

ATTACHED TECHNICAL ASSISTANCE

A. Introduction

1. The Ministry of Finance (MOF) of the Government of Bhutan requested capacity development technical assistance (TA) from the Asian Development Bank (ADB) to support implementation of the Strengthening Economic Management Program II (SEMP II). The results framework, implementation arrangements, cost estimate, and terms of reference of the TA were discussed with the government during the fact-finding mission (2–6 February 2015).¹

2. The primary objectives of the TA are (i) to improve capacity for effective macroeconomic management and to strengthen financial sector institutions in Bhutan, and (ii) to support the government in complying with all of the program's policy conditions.

B. Outputs and Key Activities

3. The TA outputs will mirror major policy actions under the program and strengthen the key institutions responsible for implementing the following reforms:

- (i) **Calendar for issuance of government debt securities.** In line with weaknesses identified in revenue–expenditure forecasting, the TA will build the technical capacity of MOF for cash and debt management to develop a calendar for issuance of government debt securities in FY2017.
- (ii) **Collection of property taxes.** To improve subnational revenue collection, the TA will provide expert advice and capacity building for the Department of Revenue and Customs (DRC), Ministry of Works and Human Settlement, and Thimphu *Thromde* (municipality) for the preparation of guidelines for collecting property taxes based on property valuation methodology, and support the public awareness campaign for new tax rates.
- (iii) **Financial literacy program.** TA support will be provided to the Royal Monetary Authority (RMA) for preparing and implementing a financial literacy program with a focus on gender equity. The TA will help (i) develop financial literacy materials for dissemination in media, schools, and urban and rural community information centers; (ii) create awareness on the type of financial services and products offered by banks and capital markets; and (iii) provide information on access to finance for different socioeconomic, demographic, and gender groups.
- (iv) **Capacity building of the National Pension and Provident Fund (NPPF).** The TA will support training of NPPF staff in asset valuation and actuarial services for implementing risk-based investment guidelines adopted by the NPPF.
- (v) **Feasibility study on a securities and exchange commission.** To develop a specialized body responsible for supervising and regulating the equities and bond market, the TA will support a feasibility study on the legal, regulatory, and institutional requirements for establishing a separate securities exchange commission in Bhutan.
- (vi) **Capacity building of the Registrar of Companies.** TA will support training of staff from the Registrar of Companies at the Ministry of Economic Affairs on the international best practices in securities law and corporate law in support of the establishment of a separate securities and exchange commission.

¹ The TA first appeared in the business opportunities section of ADB's website on 13 January 2015.

- (vii) **Feasibility study on securitization.** To strengthen the capacity of the government on infrastructure financing, the TA will support a feasibility study on the legal, regulatory, and institutional requirements for securitizing Bhutan's hydropower revenues through bond issuance in international capital markets.
- (viii) **Introduction of mobile and branchless banking.** To improve financial inclusion, particularly among rural communities and women, and to mobilize savings, project implementation and training support will be provided to Bhutan Development Bank Limited (BDBL) for Gewog (group of villages) banking services to introduce mobile and branchless banking technology in 205 rural community information centers.
- (ix) **Strengthened Credit Information Bureau (CIB).** To improve access to finance, the TA will provide project management support for CIB to implement a business plan, which involves organizational and operational changes to expand the scope and coverage of credit reporting services to new segments of the population, and to upgrade its information and communication technology (ICT) infrastructure.
- (x) **Taxpayer information call center.** The TA will provide project management support to DRC for operationalizing a taxpayer information call center, including the setup of the ICT applications and training of staff in taxpayer services.

C. Cost and Financing

4. The TA is estimated to cost \$800,000, of which \$700,000 will be financed on a grant basis from the Technical Assistance Special Fund (TASF-V) of ADB. Furthermore, for the ICT-related components of CIB and taxpayer information call center, additional TA support will be explored alongside the attached TA. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions (Table 1).

Table 1: Cost Estimates and Financing Plan
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	360.0
ii. National consultants	50.0
b. International and local travel	35.0
2. Equipment ^b	150.0
3. Training, seminars, and conferences ^c	
a. Workshops, seminars, and conferences	15.0
b. Training program	50.0
4. Contingencies	40.0
Total	700.0

Note: The TA is estimated to cost \$800,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of the government contribution is estimated to account for 12.5% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

^b Equipment (\$'000)

Type	Quantity	Cost
1. Production servers with adequate storage capacity for the software upgrade of CIB	5	\$ 55.0
2. Software for Oracle, MS SQL operating systems to upgrade the database of CIB	Lump sum	\$ 50.0
3. Point of sales machines for branchless banking under BDBL	100	\$ 45.0
Total		\$ 150.0

Note: The equipment will be handed over to CIB and BDBL at the time of TA completion.

^c Training, seminars, and conferences

Purpose	Venue
1. Workshops, seminars, and conferences	
a. Seminar on revenue, expenditure and cash forecasting	MOF, by the end of Q1 2016
b. Seminar on guidelines for PVM-based property tax collection	DRC, by the end of Q4 2015
c. Stakeholders workshop on financial literacy program	RMA, by the end of Q4 2015
d. Capacity building seminar of BDBL staff on mobile and branchless banking technology and service delivery	BDBL, by the end of Q2 2016
e. Capacity building seminar of taxpayer information call center	DRC, by the end of Q2 2016
2. Training	
a. Courses on asset valuation and actuarial services	Staff from NPPF, at an educational institution abroad, by the end of Q2 2016
b. Courses on securities law and corporate law	Staff from the Registrar of Companies, at an educational institution abroad, by the end of Q2 2016

PVM = property valuation methodology

Source: Asian Development Bank estimates.

D. Implementation Arrangements

5. The TA implementation arrangements will be aligned with those of SEMP II. The MOF's Department of Public Accounts will be the executing agency and will oversee and coordinate the timely implementation of TA activities through the program steering committee, comprising representatives from the implementing agencies. The TA will be implemented from the disbursement of the first tranche (expected to occur in June 2015) until disbursement of the second tranche (expected to be no later than December 2016).

6. The TA will require a total of 15 person-months of international consultancy and 12 person-months of national consultancy services intermittently (Table 2). Consultants will be recruited using the quality- and cost-based selection method with a quality–cost ratio of 90:10 due to the highly specialized expertise needed. All consultants will be recruited in line with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). All disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Procurement will be carried out in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

Table 2: Summary of Consulting Services

Area of Expertise	Duration (person-months)
A. International	
1. Public Finance Expert	2
2. Local Government Finance Expert	2
3. Capital Markets Expert	1
4. Securitization Expert	1
5. Mobile Financial Services Expert	3
6. Credit Information Bureau Expert	3
7. Call Center Expert and Team Leader	3
Subtotal (A)	15
B. National	
1. Financial Literacy and Gender Expert	12
Subtotal (B)	12
Total (A+B)	27

Source: Asian Development Bank.

7. The following is a summary of the tasks and duties of the consulting services:

8. **Public finance expert** (one international, 2 person-months, intermittent). The expert will have (i) a graduate degree in economics, finance, public administration, or related field; (ii) at

least 7 years of experience working on state finance reform, public finance, and debt management, preferably in South Asia; and (iii) a strong technical background in cash forecasting and management. Responsibilities include (i) review of Bhutan's fiscal situation including revenue and expenditure flows, and create a database; (ii) develop methodologies for forecasting the revenues, expenditures, cash flows, and monthly government debt issuance requirements; (iii) provide training to MOF staff on forecasting techniques and design manuals; and (iv) develop a calendar for issuance of government debt securities for FY2017.

9. **Local government finance expert** (one international, 2 person-months, intermittent). The expert will have a graduate degree in economics, finance, public administration, or related field; and at least 7 years of experience working on public finance and local government finance issues, preferably in South Asia. The expert will support DRC, Ministry of Works and Human Settlement, and Thimphu *Thromde* to (i) prepare a property tax revenue mobilization plan for the municipalities; (ii) prepare guidelines for administration and operations, including institutional arrangements for collection of property taxes such as property tax planning, compliance, and implementation; (iii) prepare a manual on the use of objective valuation methodology to reduce subjectivity in applying taxes; (iv) undertake capacity building; and (v) implement a public awareness program on the proposed municipal finance reform.

10. **Financial literacy and gender expert** (one national, 12 person-months, intermittent). The expert will have a graduate degree in economics, finance, sociology, or related field; and at least 7 years of experience on financial literacy and gender studies, preferably in South Asia. The expert will work in close collaboration with BDBL, CIB, RMA, and other relevant stakeholders, such as gender-focused nongovernmental organizations. For the financial literacy program, the expert will (i) assess current financial literacy among all demographic groups and income segments in Bhutan with a focus on low-income population and women; (ii) conduct a gap analysis of existing financial literacy activities and plans; (iii) organize participatory workshops and seminars with a stakeholder task force (government and nongovernment) to develop a national financial literacy strategy and action plan; (iv) administer a gender sensitive financial literacy program with RMA and partner institutions, including design of contents, creative concepts, and activities to create awareness of the type of financial services and products offered by banks and capital markets; and (v) design an information exchange campaign in media, schools, urban and rural community information centers, and other relevant venues ensuring that 50% of the people reached are women and that gender issues such as women's needs, opportunities, and benefits related to financial inclusion are integrated in campaign materials. To promote gender sensitivity, the expert will also support (i) RMA while improving the regulatory and supervisory framework for financial inclusion, such as branchless banking and microfinance regulations, (ii) BDBL for designing measures for improving rural women's access to finance while implementing *Gewog* mobile and branchless banking services, and (iii) CIB while expanding coverage of the credit reporting services.

11. **Capital markets expert** (one international, 1 person-month, intermittent). The expert will have a graduate degree in economics, finance, law, or a related field; and at least 7 years of experience in capital market monitoring, regulation, and supervision, preferably in South Asia. The expert will, in consultation with RMA and the Ministry of Economic Affairs (i) review the current framework, under which equities and bond markets operate in Bhutan; (ii) conduct a feasibility study assessing the legal, regulatory, and institutional foundations of, and requirements for, establishing a separate securities and exchange commission (SEC); (iii) propose appropriate governance structures, legislative framework, and procedural guidelines for the establishment of an effective SEC; and (iv) provide capacity building of relevant agencies on capital markets supervision and enforcement of regulations.

12. **Securitization expert** (one international, 1 person-month, intermittent). The expert will have a graduate degree in economics, finance, law, or related field; and at least 7 years of experience in securitization projects, legal, and regulatory structure for securitization transactions, and money and capital market trading operations in investment banking, preferably in developing countries or South Asia. The expert will (i) review the current market structure, including legal and tax regulations; (ii) conduct a feasibility study assessing the legal, regulatory, and institutional foundations of and requirements for securitization of hydropower revenues (and other infrastructure receivables); (iii) propose options and practical structures for (Indian rupee-based) bond issuance in international capital markets using securitization; (iv) study measures for credit enhancement of such securitized assets; and (v) conduct a workshop with stakeholders to create industry awareness on the benefits of securitization and demonstrate examples of transactions from developing countries.

13. **Mobile financial services expert** (one international, 3 person-months, intermittent). The expert will have a graduate degree in computer science, economics, finance, or related field; and at least 7 years of experience in financial services and/or telecommunications with responsibility in operation and management of mobile and branchless financial services, preferably in developing economies or South Asia. The expert will have strong knowledge of the business models and technology of mobile and branchless financial services and functional design and implementation of mobile payment systems, including telecommunication platforms. The specialist will support BDBL in implementing *Gewog* banking services, which will set up an electronic payment network using smart point-of-sale technology in 205 rural community information centers. The expert will provide project management expertise in areas such as (i) system development, connectivity, and integration; (ii) preparation of detailed specifications for the equipment, software, and hardware needed for the project and bid process management; and (iii) capacity building of BDBL staff on the use of technology and service delivery.

14. **Credit Information Bureau expert** (one international, 3 person-months, intermittent). The CIB expert will have a graduate degree in computer science, economics, finance, or related field; and at least 7 years of experience in commercial banking and/or telecommunications, operation and management of credit information and rating institutions, preferably in developing countries or South Asia. The expert will provide support to CIB in implementing its business plan in areas such as (i) functional and operational design of its ICT infrastructure, including upgrades of hardware, database and operating systems, and software; (ii) expansion of credit reporting and rating products; (iii) expansion of coverage of credit-rating services to wider segments of the population; and (iv) capacity building and public awareness among financial institutions and the general population of the role and functions of the credit reporting system.

15. **Call center expert and team leader** (one international, 3 person-months, intermittent). The expert will have a graduate degree in computer science, economics, finance, or related field; and at least 7 years of experience in implementing ICT solutions in public administration projects, preferably in developing countries or South Asia. The expert will have a strong background in business models, technology, functional and operational design, and implementation of tax administration and service delivery through call centers, process improvement, and ICT in government projects. The expert will support DRC in operationalizing the call center business plan and provide project management through (i) implementation of enhancements and functional design of the center in line with the business plan, (ii) technical support for the preparation of bidding documents for ICT enhancements, and bid process management and evaluation; and (iii) capacity building of DRC staff for service delivery. The expert will assume responsibility for overall TA implementation including coordination of consultants, and ensure timely completion of high quality deliverables.