

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Governance Risks			
1.1 Inadequate public financial management system	M	Although Bhutan's public financial management system is more robust than that of many comparable countries, there is room for improvement in strengthening Bhutan's adherence to its medium-term fiscal framework to enhance the credibility of its forecasts. The risk of underinvestment in the maintenance of fixed assets for their full economic life cycle is apparent in urban development, although the government has assured adequate fiscal transfers to meet project-related O&M costs. Further enhancement of the public financial management system would require more systematic assessment and monitoring of fiscal risks and increasing the macroeconomic stabilization focus of the fiscal strategy. A clear strategy for directing adequate investments in the maintenance of fixed assets in urban jurisdictions is required.	MOWHS
1.2 Transparency during the procurement process	L	<p>All procurement for ADB financing will follow ADB procurement guidelines and procedures. The PMU will be housed in the WSD, DES. Although the DES has experience in executing ADB-funded urban sector projects, this will be the first externally aided project to be executed by the WSD. The implementing agencies (two of which are new implementing agencies for ADB) will not be directly involved in procurement activities, thereby reducing the risk. Government procurement (conducted by any ministry) must adhere to strict formal protocols, which have multilayered processes which provide checks and balances over the entire process.</p> <p>These processes begin with advertising the procurement or notice inviting tenders in the media, and end with naming the winning bidder through the client's website. Based on the procurement threshold, tender committees are instituted with representation from various departments to evaluate the tenders. Unsuccessful bidders have 2 weeks to register complaints, if any. During procurement, the procurement committee holds meetings supported by project-funded consultants as needed.</p>	MOWHS
1.3 Corruption	L	Bhutan consistently scores high on global indexes for control of corruption. Bhutan has instituted a system of ethics-based governance to curb corruption. The two main integrity institutions are the Royal Audit Authority and the Anti-Corruption Commission, which are both widely respected for their independence and quality of work. ADB strengthened areas of vulnerability in accountability, internal control, and audit capacity under the first Strengthening	MOWHS

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1.4 Inadequate coordination among ministries and project executing agencies	L	<p>Economic Management Program.^a</p> <p>A PSC representing all of the project-related government institutions will be formed to resolve any issues that may arise during implementation through regular meetings.^b The PSC will be chaired by the MOWHS secretary and its members include the project director of the DES; the chief of the Water and Sanitation Division (MOWHS); Directorate Services (MOWHS); Gross National Happiness Commission; Department of Macroeconomic Affairs, MOF; National Commission for Women and Children; mayor and executive secretary of Samdrup Jongkhar <i>thromde</i> (municipality); and <i>dzongdas</i> (district administrators) and/or <i>dzongrabs</i> (deputy district administrators) of Trashigang and Sarpang. The PSC will oversee the proposed project, and meetings will be held twice yearly, or when necessary.</p>	MOWHS
2. Political Risks			
2.1. Political instability	L	Bhutan is a constitutional monarchy with a stable political system. The King signed the Constitution of Bhutan on 18 July 2008. Local elections were held for the first time in January 2011, and the second parliamentary elections were successfully held in July 2013 with an overall voter turnout of 66.1%. The winning People's Democratic Party secured 32 of 47 National Assembly seats. The next national elections are scheduled in 2018.	Government of Bhutan
2.2. Change in government could delay adoption of tariff framework	S	Tariff increases are approved by the MOF. The government's policies have strong focus on financial sustainability of infrastructure through O&M cost recovery (enhanced tariffs). A tariff framework is being prepared at the request of the government. Consultations with government demonstrate a strong policy directive for this reform. Further, the local government compositions will not be affected by the upcoming 2018 parliamentary elections.	MOF, MOWHS
3. Organizational Risks			
3.1. Weak capacity of the implementing agency for project implementation	L	Two of the three implementing agencies are new implementing agencies for ADB. However, project implementing agencies will only oversee the construction and social outreach activities, with procurement, disbursements, accounting, and withdrawal applications being handled by the PMU. This implementation arrangement substantially reduces the risk associated with poor financial management capacity at implementing agency level. Due diligence confirms that PIUs are adequately staffed to supervise and manage construction works. A PMSC will be engaged under the project to support and help improve the capacity of the PMU and the implementing agencies.	WSD, DES, MOWHS

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3.2. Inadequate monitoring and quality assurance	L	Consultant support and capacity building will be provided for project evaluation. Full-time construction supervisors will be deployed to all project towns to ensure construction quality standards.	PMU, MOWHS
3.3. Adequate resources and budget support are not available to the implementing agency	L	The government has demonstrated strong commitment to implement the Secondary Towns Urban Development Project successfully. Project design centralized budget and financial management functions are with the PMU, thereby reducing this risk.	MOWHS
3.4 Limitations of existing accounting system to allow regular reporting to ADB	M	The MOWHS Accounts Division will develop a process to extract data from the public expenditure management system into a Microsoft Excel file that will allow preparation of ADB reports. The MOWHS will request additional project accountants from the MOF to be appointed to the MOWHS at the start of project implementation with the agreement for them to remain with the PMU for the duration of the project.	MOWHS
4. Other Risks			
4.1 Extreme events (such as flash floods) delay implementation	S	Risk screening was done to identify the type and intensity of climate risk the project will face. Relevant adaptation or resilience measures to protect the investments from pre-identified risks will be incorporated into the project design. Designs completed thus far have considered the topography, precipitation patterns, and seismic risks, because of which implementation delays are not expected. Works will be scheduled to avoid heavy rainfall during the monsoon season.	MOWHS
4.2 Implementation difficulties in geographically dispersed towns	M	The project will be centrally managed through the PMU at the MOWHS which will be responsible for project accounting, disbursements, and reporting. The PMSC will support PIUs and PMU in streamlining project implementation and reporting. A construction coordinator (individual consultant) will be recruited under the loan to support the PMU in coordinating the works in geographically distant areas and supervise the PMSC.	MOWHS
4.3 Safeguard compliance	L	No serious adverse social or environmental impacts are expected. The project's environmental impacts have been identified and mitigation measures proposed under the initial environmental examination documents and environmental management plan, which shall form part of the contractors' contractual obligations. Due diligence confirmed that the project will not require any land acquisition or involuntary resettlement.	PMU, MOWHS
4.4 Low level of supervision	L	The PMU will deploy contract supervision engineers and safeguard specialists supported by the PMSC. ADB will undertake review missions to ensure the	PMU, PIUs

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		timely and high-quality undertaking of contracts.	
4.5 Insufficient technical capability to operate and maintain infrastructure provided under project	L	The infrastructure being developed is fairly routine. The PMSC national firm will provide construction supervision consultants in each municipality for the duration of the project. These consultants will provide on-the-job training with the municipality O&M personnel regarding O&M of the systems being constructed under the project. The PMU will also recruit an international institutional specialist (individual consultant) who will advise on the required staffing needs for appropriate O&M of the facilities. The MOWHS will monitor the staffing complement and the tariff adjustments necessary in each municipality to maintain the required O&M staffing.	MOWHS

ADB = Asian Development Bank, DES = Department of Engineering Services, L = low, M = moderate, MOF = Ministry of Finance, MOWHS = Ministry of Works and Human Settlement, O&M = operation and maintenance, PIU = project implementation unit, PMSC = project management and supervision consultant, PMU = project management unit, PSC = project steering committee, S = substantial, WSD = Water and Sanitation Division.

^a ADB. [Kingdom of Bhutan: Strengthening Economic Management Program](#).

^b A procurement steering committee for the ongoing projects is already in place.

Source: Asian Development Bank.