

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC95808

Project Name	Public Financial Management - Multi-Donor Fund
Region	SOUTH ASIA
Country	Bhutan
Lending Instrument	IPF
Project ID	P162196
Borrower Name	KINGDOM OF BHUTAN
Implementing Agency	Ministry of Finance, Department of Public Accounts
Environment Category	C - Not Required
Date PID Prepared	13-Feb-2017
Estimated Date of Approval	31-Mar-2017
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The Kingdom of Bhutan is a small landlocked country in South Asia, located in the eastern Himalayas between emerging economic giants of the world, India and China. The Kingdom is home to a population of about 750,000 spread over an area of 38,500 square kilometers with about 70% of land under forest cover. In the past couple of decades, the Kingdom of Bhutan has experienced rapid social and economic growth as a result of prudent macroeconomic management, beneficial exploitation of hydropower resources and support from development partners.

Bhutan has now transitioned to democracy. After two successive elections, including a peaceful transfer of power, Bhutan's democracy within a constitutional monarchy enjoys political stability. Reform-oriented policy makers have outlined a unique development vision, where GDP is just one element among other non-monetary aspects to measure people's well-being. The country's mountainous terrain provides considerable potential for the generation of hydroelectricity, for which India is both the main financier and buyer, while tourism and agribusiness are two other identified drivers of growth.

Bhutan has a good record of reducing poverty and is progressing well towards making progress in achieving the MDGs. Bhutan is a Lower Middle Income Country and has a good record in reducing poverty and making progress towards achieving the Millennium Development Goals. Its per capita income is US\$2,500 and its estimated annual GDP growth over the next three years is 9.6 percent.

To build on this progress, Bhutan needs to sustain macroeconomic stability while creating a business environment to promote private sector growth and job creation. The hydro-led growth has created some short-term macroeconomic imbalances, which call for careful management of fiscal and monetary policies. At the same time, it is critical to provide a better investment climate that is

more conducive to private sector development, diversification of the economy and job creation. More outsourcing of activities and a shift towards demand-side finance in service delivery should also support the development of the private sector and civil society organizations in infrastructure and the social sectors. In addition, Bhutan's large stock of natural capital calls for increasing its sustainable contribution to the economy, while in doing so protecting the environment and human well-being. Related challenges include rapid urbanization, low agriculture productivity, limited infrastructure, difficult topography, a small market scale and vulnerability to disaster and climate change.

The 2014 Poverty Assessment shows that the percentage of people living below the national poverty line was effectively reduced by 50 percent, from 23.2 percent in 2007 to 12 percent in 2012. Extreme poverty has been almost eradicated in the country, while multidimensional poverty indices that also include parameters such as education and health declined from 30 percent to 10 percent.

Sectoral and Institutional Context

As part of the Governance agenda, strengthening Public Financial Management (PFM) systems is an area of high priority for the Royal Government of Bhutan (RGoB). Given that the government is the major controller of public resources, the RGoB over the years has been making progress in PFM covering budget preparation, budget execution, control, reporting and oversight. There is increased legislative oversight on budget approval through a finance committee and of audit reports through a public accounts committee. Similar to other countries, public at large has become more demanding in terms of transparent and efficient government. With all strategic documents placing a great importance to good governance, it is imperative that PFM within the country is continuously strengthened.

Bhutan 2020, A Vision for Peace, Prosperity and Happiness (the Vision) is a twenty year perspective strategy which sets the preferred direction for where Bhutan wants to be in the year 2020 starting from the base year of 2000. In terms of good governance outcomes to be attained by 2020, the Vision anticipates the full development of the country's governance and legal institutions.

The 11th Five-year Plan (FYP) (2013-2018), the key planning document for the country makes multiple reference to enhancing capacity building, transparency, accountability, efficiency and effectiveness in governance.

Gross National Happiness (GNH) Index: Good Governance is one of the four pillars of the GNH Index and one of the nine domains within the same index.

The RGoB is pursuing a PFM Reform Action program based on the results of Public Expenditure and Financial Accountability (PEFA) assessment. Based on the 2016 PEFA Report, the RGoB is revising a comprehensive, sequenced and time-bound action plan to bring about improvements in the PFM framework leading to enhancement in quality of public spending.

With formation of PFM-Governance Group, institutional arrangements are in place to spearhead the PFM Reform agenda. To take the PFM agenda forward, a national level apex committee has been formed by the RGoB that would steer the PFM reform action plan of Bhutan and also coordinate the resources required for the implementation of the action plan. The apex committee called Public

Financial Management- Governance Group or PFM-GG is now in place. The PFM-GG was formed in Nov 2013 under the Ministry of Finance (MoF) chaired by the Finance Secretary, with representation from all the four departments of MoF, the Accounting and Auditing Standard Board of Bhutan, Public Procurement Policy Division, Internal Audit Service and Policy and Planning Division, with the Chief Accounts Officer, Department of Public Accounts (DPA) being the Member Secretary. Accounts Division of DPA will act as the Secretariat for the PFM-GG. The PFM-GG is the apex body leading the PFM reform programs in Bhutan through a PFM Reform Strategy and an Action Plan adopted and updated on a periodic basis (RGoB notification May 2015). The PFM-GG will provide oversight, guidance, revise and monitor progress of the implementation of the RGoB's PFM reform program or action plan.

Relationship to CAS/CPS/CPF

The CPS is fully aligned with the 11th FYP and its activities are organized under three results areas, one of them being: improving fiscal and spending efficiency. Under this result area, the World Bank Group (WBG) aims to help ensure macroeconomic stability as one of the high priorities for Bhutan's sustainable development. Hence, WBG efforts will focus on contributing to increased revenues, lower deficits and stronger PFM. Consistent with this, the World Bank has been actively engaged in assisting the RGoB in taking forward the PFM reform agenda for over a decade through several Institutional Development Fund (IDF) grants, investment operations and the Development Policy operations.

II. Project Development Objective(s)

Proposed Development Objective(s)

The overall development objective (DO) of the program is "to strengthen the performance, transparency and accountability in public financial management in Bhutan".

Key Results

The achievement of the proposed DO is expected to be measured through the following PDO level results:

- a. Strengthened performance in PFM measured by improved resource management from strengthened revenue policy and administration; scaling of public procurement systems including automation; and upgrading the treasury system into a modern Integrated Financial Management Information System (IFMIS).
- b. Strengthened transparency in PFM measured by introduction of e-tendering system; improved quality of annual financial reports; and implementation of accounting and auditing standards.
- c. Strengthened accountability in PFM measured by strengthening accountability institutions and mechanisms through improved oversight of fiscal risks of public sector entities; modernizing internal audit function; and enhanced capabilities of Parliamentary institutions in scrutiny of budget. Besides, a functional Institute of Chartered Accountants and enhanced capabilities of supreme audit institution will contribute to achieve this sub-objective.

III. Preliminary Description

Concept Description

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	2	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
BTPFM Multi Donor Trust Fund			2

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