



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
PFM-MDF FINANCED STRENGTHENING PUBLIC FINANCIAL MANAGEMENT PROJECT
APPROVED ON SEPTEMBER 20, 2017
TO THE
KINGDOM OF BHUTAN

GOVERNANCE GLOBAL PRACTICE

SOUTH ASIA REGION

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ABBREVIATIONS AND ACRONYMS

e-GP	Electronic Government Procurement
ePEMS	Electronic Public Expenditure Management System
GST	Goods and Services Tax
IFMIS	Integrated Financial Management Information System
IPSAS	International Public-Sector Accounting Standards
MDF	Multi-Donor Fund
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-MDF	Public Financial Management-Multi-Donor Fund
RGoB	Royal Government of Bhutan



BASIC DATA

Product Information

Project ID P162196	Financing Instrument Investment Project Financing
Original EA Category	Current EA Category
Approval Date 20-Sep-2017	Current Closing Date 30-Nov-2022

Organizations

Borrower KINGDOM OF BHUTAN	Responsible Agency Ministry of Finance, Department of Public Accounts
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Financing (in USD Million)

SUMMARY

Total Project Cost	4.00
Total Financing	4.00
Financing Gap	0

DETAILS

Project Development Objective (PDO)

Original PDO

The overall development objective of the project is to contribute to the improvement of the efficiency, accountability and transparency of PFM systems in Bhutan.



Summary Status of Financing (US\$, Millions)

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-A5549	20-Sep-2017	21-Sep-2017	21-Sep-2017	30-Nov-2022	4.00	3.71	.29

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. **The Public Financial Management-Multi Donor Fund (PFM-MDF) Strengthening Public Financial Management (PFM) Project for Bhutan was approved by the Country Director for Bhutan on September 20, 2017 and became effective on September 21, 2021.** The project has an overall allocation of US\$4 million and aims at contributing to the improvement of the efficiency, accountability and transparency of PFM systems in Bhutan, by providing support through the following two components:

- Component 1: Strengthening PFM Legal and Institutional Framework (US\$1.15 million); and
- Component 2: Strengthening Budget Execution and Oversight Capacities (US\$2.85 million).

2. **To date, three project restructurings (all Level Two) have been approved by the World Bank management:** (i) in February 2019, to incorporate a revised set of activities pertaining to the preparatory and supervision work for implementation of the Goods and Services Tax (GST), drafting of GST legislation and regulation in Dzongkha, and updating of the Micro Simulation Mode; and (ii) in August 2020, to introduce two new sub-components (on Public Investment Management (PIM) and clustering of financial services for decentralized levels of Government), revise the Results Framework and include indicators for tracking progress against the newly introduced activities, and (iii) in August 2021, to extend the Project closing date from January 31, 2021 to November 30, 2022.

3. **The Kingdom of Bhutan continues to exhibit strong commitment in implementation of reforms for strengthening PFM.** The PFM Reform Strategy and Action Plan 2017, that was developed based on the findings of the Public Expenditure and Financial Accountability¹ (PEFA) Report 2016 continues to be the roadmap for PFM reforms and the PFM-MDF Project is the main vehicle for implementation.

¹ <https://www.pefa.org/node/601>



4. **The overall progress towards achievement of the Project Development Objective (PDO) is rated Satisfactory and the Implementation Progress (IP) Moderately Satisfactory².** Notable progress has been made towards achievement of key reforms, such as the country-wide launch of electronic funds transfer (ePEMS), Electronic Government Procurement (e-GP), passing of the GST law by the Parliament, notification of cash-basis International Public Sector Accounting Standards (IPSAS), reforms in the Budget Report, and moving towards an Integrated Financial Management Information System (IFMIS), to name a few. Notably, the launch of the country-wide electronic payment system in July 2019 was found extremely helpful as it facilitated the disbursement of benefits to the citizens during the on-going pandemic.

5. **Disbursements from the Multi Donor Fund (MDF) Grant currently stand at 93 percent or US\$3.71 million.** The Project is on track to fully utilize the remaining resources before reaching its closing date of November 30, 2022.

B. Rationale for Restructuring

6. **This Restructuring Paper seeks the decision of the Country Director on a Level Two restructuring for the inclusion of new activities related to fiscal incentives and property taxation .** Such activities are directly linked to the PDO as they pertain to the improvement of the efficiency of the PFM system and, therefore, do not necessitate modification to the project objectives.

II. DESCRIPTION OF PROPOSED CHANGES

7. **The proposed project restructuring will facilitate the use of project savings for the implementation of critical activities related to the fiscal incentives, property taxation and such other revenue and expenditure related matters, to enhance the achievement of the overall project objectives.** The financing of these activities, which include compilation, drafting, carrying out consultations with stakeholders, sensitization, and raising awareness, among others, is estimated at US\$53,000 and will be done from generated project savings under Component 1. The newly introduced activities will become an integral part of the Project Procurement and Monitoring and Evaluation Plans, to ensure successful implementation and completion before the project closing date.

² Per the latest Implementation Status and Results Report (ISR), approved by World Bank Management on November 4, 2021: <https://documents1.worldbank.org/curated/en/189601636040135885/pdf/Disclosable-Version-of-the-ISR-PFM-MDF-FINANCED-STRENGTHENING-PUBLIC-FINANCIAL-MANAGEMENT-PROJECT-P162196-Sequence-No-02.pdf>



III. SUMMARY OF CHANGES

	Changed	Not Changed
Components and Cost	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Results Framework		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Additional Financing Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Change in Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)



COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Strengthening PFM Legal and Institutional Framework	1.15	Revised	Strengthening PFM Legal and Institutional Framework	1.15
Strengthening Budget Execution and Oversight Capacities	2.85	No Change	Strengthening Budget Execution and Oversight Capacities	2.85
TOTAL	4.00			4.00