

SUMMARY OF PROJECT PERFORMANCE

A. Background

1. The Asian Development Bank (ADB) approved the Phuentsholing Township Development Project on 5 June 2018. The project became effective on 26 July 2018 and is expected to close by 31 December 2025. The ongoing project is financed by a \$28.74 million equivalent concessional loan and \$24.26 million grant.¹ Counterpart funding from Bhutan of \$10 million gives a total project cost of \$63 million. Druk Holding and Investments Limited (DHI), a wholly owned holding company of the Government of Bhutan, is the executing agency. The Construction Development Corporation Limited (CDCL), a wholly owned subsidiary of DHI, is the implementing agency.

2. The ongoing project is aligned with the following impacts: (i) balanced and sustainable development of human settlements ensured,² and (ii) smart growth principles applied in planning and development to promote Phuentsholing's cultural and social vibrancy.³ The ongoing project will have the following outcome: Phuentsholing's urban area protected from floods and expanded with improved amenities and services.

B. Performance of the Ongoing Project

3. The ongoing project is performing well as assessed against the following aspects:

(i) **Delivery of expected outputs.** The ongoing project is rated *on track* to achieving the project outcome. Achievements towards project outputs are as follows:

(a) **Output 1: Flood and erosion protection measures installed.** The ongoing project is constructing riverbank protection works to protect Phuentsholing from flooding and erosion, which includes 4.77 kilometers (km) of erosion-resilient walls to protect against 100-year probable flood and raising the ground level behind the new walls to reclaim at least 66 hectares (ha) of flood-protected land for urban development. A contract for Nu3,165,770,450 with a 10% rebate was awarded in July 2018 and is expected to be completed in August 2021. As of August 2020, 73% of the wall had been completed (4.11 km of diaphragm wall and 6.7 cubic meters of cast in-situ complete) and 40% of backfilling completed. The wall is expected to be completed by January 2021 and the backfilling by July 2021. The river walls are expected to be completed by the first quarter of 2021. Under this output, a flood early warning system (FEWS) and flood management plan will also be established under the ongoing project. A memorandum of understanding with the National Center for Hydrology and Meteorology is being drafted for the operation and maintenance of the FEWS and implementation of the flood management plan. The FEWS is expected to be established by the second quarter of 2022.

(b) **Output 2: Municipal infrastructure constructed.** The ongoing project will provide serviced plots of land by constructing common urban infrastructure on the newly raised land. One works package (CW-02) covering the common urban infrastructure is being finalized. The estimated value of the

¹ ADB. 2018. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Bhutan for the Phuentsholing Township Development Project](#). Manila.

² Government of Bhutan. 2013. *Eleventh Five-Year Plan, 2014–2018*. Thimphu.

³ Government of Bhutan, Ministry of Works and Human Settlements. 2013. *Phuentsholing Structure Plan 2013–2028 (Vol. 01)*. Thimphu. Phuentsholing receives more inward migration from rural areas than any other city in Bhutan.

contract is Nu1,746.0 million and is expected to be awarded by the second quarter of 2021 and completed by the first quarter of 2024. This package will include (i) 10 km of roads with footpaths, landscaping, and streetlights; (ii) construction of a water treatment plant with a capacity of 4 million liters per day; (iii) construction of 12 km of new primary and secondary water mains; and (iv) 9 km of sewer mains and 9 km of new storm drains. The ongoing project includes an operation and maintenance period of 5 years to ensure proper handover of facilities to the government and establishment of township management systems.

- (c) **Output 3: Township management systems installed.** The installation of township management systems will commence after the works for township infrastructure and facilities have started. The output includes (i) training township management staff in modern urban management, (ii) establishing an asset management system for project infrastructure and facilities, and (iii) initiating investor promotion activities. Recruitment of consultants for this output is expected to be initiated by the second quarter of 2022.
- (ii) **Satisfactory implementation progress.** As of 20 August 2020, cumulative contract awards totaled \$37.67 million versus a target of \$39.08 million (96.39%), and disbursement totaled \$22.76 million versus a target of \$16.82 million (135.31%). The ongoing project is rated *on track* to deliver all envisaged outputs. Reclamation works are in the advanced stages and expected to be completed by July 2021. Delays are expected because of the country lockdowns imposed during March–July 2020 because of the coronavirus disease pandemic. However, these are not expected to be significant as there are activities for other project components that are ongoing.
- (iii) **Satisfactory compliance with safeguard policy requirements.** The ongoing project is classified category *A* for environment, and category *C* for involuntary resettlement and indigenous peoples. No resettlement needs have arisen to date. There is no involuntary resettlement expected under the additional financing. The ongoing project has monitored implementation of the environmental management plan and submitted semiannual environment compliance monitoring reports. An environmental management plan has been prepared for the mitigation, management, and enhancing the efficiency of environment components, where possible. The environmental management plan is included in the detailed design and bidding documents of the civil works packages. Environmental impacts are also discussed during regular stakeholder consultations. The ongoing project has complied with all safeguard requirements, including the environmental clearance issued by the government.
- (iv) **Successful management of risks.** The ongoing project's risks and mitigation measures proposed are presented in the following table, with updates.
- (v) **On track rating.** As of 20 August 2020, the ongoing project is rated *on track*.

List of Risks and Mitigation Measures

Risk Description	Mitigation Measures	Remarks
1. Governance Risks		
1.1 Public financial management system	<p>Although Bhutan's public financial management system is more robust than that of many comparable countries, there is room for improvement in strengthening adherence to its medium-term fiscal framework to enhance the credibility of its forecasts. The risk of underinvestment in the maintenance of fixed assets for their full economic lifecycle is apparent in the urban development sector.</p> <p>Further enhancement of the public financial management system would require more systematic assessment and monitoring of fiscal risks and an increase in the macroeconomic stabilization focus of the fiscal strategy. A clear strategy for directing adequate investments in the maintenance of fixed assets in the urban development sector is required.</p>	Risk still exists but mitigation measures will be put in place once the consultants for the township are engaged to support the development of the township management systems.
2. Political Risks		None assessed.
3. Organizational Risks		
3.1 Weak capacity of the implementing agency	PICs will be engaged under the project to support and help improve the capacity of the CDCL, the implementing agency.	PIC engaged and supporting CDCL with implementing the project
3.2 Inadequate coordination among government agencies	The establishment of a high-level project advisory committee, comprising the board and management of DHI and the CDCL, will help guide the project preparation and implementation to ensure strong commitment and coordination among stakeholders. In addition, ADB will continuously engage with all relevant agencies to ensure effective coordination and monitoring.	CDCL and DHI have formed a PAC following CDCL internal procedures. Coordination is occurring with meetings between other ministry stakeholders including MOWHS. ADB is providing support in effective coordination.
3.3. Inadequate monitoring and quality assurance	Consultant support and capacity building will be provided for project evaluation. Coordination with development partners with regard to projects and programs will continue to ensure that outcomes are comprehensively monitored.	PIC has been engaged to support monitoring and quality assurance of the project. Consultants will be engaged before completion to evaluate achievement of outputs and outcomes.
4. External Risks		
4.1 Lower than expected demand for leasable land	<p>Risk mitigation measures:</p> <ul style="list-style-type: none"> (i) Provide grant and loan financing at favorable terms to enable DHI to offer competitive lease rates. (ii) Appoint a reputable firm to help DHI attract investors and provide transaction advisory services. 	<ul style="list-style-type: none"> (i) Favorable grant and loan terms provided to DHI. (ii) Investment advisor to be recruited. (iii) To be developed

Risk Description	Mitigation Measures	Remarks
	(iii) Approve a package of financial and regulatory incentives (including tax exemptions, the removal of restrictions on subleases, and the extension of maximum lease terms).	under the strategic action plan.
5. Other Risks		
5.1 Disasters triggered by natural hazards and extreme weather conditions lead to implementation delays	There are no plausible mitigation measures to manage natural disasters that may prevent or delay implementation. Nevertheless, implementation delays are not expected, primarily because the works are routine and contract packages have already been prepared.	No disasters triggered by natural hazards or extreme weather have been experienced. The coronavirus disease pandemic has slowed construction, but overall timelines are being achieved.
5.2 Uncertain financial sustainability	The common urban infrastructure works contract will include an extended 5-year O&M period. The grant agreement will include financial sustainability covenants to ensure that DHI meets its commitment to allocate adequate resources for the O&M of the project infrastructure.	Common urban infrastructure package to include 5-year O&M. Grant agreement includes financial sustainability covenants

ADB = Asian Development Bank, CDCL = Construction Development Corporation Limited, DHI = Druk Holding and Investments Limited, ICB = international competitive bidding, MOWHS = Ministry of Works and Human Settlement, O&M = operation and maintenance, PAC = project advisory committee, PIC = project implementation consultant.

C. Cost Overruns and Financing Gaps

4. The government has requested additional financing for the ongoing project to finance cost increases experienced under the ongoing project. The cost increases are because of (i) a higher than expected award price for one package (CW-01; 21% more than the engineer's estimate), (ii) an increase in material quantities needed in the CW-01 package and to extend the river protection wall on the Omchhu River (360 meters),⁴ and (iii) an increase in the cost estimate for the CW-02 package based on the submitted draft bid documents.

D. Conclusion

5. The ongoing project is performing well based on the criteria of (i) delivery of expected outputs, (ii) satisfactory implementation progress, (iii) satisfactory compliance with safeguard policy requirements, (iv) successful management of risks, and (v) *on track* rating. The ongoing project meets ADB's eligibility criteria for additional financing for projects performing well. The ongoing project components remain a high priority of the government. The additional financing will ensure successful achievement of project outputs and does not change the envisaged outcome.

⁴ Changes in quantities are because of differences in survey datums used during design and construction phases and the dynamic nature of working within an alluvial riverbed.