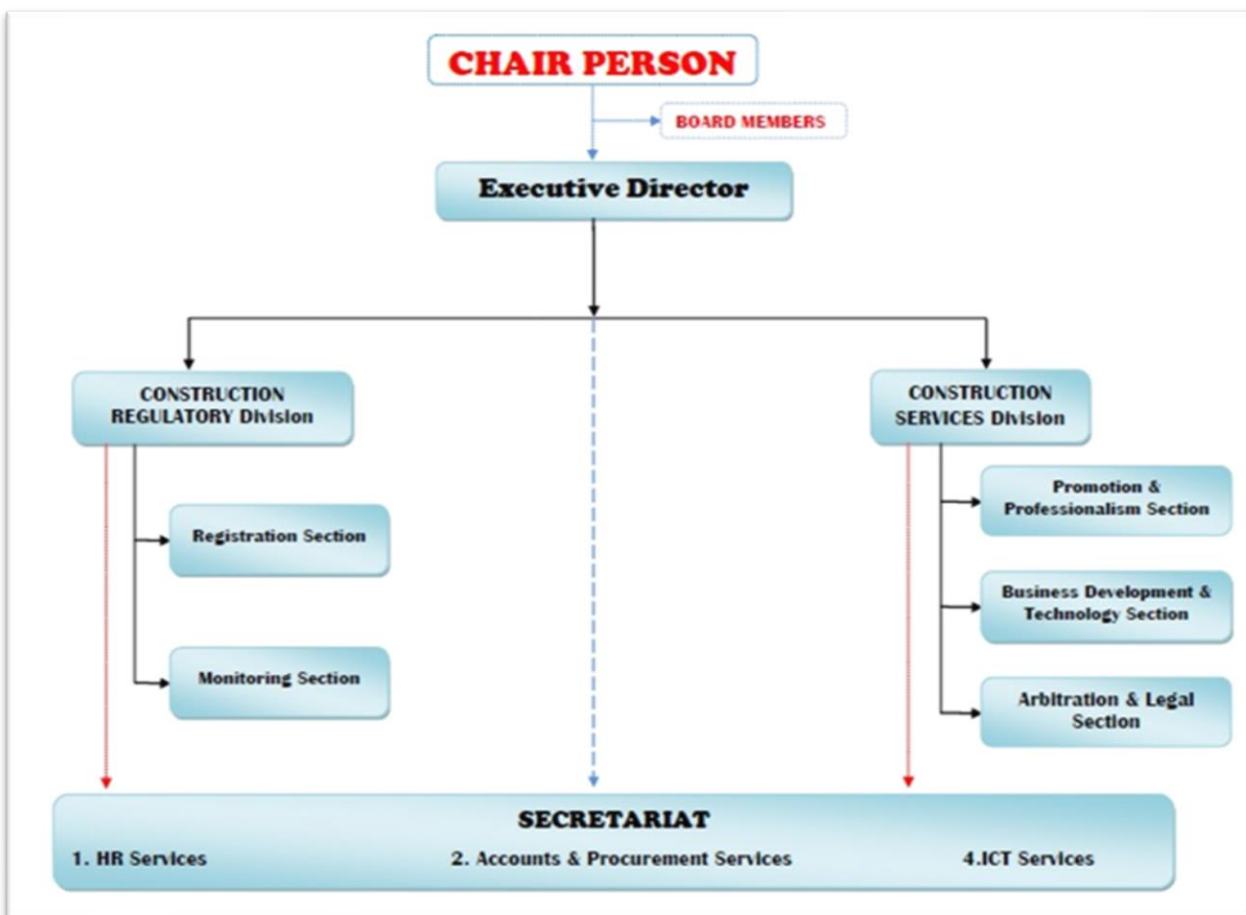
10. The CDB undertakes following activities to achieve its broad objectives:

- i. Provide "industry support" by assisting the private sector within the construction industry to develop and expand its market and to implement fair competition through policy reforms to ensure economy, efficiency and transparency in the industry;
- ii. Promote "technology development" by encouraging and facilitating the effective use of best practices, appropriate techniques of the construction and quality supplies and materials;
- iii. Launch "awareness initiatives" to apprise both the Contractors and Implementing Agencies of Rules and Regulations, Procurement Procedures, Safety and Health standards and Current requirements and services provided by CDB; and
- iv. Undertake "manpower development" by identifying necessary construction skills and assisting, where appropriate, coordinating the creation and improvement of skills training and certification programs for the personnel involved who are active in the construction activities of the industry.

11. Only contractors who are registered with the CDB can bid for government sponsored construction works. Registering with the CDB is a form of prequalification. CDB registration certificate is valid for two years and has to be re-validated every two years. Organogram of CDB is presented in **Figure 6**.

² Information from CDB website www.cdb.gov.bt/

Figure 6: CDB Organogram



12. To be registered, contractors have to pay a fee and apply with evidence of finance, tax registration, equipment and manpower. Fees payable during first enlistment and subsequent renewals by contractors is shown below.

Contractor size	First Time (Bhutan Ngultrum)	Renewal (Bhutan Ngultrum)
Small	5000	2500
Medium	10000	5000
Large	15000	7500

13. CDB has the following number of various entities registered which are listed on its website as of 1 December 2016. A separate list shows 59 contractors whose registration is revoked due to various reasons.

- i. Arbitrators - 28
- ii. Contractors, large - 190 (including few from India, China, Japan, Thailand). Total registered contractors (including large, medium and small) 2852
- iii. Consultants - 59 (all Bhutanese entities)

- iv. Architects - 125
- v. Specialized Trades - 179

14. PPTA Procurement Specialist and CDCL General Manager met In-Charge Director General of CDB on 15 September 2016. The discussion summary is presented:

- Bhutan schedule of Rates does not have many work items. Implementing agencies write their own specifications which are inadequate creating problems during implementation.
- Planning, design and specifications provided by employers is incomplete
- Contracting is mostly small scale, individual owned, family business in Bhutan. Underbidding is a weakness of contractors. Many a times, they end up being unable to execute work as per specifications and in time.
- Contractors are registered by CDB in 3 size classes; small (<Nu 4 million), medium (4-15 million Nu) and Large (>Nu 15 million). Numbers are estimated cost of single contracts.
- SBD 2009 (revised in 2015) issued by Ministry of Finance is mandatory- 2014 FIDIC based.
- Largest works contracts (roads, bridges) implemented by national contractors are of USD 10 million.
- Details of contractor, consultant, architect, engineer registration requirements are available on CDB website www.cdb.bt
- Draft Construction Industry Development Rules-2016 have been prepared.
- Requirement of having separate international firm as PMC and National firm as DSC has caused problems previously and in one instance has led to arbitration.

D. Construction Association of Bhutan³

15. Contractors Association of Bhutan was established in January 2000 for the development & promotion of Bhutanese construction industry. By July 2002, the Association had a full-fledged Secretariat established in the capital, Thimphu. In 2002 the General Body of CAB approved change of name from Contractors Association of Bhutan to Construction Association of Bhutan (CAB) for meaningful representation and wider coverage of the related industrial entities under the construction sector. CAB's stated mission is to "develop and promote the Bhutanese construction industry and to represent the Bhutanese construction industry at national, regional and international level"

16. The broad functions of the CAB are:

- i. Address specific problems and policy issues related to construction industry at National, Regional and International Level;
- ii. Interact with concerned agencies both within and outside the country for development and promotion of construction industry;
- iii. Promote awareness amongst the construction industry on national developmental plans and programs;
- iv. Initiate and implement developmental and promotional plans and programs for construction entities;

³ Relevant information from CAB website www.cab.org.bt

- v. Represent and Advocate for development and promotion of construction industry both within and outside the country;
- vi. Gear the construction industry towards strengthening of the association as a strong representative forum for construction industry's benefit, both within and outside the Kingdom; and
- vii. Act as a bridge between the Bhutan Chamber of Commerce and Industry (BCCI) and the Government on behalf of the contractors;

17. PPTA Procurement Specialist and CDCL General Manager met General Secretary of CAB on 15 September 2016. From the CAB's website and personal discussions, following is inferred.

- i. CAB wishes to be vibrant, employment generating, responsible, deliver its corporate social responsibility and develop capacity of its members to do business better.
- ii. CAB expects government owned entities such as CDCL and National Hydropower Development Corporation Limited should compete with private sector contractors on equal terms.
- iii. Capacity development by government of contractors should focus on quality and training.
- iv. There is a mismatch of manpower required and available within Bhutan. Technical training institute graduates are reluctant to do skilled work, look for white collar jobs, so their training is wasted.
- v. For loans from banks, contractors need collateral assets + 3% bank commission. Interest rate is a high 14% per annum for overdraft, makes bank finance costly.
- vi. Not getting right people to work in construction industry. Getting foreign workers is complex, involves legal procedures and takes time.
- vii. Underbidding for contracts is true and needs to be controlled.
- viii. SDB evaluation tool developed and implemented by CDB undermines contractor development. It is biased towards financial capacity, assessment is points based.
- ix. Joint venture with foreign contractors possible, need of registration with CDB for every contract.

Annex 4

Draft Procurement Plan of PTDP

Basic Data

Project Name: Phuentsholing Township Development Project	
Project Number: 50165-002	Approval Number:
Country: Bhutan	Executing Agency: Druk Holding and Investments Limited
Project Procurement Classification:	Implementing Agency: Construction Development Corporation Limited
Project Procurement Risk:	
Project Financing Amount: US\$ 55,000,000 ADB Financing: US\$ 45,000,000 Cofinancing (ADB Administered): Non-ADB Financing: US\$ 10,000,000	Project Closing Date: 31 December 2020
Date of First Procurement Plan: 12 December 2016	Date of this Procurement Plan: 23 January 2017

A. Methods, Thresholds, Review and 18-Month Procurement Plan

1. Procurement and Consulting Methods and Thresholds

Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding for Goods	US\$ 1,000,000 and Above	
National Competitive Bidding for Goods	Between US\$ 100,001 and US\$ 999,999	The first NCB is subject to prior review, thereafter post review.
Shopping for Goods	Up to US\$ 100,000	
International Competitive Bidding for Works	US\$ 3,000,000 and Above	
National Competitive Bidding for Works	Between US\$ 100,001 and US\$ 2,999,999	The first NCB is subject to prior review, thereafter post review.
Shopping for Works	Up to US\$ 100,000	
Community Participation in Procurement for Works	Up to US\$ 20,000	Small service contracts may be directly contracted. Works considered non-competitive in nature (i.e., excavation of small channels, earth shifting, turfing, tree planting and other misc. works in adjoining areas).
Force Account for Works	Up to US\$ 2,000,000	Works by government-owned entities (for activities which are not suitable for competitive bidding) shall be done through Force Account method.

Consulting Services	
Method	Comments
Quality- and Cost-Based Selection for Consulting Firm	
Individual Consultant Selection	

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior/Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
None								

B. Indicative List of Packages Required Under the Project

The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Goods and Works							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review (Prior/Post)	Bidding Procedure	Comments
CW-02	Common urban infrastructure	11,200,000	1	ICB	Prior	1S2E	Works
CW-03	Power transmission infrastructure	500,000	1	FA	Prior		
CW-04	ICT infrastructure	900,000	1	FA	Prior		
CW-05	Flood early warning system	200,000	1	ICB	Prior		

Consulting Services							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Review (Prior/Post)	Type of Proposal	Comments
CS-03	Urban management advisor	100,000	1	ICS	Prior		International
CS-04	Investment promotion advisor	100,000	1	ICS	Prior		National
CS-05	Sustainable township management capacity development	1,300,000	1	QCBS	Prior	FTP	Quality-Cost Ratio: 90:10
CS-06	Investor promotion and transaction advisory services	1,100,000	1	QCBS	Prior	FTP	Quality-Cost Ratio: 90:10