

## FINANCIAL ANALYSIS

### A. Introduction

1. The Skills Training and Education Pathways Upgradation Project will support the Government of Bhutan in implementing key components of the Technical and Vocational Education and Training (TVET) Blueprint, 2016–2026 and the Education Blueprint, 2014–2024.<sup>1</sup>

2. The financial analysis encompasses (i) a brief overview of the sector-wide financing of the Ministry of Labor and Human Resources (MOLHR) and the Ministry of Education (MOE) during 2013–2018, (ii) an assessment of the fiscal impact of the project, (iii) an analysis of the government's ability to sustain the project beyond its scheduled period, and (iv) a summary assessment of financial management of the executing agencies.<sup>2</sup>

3. The MOE has received a high share of total government budget allocation during 2013–2018. During the Eleventh Five-Year Plan, 2013–2018, the education sector received a capital budget allocation of Nu7,238.76 million<sup>3</sup>, which represented 7.9% of the plan's total capital outlay.<sup>4</sup> During the same period, the budget allocation to the MOLHR has been quite small at 0.7%–1.4% of the national budget annually. However, budget allocations for TVET are now on the rise given the importance attached to TVET by the government. The proposed budgetary provision for TVET in the Twelfth Five-Year Plan, 2018–2023 highlights the increased commitment of the government toward providing technical training.

### B. Financial Sustainability

4. Against the Eleventh Five-Year Plan capital outlay of Nu1,383.00 million (revised upward to Nu3,700.60 million after reprioritization, reflecting the government's strong fiscal effort for the sector), the MOLHR made a cumulative expenditure of Nu2,881.10 million, representing an expenditure performance of 77.90% (Table 1).

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<sup>1</sup> Government of Bhutan, MOLHR. 2016. *TVET Blueprint, 2016–2026*. Thimphu; Government of Bhutan, Ministry of Education, 2014. *Bhutan Education Blueprint 2014-2024*. Thimphu.

<sup>2</sup> The financial analysis follows procedures outlined in Asian Development Bank (ADB). 2005. *Financial Management and Analysis of Projects*. Manila. It considers financial sustainability (i.e., ability of the government to fund the recurrent costs arising from the project after completion) and financial management capacity (i.e., capacity of the executing agencies to utilize the ADB grant as intended and in conformity with ADB regulations).

<sup>3</sup> The exchange rate used throughout the document is \$1 = Nu64

<sup>4</sup> Government of Bhutan, Gross National Happiness Commission. 2016. *Eleventh Five-Year Plan, 2013–2018: Midterm Review Report*. Thimphu.

**Table 1: Budget and Expenditure of the Ministry of Labor and Human Resources**

Item	FY2018		FY2017		FY2016		FY2015		FY2014	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital	Current	Capital
<b>Budget</b>										
Department of Technical Education (Nu million)	162.7	292.4	146.7	338.8	145.1	183.6	143.7	174.0	126.1	255.2
As share of MOLHR budget (%)	60.4	41.2	59.7	52.4	59.6	36.9	62.1	51.3	63.0	80.4
Department of Occupational Standards (Nu million)	9.4	14.3	8.1	13.1	7.5	12.3	7.6	13.2	6.5	8.7
As share of MOLHR budget (%)	3.5	2.0	3.3	2.0	3.1	2.5	3.3	3.9	3.3	2.7
Department of Employment and Human Resources (Nu million)	43.4	398.0	36.1	285.1	42.4	290.7	35.9	144.2	29.4	46.2
As share of MOLHR budget (%)	16.1	56.1	14.7	44.1	17.4	58.3	15.5	42.5	14.7	14.5
Department of Labor (Nu million)	25.0	1.4	24.4	4.4	24.1	4.3	21.3	2.9	16.5	1.2
As share of MOLHR budget (%)	9.3	0.2	9.9	0.7	9.9	0.9	9.2	0.8	8.2	0.4
<b>Overall MOLHR budget (Nu million)</b>	<b>269.1</b>	<b>709.1</b>	<b>245.7</b>	<b>646.9</b>	<b>243.4</b>	<b>498.3</b>	<b>231.4</b>	<b>339.0</b>	<b>200.2</b>	<b>317.5</b>
<b>Expenditure</b>										
Department of Technical Education (Nu million)	90.9	73.9	143.5	264.5	139.2	169.7	134.1	152.5	114.4	188.2
As share of MOLHR expenditure (%)	57.0	21.9	59.9	52.7	59.4	36.4	61.4	51.3	62.2	77.2
Department of Occupational Standards (Nu million)	6.3	9.3	8.1	13.0	7.5	12.3	7.4	8.0	6.2	8.6
As share of MOLHR expenditure (%)	3.9	2.8	3.4	2.6	3.2	2.6	3.4	2.7	3.4	3.5
Department of Employment and Human Resources (Nu million)	29.3	251.2	34.7	215.5	40.3	272.2	34.2	132.4	28.1	40.6
As share of MOLHR expenditure (%)	18.4	74.5	14.5	42.9	17.2	58.4	15.7	44.6	15.3	16.6
Department of Labor (Nu million)	15.0	0.5	23.4	3.4	23.5	4.1	20.3	2.6	15.4	1.1
As share of MOLHR expenditure (%)	9.4	0.1	9.8	0.7	10.0	0.9	9.3	0.9	8.4	0.4
<b>Overall MOLHR expenditure (Nu million)</b>	<b>159.4</b>	<b>337.1</b>	<b>239.6</b>	<b>501.9</b>	<b>234.4</b>	<b>465.7</b>	<b>218.4</b>	<b>297.0</b>	<b>183.9</b>	<b>243.7</b>

FY = fiscal year (the 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., FY2018 ends on 15 July 2018); MOLHR = Ministry of Labor and Human Resources; Nu = ngultrum.

Note: Overall MOLHR Budget and Expenditure totals include other items such as Secretarial Services not listed in this table, hence the total figures are higher.

Sources: Government of Bhutan, annual budget reports and annual financial statements (for FY2014, FY2015, FY2016, FY2017, and FY2018).

5. The Eleventh Five-Year Plan outlay for the Department of School Education was Nu825 million (11.4% of the overall education sector capital outlay), which was substantially revised to Nu4,176.49 million based on the midterm review.<sup>5</sup> Details of the annual budget and related expenditure during fiscal year (FY) 2013 to FY2017 are in Table 2.

<sup>5</sup> Reallocation from the budget head of *dzongkhags*.

**Table 2: Budget and Expenditure of Selected Education Sector Departments**

Item	FY2017		FY2016		FY2015		FY2014		FY2013	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital	Current	Capital
<b>Budget</b>										
Department of School Education (Nu million)	392	1,114	1,581	828	675	551	65	258	829	53
As share of MOE budget (%)	6.3	31.3	26.0	35.1	13.0	27.9	1.6	15.9	18.0	4.1
<i>Dzongkhags'</i> (districts') education (Nu million)	5,691	1,936	4,388	961	4,380	956	3,876	870	3,386	1,149
As share of MOE budget (%)	92.0	54.5	72.1	40.7	84.5	48.4	96.1	53.6	73.4	87.9
Department of Youth and Sports (Nu million)	36	51	38	79	38	73	28	51	30	34
As share of MOE budget (%)	0.6	1.4	0.6	3.3	0.7	3.7	0.7	3.1	0.7	2.6
<b>Overall MOE budget (Nu million)</b>	<b>6,189</b>	<b>3,554</b>	<b>6,088</b>	<b>2,360</b>	<b>5,181</b>	<b>1,976</b>	<b>4,034</b>	<b>1,623</b>	<b>4,610</b>	<b>1,307</b>
<b>Expenditure</b>										
Department of School Education (Nu million)	291	1,030	1,510	604	638	538	44	226	776	49
As share of MOE expenditure (%)	4.9	33.3	27.8	31.5	14.0	30.4	1.1	15.6	17.0	4.0
<i>Dzongkhags'</i> education (Nu million)	5,547	1,664	3,807	784	3,793	781	3,744	759	3,424	1,070
As share of MOE expenditure (%)	93.4	53.7	70.1	40.8	83.3	44.1	96.5	52.5	75.2	87.6
Department of Youth and Sports (Nu million)	34	43	37	60	37	66	27	42	23	33
As share of MOE expenditure (%)	0.6	1.4	0.7	3.1	0.8	3.7	0.7	2.9	0.5	2.7
<b>Overall MOE Expenditure</b>	<b>5,941</b>	<b>3,096</b>	<b>5,433</b>	<b>1,921</b>	<b>4,554</b>	<b>1,772</b>	<b>3,880</b>	<b>1,446</b>	<b>4,555</b>	<b>1,221</b>

FY = fiscal year, MOE = Ministry of Education, Nu = ngultrum.

Note: Overall MOE Budget and Expenditure totals include other items such as those pertaining to the Department of Adult and Higher Education and Secretarial Services, which are not listed in the table, hence the total figures are higher.

Sources: Government of Bhutan, annual budget reports and annual financial statements (for FY 2013, FY 2014, FY 2015, FY 2016, and FY 2017).

6. While the MOLHR's capital budget increased significantly from Nu317 million in FY2014 to Nu709 million in FY2018 at a compound annual growth rate (CAGR) of 17%, there were marginal but consistent increments in its current budget during the same period, from Nu200 million to Nu269 million at a CAGR of 6%. The recurrent budgets of the MOE substantially increased at a CAGR of 22% from FY2013 to FY2017, and the capital budget grew marginally at a 6% CAGR over the same period.

7. Ensuring financial sustainability will require the government to make continued financial allocations to sustain the services being delivered under the project under the same terms and conditions. Therefore, financial sustainability of the project was assessed to confirm the government's capacity and commitment to provide adequate financial support to project implementation during and beyond the project period.

8. For the project to be successful, there is a need to recruit qualified trainers and junior instructors, ensure maintenance of stock on consumables (required for the various workshops and labs), and maintain buildings and equipment. Both the MOLHR and MOE have secured in-principle approval from the Royal Civil Service Commission for recruitment of adequate numbers of relevantly qualified trainers for the TTIs and junior instructors for the school TVET program. Both ministries have designed appropriate interventions to build the capacity of newly recruited trainers and instructors.

9. The government has proposed to double the budgetary outlay for the MOLHR in the Twelfth Five-Year Plan (to approximately Nu2,800 million) compared to the Eleventh Five-Year Plan. The estimated budget demand, as prepared by the MOLHR, is Nu4,965.29 million (including Nu1,547.37 million of recurrent expenditure). The project funding for the MOLHR component (\$12 million) will be about 15.5% of the Twelfth Five-Year Plan allocations for MOLHR. The preliminary estimates of (combined revenue and capital) budgetary outlay for the MOE during the Twelfth Five-Year Plan is estimated at Nu10,798.88 million, excluding education sector allocation to *dzongkhags* and *thromdes* (districts and municipalities). The project funding for the MOE component (\$3 million) will be about 1.8% of the Twelfth Five-Year Plan allocations for MOE. In contrast with the Eleventh Five-Year Plan, over 76.12% of the overall education sector outlay in the Twelfth Five-Year Plan is expected to be channeled through the *dzongkhags* and *thromdes*.

10. Incremental recurrent expenditure arising from the investments made under the project during 2018–2023 was estimated by considering the following additional cost components: (i) recruitment of 22 junior instructors by the MOE and 36 new trainers by the MOLHR; (ii) consumables at TTIs and schools, as per norms of the government per trainee in the TTIs and an estimated amount for trainees in the schools; and (iii) repairs and maintenance and insurance for civil works and equipment and insurance.

11. Table 3 provides the demand made by MOLHR and MOE to the Ministry of Finance for current and capital budget allocations required during the Twelfth Five-Year Plan, 2018–2023. While the allocation is firm for the first year, allocations for subsequent years will be confirmed once the Twelfth Plan is formally approved in the first quarter of 2019. The additional recurrent budget requirements arising from the project are already embedded in the table.

**Table 3: Budget Estimate of the Ministry of Labor and Human Resources and the Ministry of Education for the Twelfth Five-Year Plan, 2018–2023**

Item	FY2019		FY2020		FY2021		FY2022		FY2023	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital	Current	Capital
MOLHR (Nu million)	253.5	411.1	278.8	1,066.2	306.7	1,066.2	337.3	820.2	371.1	738.2
Impact of project (%)	4	-	9	-	20	-	21	-	21	-
MOE (Nu million)	5,713	2,717	4,870	2,717	6,260	2,717	7,343	2,717	7,459	2,717
Impact of project (%)	-	-	0.04	-	0.12	-	0.16	-	0.21	-

MOE = Ministry of Education, MOLHR = Ministry of Labor and Human Resources.

Note: The budget provisions include additional recurrent budget because of project investments, which increase over time. The impact of project in percentage is the share of recurrent budget that is required to meet the recurrent costs arising from the project.

Sources: Government of Bhutan, Ministry of Education, Policy Planning Department; and Government of Bhutan, Ministry of Labor and Human Resources, Policy Planning Department.

12. The government's record of budget provisions for the MOLHR and MOE in the Eleventh Five-Year Plan and the budgetary proposals for the Twelfth Five-Year Plan point to adequate fiscal provision for the sustainability of the project beyond the scheduled project period. Recurrent budget provision during the Twelfth Five-Year Plan period is estimated at a CAGR of 5% for the MOE and 8% for the MOLHR.

### **C. Economy, Efficiency, and Effectiveness**

13. The government attaches great importance to economy, efficiency, effectiveness, equity, sustainability, transparency, and accountability in the management and utilization of public resources. In line with this, the government enacted the Public Finance Act 2007, which it revised during 2012. The government amended the Financial Manual of 1988 in 2001 and 2010. It revised the Financial Rules and Regulations of 2001 in 2016, including the following constituent parts: (i) Financial Management Manual, (ii) Budget Manual, (iii) Finance and Accounting Manual, and (iv) Property Management Manual. The government also modified the Procurement Manual 2001 into the Procurement Rules and Regulations 2009, and revised it further in 2015 before transitioning it into the Electronic Government Procurement Guidelines in August 2017. The amendments were made to respond to the emerging challenges in ensuring financial and/or fiscal prudence across the governance system. The e-procurement system of the government enables transparent and competitive procurement in an efficient and effective manner.

14. **Experience in managing international projects.** The MOLHR has experience of managing and implementing donor-funded projects, including projects funded by ADB (although dating back to 2001–2007), the World Bank, Helvetas, and the Government of India. The MOE also has similar experience in implementing externally funded projects. The MOLHR and MOE have experience in handling project funds of more than \$20 million.

### **D. Conclusion**

15. Considering the capacities present at the MOLHR and MOE, and the tools and systems made available by the government for financial planning, administration, accounting, and reporting, it is evident that the MOLHR and MOE are well equipped to successfully implement the proposed project.