



Concept Paper

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Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Kingdom of Bhutan: Fiscal Sustainability and Green Recovery Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 May 2022)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.013
\$1.00	=	Nu77.81

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CSI	–	cottage and small industry
DRM	–	domestic resource mobilization
GDP	–	gross domestic product
GST	–	goods and services tax
MOF	–	Ministry of Finance
MTRS	–	Medium-Term Revenue Strategy
NAP	–	national adaptation plan
PFM	–	public financial management
SOE	–	state-owned enterprise
TA	–	technical assistance
TVET	–	technical and vocational education and training

NOTES

- (i) The fiscal year (FY) of the Government of Bhutan ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 30 June 2022.
- (ii) In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 56010-001	
Project Name	Fiscal Sustainability and Green Recovery Program (Subprogram 1)	Department/Division	SARD/SAPF
Country	Bhutan	Executing Agency	Ministry of Finance
Borrower	Kingdom of Bhutan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=56010-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=56010-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Public sector management	Public expenditure and fiscal management		ADB Financing (\$ million)
			37.350
		Total	37.350
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP6: Strengthening governance and institutional capacity		ADB Financing	
		Adaptation (\$ million)	7.470
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.3, 1.5		Effective gender mainstreaming (EGM)	✓
SDG 5.c			
SDG 10.4		Poverty Targeting	
SDG 13.a		General Intervention on Poverty	✓
SDG 17.1, 17.4			
4. Risk Categorization:	Low		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		37.350	
Sovereign Programmatic Approach Policy-Based Lending (Concessional Loan): Ordinary capital resources		37.350	
Cofinancing		0.000	
None		0.000	
Counterpart		0.000	
None		0.000	
Total		37.350	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-7) in the amount of \$1,000,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. The coronavirus disease (COVID-19) has severely affected economic activities, public finance, and livelihoods. The government rolled out a series of accommodative fiscal and monetary policies to mitigate the immediate impact of the pandemic. The government's post-pandemic priorities and strategy for a sustained, inclusive, and green economic recovery are outlined in the upcoming long-term economic road map and the Thirteenth Five-Year Plan (13th FYP).¹ The proposed program focuses on supporting medium-term economic recovery through reforms to improve domestic resource mobilization (DRM) and private sector development and on creating the foundation for a green economy. The program is aligned with the Asian Development Bank (ADB) country partnership strategy for Bhutan 2019–2023.² The program will contribute to the following operational priorities of Strategy 2030: (i) addressing remaining poverty and reducing inequalities by facilitating job creation and promoting cottage and small industries (CSIs); (ii) accelerating progress in gender equality by improving conditions for women-owned enterprises and promoting employment; (iii) tackling climate change, building climate and disaster resilience, and boosting environmental sustainability by supporting climate finance and adaptation to climate change; and (iv) strengthening governance and institutional capacity by supporting public management reforms and by improving policy coordination and implementation.

2. The proposed program adopts a programmatic approach to sequence reform measures and to ensure the flexibility needed when implementing multiyear and multicomponent policy reforms spanning government agencies. The first two reform areas—(i) strengthening DRM, and (ii) promoting private sector development—aim to create the fiscal space needed for medium-term recovery and to revitalize private sector activities. The third reform area aims for green economic recovery. Subprogram 1 prioritizes medium-term reform measures by focusing on legal and regulatory reforms to boost domestic revenue, promotion of CSIs, skills development, green finance, and climate change adaptation. Subprogram 2 prioritizes follow-on reforms by focusing on property tax, revenue strategy, state-owned enterprise (SOE) reforms and a public financial management (PFM) road map, creation of a conducive environment for private sector development, a climate-resilient development strategy, and green finance.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **The pandemic's impact has been severe.** Gross domestic product (GDP) contracted by 10.1% in FY2020 (July 2019–June 2020) for the first time since FY1991 as the pandemic crippled tourism and construction. According to the 2020 Labor Force Survey Report, the unemployment rate increased to 5.0% in 2020, up from 2.7% in 2019. The youth unemployment rate increased from 11.9% in 2019 to 22.6% in 2020. The fiscal deficit widened because of high expenditure pressures amid declining revenue mobilization. However, the post-pandemic general direction of macroeconomic conditions and policies is satisfactory. A high vaccination rate and gradual resumption of economic activities, tourist inflows, and hydropower exports are expected to push GDP growth to 4.5% in FY2021, which is lower than the 5.5% average in FY2011–FY2019. Fiscal and current account deficits are expected to narrow as hydropower revenue and exports increase. Monetary policy is focused on preserving the peg with the Indian rupee by maintaining adequate

¹ Government of Bhutan. 2022. *Thirteenth Five-Year Plan (Conceptual Note)*. Thimphu; and Government of Bhutan. 2021. *Pursuing Gross National Happiness in the 21st Century: A Dynamic, Prosperous, Inclusive and Sustainable Economy 2030*. Unpublished. Thimphu.

² ADB. 2019. [Bhutan, 2019-2023—Fostering Diversification and Reducing Disparities](#). Manila.

foreign exchange reserves and reducing financial sector vulnerabilities with macroprudential measures. Bhutan's risk of debt distress is assessed as *moderate*. Bhutan is expected to graduate from the United Nation's least developed country category in 2023.

4. **COVID-19 recovery strategy.** The government's upcoming medium-term plan for a sustained, inclusive, and green economic recovery aims for a "sustainable and prosperous economy which is future ready and world ready." The thrust areas include productive and gainful employment, regulatory and policy reforms, private sector development, human capital development, SOE reforms, sustainable and resilient infrastructure, hydropower and renewable energy generation, and new sources of growth and diversification. The 13th FYP draws inspiration from the 21st Century Economic Roadmap (para. 9), especially its focus on reducing investment constraints, tackling policy inconsistency and coordination problems, and establishing a one-stop service or agency to promote private sector development. Bhutan aspires to become a high-income country by 2030, with targeted per capita income of \$12,375.³ The government will need at least Nu2 trillion investment over the next 10 years, with the public sector expected to account for 15% of the required investment.

5. **Development constraints.** Bhutan's key development challenge is to accelerate green, resilient, and diversified economic recovery over the medium-term to reduce high youth unemployment and develop human capital. However, the country is constrained by limited fiscal space and an unfavorable business environment for the private sector. Green recovery is constrained by a lack of a solid foundation for adaptation and green finance measures as the country is highly vulnerable to climatic and disasters triggered by natural hazards.

6. **Fiscal space is limited amid stagnating domestic revenue.** The fiscal deficit increased sharply to 6.1% of GDP in FY2021 from 1.9% in FY2020 because of the unprecedented increase in public expenditure and decline in domestic revenue amid the economic slump. Expenditure increased to 37.8% of GDP in FY2021, up from 31% in FY2020, but domestic revenue has stagnated at about 21% of GDP in the last decade. Tax revenue, which accounts for about 64% of total revenue, decreased from 17% of GDP in FY2017 to about 10% in FY2021.⁴ Given the pandemic-induced fiscal stress and the need to sustain medium-term economic recovery, Bhutan needs to bolster DRM. An outdated legal and regulatory framework governing tax rates and revenue administration and the lack of a comprehensive Medium-Term Revenue Strategy (MTRS) limit the opportunities to widen the tax base, plug the leaks, and rationalize exemptions.⁵ The large number of SOEs and lack of divestment of nonstrategic SOEs have limited additional revenue generation and increased the fiscal burden.

7. **Unfavorable business environment is impeding private sector development.** The private sector is constrained by regulatory overburden, the shortage of a skilled workforce, low digitization, crowding-out by SOEs, and limited access to affordable finance. The focus on hydropower as the sole source of growth, exports, and foreign exchange earnings has come at the cost of a vibrant and competitive private sector. Net foreign direct investment amounted to

³ The government estimates that achieving the goal implies a \$10 billion economy with an annual real GDP growth rate of 10% over the next 10 years, much higher than \$2.5 billion economy in FY2021 and an average 5.5% growth rate in FY2011–FY2019. Per capita income was \$3,419 in FY2019.

⁴ The sharp decrease in tax revenue mobilization is partly caused by more sluggish economic activities; higher tax expenditure (especially income tax holidays, tax rebates, deductions, and exemptions, among others); and the decrease in excise duty, including no excise duty refund from India, since it implemented a goods and services tax. Overreliance on hydropower revenue, especially one-off profit transfers, increases fiscal volatility.

⁵ According to the 2022 budget report, tax revenue foregone in FY2019 was 2.6% of GDP.

just 0.5% of GDP in FY2019.⁶ Private firms are struggling to grow, sustain, and exploit economies of scale.⁷ High regulatory and compliance burdens are especially cumbersome for CSIs,⁸ which account for 95% of all industries and employ more than 90,000 people. CSIs are often either owned or led by women.⁹ A shortage of skilled workforce, domestic and foreign, affects economic recovery. The government's preferential treatment of SOEs has led to their outsized economic role, limiting the growth of private enterprises. SOEs contribute 40% of domestic revenue (mostly from hydropower companies) in the form of dividends and corporate income tax. Low digitization is increasing transaction costs for CSIs.

8. **Foundation for green recovery is weak.** Extreme weather events such as flash floods, hailstorms, glacial lake outbursts, windstorms, forest fires, and landslides not only inflict loss of life, livelihood, and assets but also increase the fiscal cost and duration of recovery. High reliance on hydropower exposes Bhutan to greater seismic and climate vulnerability—especially because of sedimentation, water flow irregularity, and flooding, among others—resulting in the volatility of revenue flows from hydropower. Of 181 countries, Bhutan is the 32nd most vulnerable to climate change but the 61st most ready for adaptation.¹⁰ More than 30% of economic activities are highly susceptible to climate change, which could also erode revenue and hard-won gains in poverty reduction. The lack of a comprehensive national adaptation plan to meet Bhutan's nationally defined contribution in line with the Paris Agreement commitments, a long-term emission reduction and climate-resilient development strategy, and a green finance strategy have weakened the foundation for a sustained and green economic recovery. Despite its carbon-negative status, Bhutan has not been able to trade or monetize carbon offsets.

B. Policy Reform, ADB's Value Addition, and Sustainability

9. **Government's reform priorities.** The government's major strategic priorities include (i) building a strong and inclusive economy by promoting a dynamic and engaged private sector and improving the efficiency of SOEs, (ii) improving the regulatory environment through an effective bureaucracy and improving DRM to finance development needs, (iii) bridging the technological divide within Bhutan and between Bhutan and frontier economies, (iv) building a knowledge-based society through a strong education system and technology, (v) reaping the demographic dividend, and (vi) laying the foundation for a vibrant green economy.¹¹ To achieve these priorities, the government's reform approach focuses on strengthening governance and creating an enabling ecosystem, especially a conducive regulatory and policy framework, and using an electronic system; investing in physical and digital infrastructure; and developing human capital to boost productivity.

10. **Reform area 1: Strengthening domestic resource mobilization.** The reform area focuses on medium-term policy and on institutional reforms that will increase tax revenue and help create the fiscal space needed to finance medium-term economic recovery. Under subprogram 1, the enactment and implementation of the Customs Act and Tax Act will rationalize

⁶ The figure is lower than in economies with similar per capita income (for instance, Viet Nam with 6.2% and the Philippines with 2.3%) and South Asia, with an average of 1.6%.

⁷ ADB. 2014. [Country Partnership Strategy: Bhutan, 2014–2018—Private Sector Assessment \(Summary\): Bhutan](#). Manila.

⁸ Firms with investment of less than Nu1 million and employing up to four people are categorized as cottage industries. Firms with investment of Nu1 million–Nu10 million and employing 5–19 people are categorized as small industries.

⁹ Department of Cottage and Small Industry, Ministry of Economic Affairs. 2021. [Annual Report 2020–2021](#). Thimphu; and D. Lham. 2018. [Women-Owned Micro and Small Enterprises in Bhutan: What Major Obstacles Impede Their Growth and Innovation?](#) *Institute of Developing Economies*. 719. Tokyo: Japan External Trade Organization.

¹⁰ University of Notre Dame. 2021. [Notre Dame Global Adaptation Initiative](#) (accessed 23 February 2022).

¹¹ Thirteenth Five-Year Plan (conceptual framework) and 21st Century Economic Roadmap (footnote 1).

rates and exemptions, and the rules and regulations for the goods and services tax (GST) will finally kick-start the rollout of the new sales tax regime. These measures are expected to boost tax revenue. Approval of an SOE reform strategy,¹² inclusive of a divestment plan, will provide strategic direction to improving management and governance of SOEs and inform follow-on reforms in subprogram 2. Similarly, the completion of a public expenditure and financial accounting assessment, inclusive of gender-responsive and climate-responsive PFM assessment for the first time, will outline gaps to be reformed in the following subprogram. Under subprogram 2, the revision of land and property tax rates will boost revenue. Approval and implementation of the MTRS will strengthen the macro-fiscal framework and enhance revenue mobilization. The implementation of an SOE reform strategy and a revised annual performance contract will improve SOE governance and performance and lower the fiscal burden of government.¹³

11. Reform area 2: Promoting private sector development. The reform area focuses on creating a conducive business environment for greater private sector participation, especially CSIs, to stimulate medium-term economic recovery. Under subprogram 1, a CSI start-up agency and implementation of the Fiscal Incentives Act 2021 will promote entrepreneurship, value chain development, and diversification of economic activities. Similarly, implementation of a revised public-private partnership policy will promote private sector participation in infrastructure development and service delivery. The foreign workers management strategy and the technical and vocational education and training (TVET) plan tackle the severe shortage of skilled workforce in the private sector. Under subprogram 2, the amendment of land lease rules and regulations will promote CSIs by streamlining approval processes and reducing the regulatory burden. A single set of trade and industry rules and regulations will simplify regulatory processes and help create a sound business environment. The regulatory burden will be lightened through the implementation of a harmonized product standardization and certification system, establishment of a CSI endowment fund, and implementation of a creative industry strategy. A national TVET policy will resolve the skills mismatch and employability.

12. Reform area 3: Facilitating green recovery. The reform area focuses on creating the foundation for medium- to long-term green economic recovery, including green fiscal measures that prioritize a climate change adaptation strategy in public capital investment. Under subprogram 1, the government will approve its first-ever national adaptation plan (NAP) to promote adaptation measures as part of the second nationally determined contribution, published on 5 June 2021, under the Paris Agreement. The government will prepare and implement a green finance strategy and establish the Bhutan Climate Fund (BCF) to facilitate carbon offset trading. Under subprogram 2, the government will approve the Long-Term Low Greenhouse Gas Emission and Climate-Resilient Development Strategy, implement NAP in the energy and urban sectors, approve a blueprint for green exchange and encourage listing of green projects, and approve the BCF Policy to operationalize the BCF.

13. ADB's value addition and sustainability. The proposed program is anchored in the comprehensive assessment and priorities outlined in the medium-term plan and long-term economic road map, ADB knowledge products,¹⁴ and learnings from past engagement. The proposed program builds on opportunities created by the COVID-19 Active Response and Expenditure Support Program to closely engage in policy dialogue on medium-term economic recovery planning and strategy, especially in the three reforms areas considered under the

¹² The program will explore opportunities for women in SOEs, including continued capacity development.

¹³ For instance, six of the seven SOEs under the Ministry of Finance that received subsidies in FY2020 reported losses. The Annual Performance Compact (APC) score and the performance of SOEs are not consistent, which necessitates revision of financial and nonfinancial indicators used to compute the APC score.

¹⁴ ADB. 2017. *Bhutan: New Pathways to Growth*. Manila.

program. It complements assistance in financial sector reforms and skills development.¹⁵ Lessons learned include the need for active stakeholder consultations during program inception and implementation; clearly defined, thoroughly assessed, and relevant policy actions; careful alignment of the program's objectives and outcomes with related technical assistance (TA) to increase effectiveness and sustainability; execution of pilot projects to assess ease of implementation, adaptability, and scale-up; policy-based loans with an integrated approach to policy reforms; legislative and political risk consideration to realize reforms; and borrower capacity and political willingness.¹⁶ The proposed program will seek to ensure sustainability of reforms by (i) providing targeted TA to support implementation of policy reforms; (ii) supporting the government with knowledge inputs; and (iii) engaging in policy dialogue with the government, the private sector, civil society, development partners, and other stakeholders. A post-program partnership framework following subprogram 2 will ensure sustainability of reforms and set the stage for the next phase of policy engagement. ADB is pooling its expertise and resources, through the One ADB approach, to help support and sustain policy reforms.¹⁷ ADB is closely coordinating with development partners, including the World Bank and the International Monetary Fund, to ensure complementarities and sequencing of policy reforms.

C. Expected Outcome of the Reform

14. The program's impact will be a dynamic, prosperous, inclusive, and sustainable economy fostered in line with the country's overarching development objective.¹⁸ The outcome will be promotion of green and resilient economy recovery and creation of a conducive business environment to develop the private sector. The reforms' effects will be reflected in the outcome indicators in the policy design and monitoring framework (Appendix 1).¹⁹

D. Development Financing Needs and Budget Support

15. The \$72.35 million programmatic approach will comprise two subprograms—\$37.35 million for subprogram 1 and \$35 million for subprogram 2—the sizes of which were determined based on current gross financing needs. The government estimated its financing need at \$264 million in FY2022, of which about 69% is to be financed by domestic borrowing and the rest from external sources.²⁰ Given the lingering uncertainties over resumption of economic activities because of the pandemic, financing needs might increase.

E. Implementation Arrangements

16. Subprogram 1 will be implemented from July 2021 to September 2022, and subprogram 2 from October 2022 to September 2024. The Ministry of Finance (MOF) will be the executing agency. The key implementing agencies are (i) MOF, (ii) Ministry of Economic Affairs, (iii) Royal Monetary Authority, (iv) National Environment Commission, and (v) Gross National Happiness Commission. A steering committee, chaired by the MOF secretary, will oversee program implementation. The policy-based lending proceeds will be withdrawn following ADB's *Loan*

¹⁵ ADB. 2021. [Bhutan: Financial Market Development Program \(Subprogram 3\)](#). Manila; ADB. 2018. [Skills Training and Education Pathways Upgradation Project](#). Manila; and ADB. 2020. [Proposed Countercyclical Support Facility Loan Kingdom of Bhutan: COVID-19 Active Response and Expenditure Support Program](#). Manila.

¹⁶ ADB. 2015. [Completion Report: Strengthening Economic Management Program](#). Manila; and ADB. 2018. [Completion Report: Strengthening Economic Management Program II](#). Manila.

¹⁷ DRM, SOEs, and climate change adaptation reforms will be coordinated with the Sustainable Development and Climate Change Department.

¹⁸ Gross National Happiness Commission. 2022. [13th Five Year Plan Concept Note](#). Thimphu.

¹⁹ A preliminary draft of the policy design and monitoring framework is in Appendix 1.

²⁰ Nu19,723 million (\$1 = Nu74.64).

Disbursement Handbook (2017, as amended from time to time).

III. TECHNICAL ASSISTANCE

17. An attached transaction TA is proposed to support implementation of subprogram 2 policy actions, especially (i) the MTRS; (ii) the SOE reform strategy; (iii) the PFM reform strategy, including gender-responsive and climate-responsive PFM strategy; (iv) green finance and national adaptation plans; and (v) the CSI endowment fund and the creative industry strategy. The TA is estimated to cost \$1,000,000, of which \$1,000,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-7).²¹ The TA report will be finalized during the fact-finding mission.

IV. DUE DILIGENCE REQUIRED

18. The technical and institutional capacity of key implementing agencies, especially those concerning revenue mobilization, CSIs, and NAP, will be assessed. The proposed program is expected to be classified as *category C* for all safeguard aspects. Both subprograms have effective gender mainstreaming and climate change elements.

V. PROCESSING PLAN

A. Risk Categorization

19. The proposed program does not exceed \$50 million and is categorized as *low risk*.

B. Resource Requirements

20. About 20 person-months of staff and eight person-months of staff consultant resources are required.

C. Processing Schedule

21. The milestones and their expected completion date are summarized in the table.

Proposed Processing Schedule

Milestones	Expected Completion Date
Reconnaissance Mission	May 2022
Concept approval	June 2022
Loan fact-finding mission	June 2022
Staff review meeting	July 2022
Loan negotiations	August 2022
Board consideration	September 2022
Loan signing	October 2022

Source: Asian Development Bank.

VI. KEY ISSUES

22. There are no key issues.

²¹ An additional \$225,000 from the DRM Trust Fund will fund part of the cost of conducting a comprehensive review of laws, policies, rules, and regulations affecting private sector development, and the preparation of MTRS.

PRELIMINARY POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective: A dynamic, prosperous, inclusive, and sustainable economy fostered (Thirteenth Five-Year Plan concept note) ^a		
Outcome: Promotion of green and resilient economy recovery and creation of a conducive business environment to develop the private sector		Risks and Critical Assumptions R: Uncertainty over the course of COVID-19 pandemic affects public finances and economic activities. R: Protracted exogenous shocks adversely affect fuel and commodity prices, leading to deterioration of the fiscal and external sector balance.
Indicative Policy Actions: Subprogram 1 (July 2021–September 2022)	Indicative Policy Actions: Subprogram 2 (October 2022–September 2024)	Outcome Indicators
Reform Area 1: Strengthening domestic resource mobilization		
1.1. Parliament will enact the Customs Duty (Amendment) Act of Bhutan 2021 and the Tax Act of Bhutan 2021, and the Cabinet will amend associated rules and regulations to rationalize rates and exemptions and improve taxpayer compliance.	2.1. The Cabinet will approve by FY2024 and submit for Parliament's enactment the Urban Land and Property Tax Act, which has not been updated since 1992, to revise property tax rates to boost revenue.	1. By 2025: a. Tax revenue increased by XX% (FY2017–FY2019 average growth baseline: XX%) (Source: MOF budget report.) b. Percentage of loss-making SOEs under MOF decreased by 50% (FY2020 baseline: 66.7%) (Source: SOE annual report.) c. Representation of women in SOE boards of directors increased to 20% (FY2020 baseline: 11%) (Source: SOE annual report.) d. At least one revenue-related dimension of PEFA performance indicators showed improvement (FY2021 baseline: not applicable [latest PEFA assessment not completed yet]) (Source: MOF.)
1.2. The Cabinet will approve GST Rules and Regulations 2022 to implement a new GST and boost revenue mobilization.	2.2. MOF will approve the Medium-Term Revenue Strategy FY2025–FY2028 and start implementing its recommendations from the FY2025 budget to boost revenue mobilization and strengthen the macro-fiscal framework.	
1.3. MOF will approve a reform strategy FY2023–FY2027 for SOEs, inclusive of a gender-responsive strategy and a divestment plan, to improve management and governance of SOEs and lower the fiscal burden.	2.3. MOF will (i) implement the SOE Reform Strategy FY2023–FY2027, including approval of a divestment plan for at least two SOEs; (ii) implement a revised APC, including revision of weights for financial and nonfinancial indicators, to better reflect SOEs' performance with an APC score starting FY2024; and (iii) account for contingent liabilities in the SOEs' report to improve governance, transparency, and performance of SOEs.	
1.4. MOF will (i) approve the PEFA assessment 2022, inclusive of gender-responsive, climate-responsive, and disaster management–readiness PFM assessments; and (ii) establish	2.4. MOF will (i) approve the PFM Reform Strategy 2023–2027, inclusive of gender-responsive, climate-responsive, and disaster management–readiness PFM strategies; and (ii)	

Indicative Policy Actions: Subprogram 1 (July 2021–September 2022)	Indicative Policy Actions: Subprogram 2 (October 2022–September 2024)	Outcome Indicators
a committee to draft a medium-term PFM reform strategy to assess the progress since 2016 and outline gaps for improvement over the medium-term.	publish an annual report starting FY2024 on the strategy’s implementation to improve PFM reforms and bridge gaps identified in the PEFA assessment.	
Reform Area 2: Promoting private sector development		
1.5. The Cabinet will approve a CSI start-up facilitation agency and the Department of Cottage and Small Industry will operationalize it to promote entrepreneurship. The agency will provide incentives for women-owned or -led CSIs start-ups.	2.5. The Cabinet will approve by FY2024 (i) amendments to the Land Lease Rules and Regulations 2018, inclusive of tax incentives for women-owned or -led CSIs, to promote CSIs by streamlining the lease approval process; and (ii) the consolidated and updated Trade and Industry Rules and Regulations 2024 governing private sector development to promote investment and trade.	e. CSI output as a share of gross domestic product increased to XX% (FY2021 baseline: not applicable [CSI aggregate output data do not exist yet]) (Source: MOEA.) f. At least XX CSIs benefited from CSI start-up agency (FY2021 baseline: not applicable [CSI start-up agency does not exist yet]) (Source: MOEA.)
1.6. The Cabinet will approve rules and regulations to implement the Fiscal Incentives Act of Bhutan 2021 to promote new and existing CSIs and rural economic activity.	2.6. The government will implement an integrated business licensing system, following the CSI Policy 2019, to further ease doing business for CSIs, especially end-to-end automation, including digitization of registration and approval.	g. Share of women-led or -owned CSIs benefited from the start-up facilitation agency and the CSI endowment fund increased to XX% (FY2021 baseline: not applicable [such agency and fund does not exist yet]) (Source: MOEA.)
1.7. The Cabinet will approve and MOF will start implementing from FY2023 the revised Public–Private Partnership Policy to promote private sector development, diversify fiscal risks, and narrow the financing gap.	2.7. The government will implement a harmonized product standardization and certification system protocol to promote exports; establish and operationalize a CSI endowment fund to support research and development and start-ups; and start implementing the Creative Industry Strategy 2024–2028.	h. At least one PPP project is approved (FY2021 baseline: not applicable [revised PPP policy not yet approved]) (Source: MOF.)
1.8. The Cabinet will approve the TVET Reform Plan 2021 to provide strategic direction to TVET, especially to redesign and modernize it commensurate with the private sector’s changing economic needs and demands. MoLHR will approve and start implementing the foreign workers management strategy 2022–2024 to resolve the shortage of skilled workforce during recovery.	2.8. The Cabinet will approve the National TVET Policy to widen coverage of TVET, minimize the skills mismatch, and increase graduates’ employability.	i. TVET enrollment (TTIs and ICZs) increased by 40% (35% enrolled are female) (2020 baseline: 23.4%) (Source: TVET Statistics of Bhutan, MoLHR.)
Reform Area 3: Facilitating green recovery		
1.9. The government will approve the NAP 2023–2028, including an implementation and	2.9. The government will approve and commence implementation of (i) the long-term Low	j. At least XX projects are listed in the green exchange (FY2021 baseline: not

Indicative Policy Actions: Subprogram 1 (July 2021–September 2022)	Indicative Policy Actions: Subprogram 2 (October 2022–September 2024)	Outcome Indicators
financing strategy, to promote adaptation measures, including limiting the fiscal cost of climate change–induced shocks and stresses.	Greenhouse Gas Emission and Climate-Resilient Development Strategy, which will be inclusive of a gender-responsive strategy; and (ii) NAP in energy and urban sectors to provide long-term direction and affirm commitment to staying carbon neutral.	applicable [green exchange does not exist yet]) (Source: RMA.) k. At least two transactions approved for carbon offset trading. (FY2021 baseline: not applicable [carbon offsets trading yet to happen]) (Source: NEC.)
1.10. RMA will approve and start implementing the Green Finance Strategy, inclusive of gender-responsive green finance, to promote green finance for sustainable and green recovery.	2.10. RMA will develop and approve a blueprint for the green exchange and approve and implement rules and regulations for listing green products and services or projects to diversify financing by developing the green bond market.	
1.11. The government will establish the Bhutan Climate Fund to facilitate carbon offset trading and monetize net negative emissions.	2.11. The government will approve and implement the Bhutan Climate Fund Policy and operationalize the Bhutan Climate Fund.	
Budget Support Asian Development Bank Subprogram 1: \$37.34 million (policy-based loan) Subprogram 2: \$35.00 million (policy-based loan, indicative)		

A = assumption, APC = Annual Performance Compact, COVID-19 = coronavirus disease, CSI = cottage and small industry, GST = goods and services tax, IZC = Institute of Zorig Chusum, MOEA = Ministry of Economic Affairs, MOF = Ministry of Finance, MoLHR = Ministry of Labour and Human Resources, NAP = national adaptation plan, NEC = National Environment Commission, PEFA = public expenditure and financial accountability, PFM = public financial management, PPP = public–private partnership, R = risk, RMA = Royal Monetary Authority, SOE = state-owned enterprise, TTI = technical training institute, TVET = technical and vocational education and training.

^a Government of Bhutan. 2022. *Thirteenth Five-Year Plan (Conceptual Note)*. Thimphu.

Note: Outcome indicator targets and baseline will be finalized during the fact-finding mission. Revised baseline data for FY2021 will be available in July 2022 after the FY2023 budget is announced.

Sources: Asian Development Bank and Government of Bhutan. 2022. *Thirteenth Five-Year Plan (Concept Note)*. Thimphu.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=56010-001-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Sector Assessment (Summary): (Public Sector Management, Private Sector Development, and Climate Change)