



# Bhutan: Strengthening Policy Formulation and Implementation

Project Name	Strengthening Policy Formulation and Implementation	
Project Number	54141-001	
Country	Bhutan	
Project Status	Proposed	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA: Strengthening Policy Formulation and Implementation	
	Technical Assistance Special Fund	US\$ 750,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions Private sector development	
Sector / Subsector	Public sector management - Economic affairs management	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	The knowledge and support technical assistance (TA) Strengthening Policy Formulation and Implementation will help the Royal Government of Bhutan (the government) build its institutional capacity in the areas of policy formulation and implementation for effective debt management and robust macro- economic analysis including private sector participation. The TA is aligned with two operational priorities (OP) of ADB Strategy 2030, (i) (OP1) addressing remaining poverty and reducing inequalities including spatial disparities; and (ii) (OP6) strengthening governance and institutional capacity through innovative and sustainable solutions to strengthen the country's capacity in macroeconomic coordination and debt management. The proposed TA is also included in the Country Operations Business Plan (COBP) 2020 -2022.	
Project Rationale and Linkage to Country/Regional Strategy	<ol style="list-style-type: none"> <li>1. Bhutan's hydropower led growth has slowed. Bhutan's impressive annual average economic growth of 7.0% since the late 1980s has slowed down in the last two years ( 3.8% growth rate in fiscal year (FY) 2018 and 4.4% in FY2019). This year, Bhutan's economy was expected to rebound from two consecutive years of lackluster growth but the prospects were dampened with the impact of the COVID-19 pandemic and growth is projected to further slide to 1%. The high growth till 2017 was primarily driven by public sector led hydropower development, a major source of government revenue but the sector has very low employment. Additionally, the high import content of hydropower construction has resulted in a large external imbalance and high foreign currency debt, at over 100% of GDP.</li> <li>2. Public sector dominates Bhutan's growth. The dominance of the public sector in the economy is reflected in the large number of state-owned enterprises (SOEs) and government linked companies. The SOEs generate about 40% of government revenues and almost half of all jobs outside agriculture. In contrast, the private sector remains underdeveloped and mainly engaged in low-scale, low-productivity investments even though the government has introduced reforms and provided incentives to improve the regulatory environment for business operations. Currently, there is limited platforms to initiate policy dialogue and carry out analysis- aiming particularly at improving ease of doing business in which Bhutan needs drastic improvement - to accelerate private sector growth and enhance contribution of private sector in the country's development process.</li> <li>3. Government effectiveness is laudable but needs improvement. Bhutan has made significant progress in state-building and institutional development. It has established core institutions and expanded access to basic services resulting in impressive gains in human development including poverty reduction from 23% in 2007 to 8.2% in 2017. Currently, the government does not have a sound macroeconomic model to track and forecast key macroeconomic variables and an early economic warning system that can ensure appropriate timely macroeconomic policies and decisions. Furthermore, there is a weak vertical and horizontal coordination mechanism between the central agencies and local governments in terms of macroeconomic forecasting and planning.</li> <li>4. Improvements in government effectiveness could help in stimulating private sector participation. There is an urgent need for Bhutan to refocus its policy framework to meet the requirements of a country on graduating from a least developed country status, in which the private sector is expected to play an increasing role. The government will have to keep up its momentum to enable greater participation of the private sector.</li> <li>5. Government underscores strengthening Institutional capacity. The 12th Five Year Plan (FYP) targets for economic growth and job creation while also minimizing social and climate related vulnerabilities at the same time. The government is undertaking reforms to strengthen domestic resource mobilization efforts including adoption of a public finance management strategy that places priority on mobilizing domestic revenue to compensate for declining external grants.</li> <li>6. ADB experiences and Lessons. In 2012, ADB supported the government with the TA Enhancing Development Management for Sustainable and Inclusive Growth. Lessons and evaluation of the TA interventions indicate that continued capacity strengthening in the areas of macroeconomic analysis (including enhancing private sector participation) and macroeconomic forecasting, fiscal planning and effective debt management is required to enhance effectiveness, efficiency and success of development projects and programs.</li> </ol>	
Impact	Bhutan's macroeconomic coordination strengthened	
Outcome	Macroeconomic planning and debt management improved	
Outputs	Macroeconomic forecasting and debt management system strengthened Integrated knowledge management and institutional capacity-building program in research and analysis improved	
Geographical Location	Nation-wide	
Summary of Environmental and Social Aspects		
Environmental Aspects		
Involuntary Resettlement		
Indigenous Peoples		

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer	Tshering, Nidup
Responsible ADB Department	South Asia Department
Responsible ADB Division	BHRM
Executing Agencies	Ministry of Finance Royal Government of Bhutan Thimphu, Bhutan Attention: Director

Timetable

Concept Clearance	20 May 2020
Fact Finding	26 May 2020 to 27 May 2020
MRM	-
Approval	-
Last Review Mission	-
Last PDS Update	26 Jun 2020

Project Page	<a href="https://www.adb.org/projects/54141-001/main">https://www.adb.org/projects/54141-001/main</a>
Request for Information	<a href="http://www.adb.org/forms/request-information-form?subject=54141-001">http://www.adb.org/forms/request-information-form?subject=54141-001</a>
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