

## Addendum FSA

1. **The additional financing (AF) of US\$3 million will be a combination of PforR and IPF investment models.** The PforR will expand the scope of the parent program activities and IPF will support implementation. It will include three major results areas: (i) expanding ECCD access, (ii) reducing digital divide, and (iii) improving safe water and sanitation services.

2. **The residual fiduciary risks are considered ‘Moderate’.** The FSA reviewed the existence and adequacy of existing rules, policies, and procedures and the extent of their implementation in gaining assurance that the Program objectives shall be met. The FSA identifies the following fiduciary risks that may affect the program development outcomes and outlines measures to mitigate those risks before or during the program implementation.

- a. Following the recent government restructuring in December 2022, the implementing agencies of HCRRP are: Ministry of Education and Skills Development (MoESD) (previously Ministry of Education (MOE) and Ministry of Industry, Commerce and Employment (MOICE). As the Program is implemented by two implementing agencies – MOICE and MOESD, a Project Management Unit (PMU) is being proposed for better management, coordination, monitoring and evaluation of the overall Program and management and monitoring of procurement activities.
- b. The procurement unit of Directorate of Services under the MOESD has lack of staff dedicated for carrying out the procurement activities. MOESD needs to ensure that procurement staffs are in place in the procurement unit, preferably by assigning one additional procurement officer, for smooth running of the procurement activities. The MOF committed, during the negotiation of the parent program, to provide additional procurement support through its Department of National Properties to enhance the capacity for smooth running of the procurement activities. There is no comprehensive institutionalized capacity building and training program in the country. The works activities for ECCD centers and wash facility will be implemented by the engineering department in the relevant districts. Strong coordination and monitoring support from the MOESD will facilitate smooth implementation of the AF.

3. The FSA of RGoB’s systems, as applicable to the PforR Program, concludes that the present systems will meet the requirements of the Bank’s PforR policy. Based on the assessment, the Program’s fiduciary systems are still considered broadly adequate to meet the requirements in the Bank’s PforR Policy and Directive. **Therefore, the additional financing for PforR Program will continue to use the country systems.**

4. **Bhutan’s PEFA 2016 concluded that there has been a substantial progress in RGoB’s Public Financial Management (PFM).** The framework for planning and budgeting by the two implementing agencies of the Royal Government of Bhutan (RGoB) – MOESD and MOICE is well established. The Constitution of the Kingdom of Bhutan and Public Finance Act of Bhutan establishes the basis for the RGoB’s national budget. The RGoB has an established budget preparation process which is guided by the Budget Manual 2016 of the Financial Rules and Regulations (FRR). The treasury management of the RGoB is well established under the Department of Treasury and Accounts (DTA) of the Ministry of Finance (MoF). The Treasury Single Account framework is clearly designed. The accounting and financial reporting standards are adequate. Its obligations are mandated by the Public Finance Act of Bhutan 2007 and specified in the Finance and Accounting Manual (FAM) of FRR 2016 which lays down the principals of accounting and the mechanism for management of Government funds including the banking arrangements and other important elements of accounting. The internal control framework is adequate.

The implementing agencies have internal audit units in place. The Royal Audit Authority has a mandate to audit all agencies implementing the Program activities.

5. **The RGoB will furnish all periodic financial reports including audit as practiced under the parent program.** Interim Unaudited Financial Reports ('IUFR') for the Program and IPF will be prepared and furnished to the Bank not later than forty-five (45) days after the end of each calendar semester. The Royal Audit Authority (RAA) will certify the annual financial statements for the Program and IPF according to the terms of reference agreed for the World Bank financed projects. The annual audited Financial Statements shall be submitted to the Bank not later than six (6) months after the end of such fiscal year. The internal audit of the program shall also be conducted.

6. **Currently, there are no overdue audit report.** However, an exception was provided for the submission of first audit report of FY 2021-22 given the short implementation period in the first year. As a result, the next audit for the period ending June 30, 2023 will be a long period audit, covering April 2022 to June 30, 2023, which will be due for submission on December 31, 2023.

7. The additional financing (AF) will include three major results areas: (i) expanding ECCD access, (ii) reducing digital divide, and (iii) improving safe water and sanitation services. **Therefore, the revised program expenditure framework will include activities like construction and renovation of ECCD centers, improving local connectivity in schools and improving water and sanitation at schools.** The revised program expenditure framework also reflects the change in the implementing agencies in light of the recent government restructuring. In addition, the AF would finance a TA through Investment Project Financing (IPF) component (US\$0.5 million) to strengthen program implementation, strengthen M&E system, and capacity building. **The IPF component is excluded from PforR's program expenditure/budget codes.** A separate Financing Item Code (FIC) for IPF component will be used to identify its expenditures. Table below presents the revised consolidated expenditure framework and IPF component. The total disbursement so far under the parent program is about US\$ 4.7 million and program expenditure of about BTN 305 million (approx.US\$ 3.8 million) has been undertaken till the end of December 2022.

Particulars	PforR Program 'Big P'				IPF	Grand Total
	FY2021-22	FY 2022-23	FY 2023-24	Total		
<b>(in Million USD)</b>						
Early Child Care and Development (ECCD)	2.4	2.3	2.8	<b>7.4</b>		<b>7.4</b>
Curriculum digitization, capacity building of teachers and WASH facilities in schools	0.7	2.7	2.6	<b>6.0</b>		<b>6.0</b>
Skills programs and employment	10.1	8.2	6.2	<b>24.5</b>		<b>24.5</b>
Operational Expenses	2.1	2.8	2.8	<b>7.7</b>	0.5	<b>8.2</b>
<b>Total</b>	<b>15.3</b>	<b>16.0</b>	<b>14.3</b>	<b>45.6</b>	<b>0.5</b>	<b>46.1</b>

8. As part of the Program expenditure framework, a set of budget codes supporting the cost of ongoing activities and initiatives which are essential for achievement of the program were identified under the parent program as given in the table below. With the restructuring/AF, **the budget code for civil works (51.00) is also included under MOESD in the program expenditure framework.**

Ministry	Budget Codes
Ministry of Education and Skills	01.00, 02.00, 11.00, 12.00, 13.00, 14.00, 15.00, 17.00, 18.00, 24.00,

Development (MOESD)	25.00, 45.00, <b>51.00</b> , 52.00, 54.00, 55.00
Ministry of Industry, Commerce and Employment (MOICE)	01.00, 02.00, 11.00, 12.00, 13.00, 14.00, 15.00, 17.00, 18.00, 24.00, 25.00, 45.00, 52.00, 54.00, 55.00, 05.00

9. Like the parent program, the Additional Financing is not expected to include any large contracts valued at or above the OPRC thresholds for a 'Moderate' risk rating. While the parent program excluded civil works or construction activity, the AF will include small construction and renovation works for ECCD centers and wash. The AF will continue to exclude activities that are likely to have significant adverse impacts on the environment and/or affected people. The implementing agencies will report to the World Bank if any large contracts appear during Program implementation.

10. The procurement under the parent Program included relatively small value and simple goods and consulting services and non-consulting services. As there will be a TA component under the AF, majority of the consulting services will be accommodated in the TA. The parent program did not include any civil works or construction activity. However, the AF will include small construction and renovation works for ECCD centers and wash. MOESD has identified the potential construction/ renovations activities. The construction/ renovation works will include (i) establishment of ECCD centers either by constructing new centers or upgrading existing community facilities like meeting halls, health centers as ECCD centers by adding rooms as required; (ii) construction of WASH facilities including conventional toilets at schools. The construction/ renovation works will be simple in nature with contract values ranging between Nu 0.7m and 2.0m (US\$ 0.009m – 0.03m). The procurement activities for construction/ renovation works for ECCD centers and wash facilities will be carried out by the relevant districts in coordination with the MOESD. Each district has an engineering department which will be responsible for carrying out the procurement process and supervision of the works.

11. The Ministry of Education and Skills Development (MOESD), the implementing agency for the AF, has been preparing annual procurement plans and updating them on a regular basis. It is also mandatory to prepare the procurement plan and publish it in the e-GP system before initiating any procurement activities through e-GP system.

12. Public procurement in Bhutan is following Procurement Rules and Regulations (PRR) 2009 along with Standard Bidding Documents (SBDs). The PRR 2019 provides a clear, comprehensive, consolidated, and up-to-date basis for a sound and efficient public procurement system. In addition, procurement is also following streamlined procedure of Simplified Procurement Rules and Regulations (SPRR) as issued by MOF with effect from November 2021 to address the emergency situations created by COVID-19 pandemic. Most of the government procuring agencies are using e-GP system for inviting bids. The e-GP system is undergoing further enhancement with support of the Bank. In 2022, the Bank has reviewed and accepted Bhutan's e-GP system for procurement of goods following RFQ method up to US\$ 30,000. Furthermore, a comprehensive assessment of Bhutan's public procurement system using the universal MAPS methodology is underway to take a holistic look at the progress of procurement reform to date, identify the strengths and remaining areas for improvement in the procurement system and provide recommendations to guide the next phase of procurement reform going forward focusing on enabling effective implementation.

13. As detailed in the FSA of the parent program, Bhutan public procurement system has several strengths such as comprehensive PPR supplemented by the SPRR, standard bidding documents, mechanism for addressing fraud and corruption, market analysis, registration of contractors by the Construction Development Board (CDB), open competitive bidding being default method, standstill

period, debriefing, confidentiality of bid documents and proceedings, conflict of interest declaration, e-GP system, external and internal audit etc. However, it is still facing several weaknesses. Most of procuring agencies including MOESD has weak capacity in procurement management and oversight. In many cases, concerned procurement officers are not included in the tender evaluation committee. There are no comprehensive capacity building activities for the procurement professionals resulting in lack of qualified procurement professionals. Although there is a career path and recruitment tool for the procurement professionals, including a procurement cadre service, it has lack of proper succession planning for the staff at each level.

14. While the parent program is implemented by two ministries; MOESD and MOICE, the AF will be implemented by MOESD only following the country systems. A Project Management Unit (PMU) is being proposed for better management, coordination, monitoring and evaluation of the overall Program and management and monitoring of procurement activities. Procurement of good, consulting and non-consulting services will be carried out by the procurement unit, Directorate of Services under MOESD. Procurement Staffing in the Directorate of Services under the MOESD is deemed inadequate. The unit is staffed with two procurement officers and supported by store in-charge. MOESD will need to ensure that procurement officers are placed in the procurement unit, preferably by assigning one additional qualified procurement officer, to carry out procurement process. As also agreed during the negotiation of the parent program, the MOF would provide additional procurement support through its Department of National Properties to enhance the capacity for smooth running of the procurement activities under the Program. The proposed works for the ECCD centers and wash facilities will be carried out by the relevant districts. A quick capacity assessment of several districts was done which indicates that the engineering department of each district has fair capacity to handle the works activities proposed under the AF including procurement procedure and contract management. The districts will use the e-GP system for these contracts. As the contracts will be simple in nature with low to moderate risks in terms of value and complexity, these are not expected to pose big challenge for the districts. The MOESD needs to extend close coordination and monitoring support for smooth implementation.

15. The parent program is under implementation for about a year. The agencies have carryout out only a few procurement activities till now. It did not include any large value contracts. The experience of implementation of the parent program in the last one year indicates that there are no major procurement or contract management related issues so far. The experience from other ongoing projects in Bhutan also shows that the agencies have lack of understanding in procurement in some cases, however in general, the contracts are completed in time with time extension in a few cases. MOESD did not face any adjudication or arbitration during last couple of years. The implementing agencies in Bhutan follow the provisions of signed contract for supervision, acceptance of goods, extension of time, variation of contract, imposition of liquidated damages, if necessary.

16. Any person or entity debarred or suspended by the Bank will not be awarded a contract under, or otherwise allowed to participate in or benefit from the Program during the period of debarment or suspension by the Bank. There will be no distinction between Bank financed activities and RGoB financed activities within the Program and the anti-corruption guidelines will be applied in an unrestricted manner for all activities. The MOICE and MOESD to identify focal officer responsible ensuring that the Program activities are implemented in accordance with the provisions of the World Bank's anti-corruption guidelines. The MOF will semi- annually receive reports of complaints from the ACC and share those with the World Bank.

17. The World Bank team will carry out regular implementation mission to support the implementing

agencies to monitor implementation progress and address underperforming areas.