Early Warning System

ADB-59151-001

Strengthening the Banking and Capital Markets Reforms Program (Subprogram 1)

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Quick Facts

Countries	Bhutan
Financial Institutions	Asian Development Bank (ADB)
Status	Approved
Bank Risk Rating	C
Voting Date	2025-12-08
Borrower	Government of Bhutan - Ministry of Finance
Sectors	Finance
Investment Type(s)	Grant, Loan
Loan Amount (USD)	$ 10.00 million
Grant Amount (USD)	$ 5.00 million
Project Cost (USD)	$ 14.98 million

Project Description

According to the Bank’s website, the proposed program is designed to strengthen the banking and capital markets of Bhutan by enhancing the regulatory frameworks and improving the implementation of regulations, which will result in financial stability for sustained and inclusive financial intermediation. The program intends to (i) strengthen the transparency of operations of banks and nonbanks through increased compliance with international norms, improving asset quality and leading to efficient and effective financial intermediation; (ii) support capital markets to deepen the market, expand the suite of products, and leverage opportunities to raise sustainable finance; and (iii) improve financial inclusion with strong digital, gender, and climate focus. This program builds on the initial reforms achieved in several areas under the successful Financial Market Development Program (FMDP) from 2019 to 2021 and the activities outlined in the post-program partnership framework.

The proposed program is in line with the strategic priority areas for financial market development, climate adaptation, green financing, and gender equality under the Bhutan country partnership strategy. Further, the program is aligned with three of the five focus areas of the Asian Development Bank (ADB) Strategy 2030 midterm review: climate action, private sector development, and digital transformation.

The government's Thirteenth Five Year Plan, 2024-2029 identified that the private sector remains untapped, with a low contribution to the economy. Bhutan has a weak financial ecosystem, which impacts the availability of funds and products to mobilize the domestic and international capital required to develop the economy. To achieve the gross domestic product (GDP) target of $5 billion outlined in the 13th plan, substantial capital needs to be mobilized from domestic financial institutions and capital markets. However, development of both the banking sector and capital market have not progressed in line with government's aspirations, while critical institutions in the financial ecosystem such as rating agencies are currently absent. Further, limited access to finance is a key barrier hindering private sector growth, since the sector is largely made up of small businesses that face collateral issues in obtaining bank lending.

Therefore, strengthening bank and nonbank institutions and capital markets is critical to ensure a steady flow of credit to businesses, provide diverse investment avenues for depositors and investors, and reduce the credit risk that is concentrated in the banking system.

Early Warning System Project Analysis

In line with ADB's Safeguard Policy Statement (2009), subprogram 1 is classified as category C for environment, involuntary resettlement, and Indigenous Peoples. A matrix assessing potential environmental and social safeguard impacts for nine policy actions has been prepared, and minimal or no adverse environmental impacts are anticipated.

None of the policy actions involve land acquisition or physical works that could trigger involuntary resettlement. Moreover, the actions do not specifically target indigenous populations and will not affect their dignity, rights, livelihoods, cultural practices, or territories, in accordance with ADB's Safeguard Policy Statement.

Investment Description

- Asian Development Bank (ADB)

The financing amount is $15,000,000, which will be financed on a loan basis by ADB’s ordinary capital (US$ 10.00 million) and a grant basis by ADB’s Technical Assistance Special Fund (US$ 5.00 million).

Contact Information

For the Borrower:

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For ADB:

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ACCESS TO INFORMATION

You can submit an information request for project information at: https://www.adb.org/forms/request-information-form

ADB has a two-stage appeals process for requesters who believe that ADB has denied their request for information in violation of its Access to Information Policy. You can learn more about filing an appeal at: https://www.adb.org/site/disclosure/appeals

ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main.

Bank Documents

- Grant Agreement (Special Operations) for Grant 1094-BHU: Strengthening the Banking and Capital Marke
- Loan Agreement (Ordinary Operations [Concessional]) for Loan 4722-BHU: Strengthening the Banking and
- Report and Recommendation of the President

Media

- ADB Approves $15 Million Financing to Strengthen Banking and Capital Markets in Bhutan