



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

GOVERNANCE

SOUTH ASIA

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## ABBREVIATIONS AND ACRONYMS

BAS	Bhutan Accounting Standard
DRC	Department of Revenue and Customs
e-GP	Electronic Government Procurement
GoI	Government of India
GNHC	Gross National Happiness Commission
GST	Goods and Services Tax
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
IPSAS	International Public-Sector Accounting Standards
MDF	Multi-Donor Fund
NCB	National Competitive Bidding
PEFA	Public Expenditure and Financial Accountability
PEMS	Public Expenditure Management System
PFM	Public Financial Management
PFM-MDF	Public Financial Management-Multi-Donor Fund
PIM	Public investment management
RGoB	Royal Government of Bhutan



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## BASIC DATA

### Product Information

Project ID P162196	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 20-Sep-2017	Current Closing Date 31-Jan-2021

### 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	0
Total Financing	0
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	31-Jan-2021	4.00	2.52	1.48

**Policy Waiver(s)**

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

No

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**I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING**

**A. Project Status**

Bhutan continues to exhibit strong commitment to implementation of reforms for strengthening public financial management (PFM). The PFM Reform Strategy and Action Plan 2017, that was developed based on the findings of the Public Expenditure and Financial Accountability Assessment (PEFA) Report continues to be the roadmap for PFM reforms and Public Financial Management – Multi-Donor Fund (PFM-MDF) is its main vehicle for implementation. The key reforms on Goods and Services Tax (GST) implementation, procurement strengthening, improvement of budget report, International Public-Sector Accounting Standards (IPSAS), strengthening of Integrated Financial Management Information System (IFMIS) and internal audit largely remain on track.

The PDO rating for the project as evaluated during the recent mission is Satisfactory.

**B. Rationale for Restructuring**

During the preparation of the PFM-MDF financed Strengthening Public Financial Management Project (P162196), US\$ 800,000 was kept as unallocated for following reasons: -

- a) Allocating the funds to those components where there is an expected shortfall.
- b) Allocating the funds to new activities which are prioritized by RGoB subsequently.

Hence, during the mid-term supervision mission of the above project, it was agreed that the RGoB will identify the component/sub-components where funds need to be allocated. Priority is given to the existing components so that they are completed satisfactorily. Accordingly, US\$ 500,000 was allocated to the existing sub-components and US\$300,000 was allocated



to two new sub-components identified. These components are: (1) Public Investment Management and (2) Clustering of Financial Services for decentralized levels of government (Dzongkhags and Gewogs).

## II. DESCRIPTION OF PROPOSED CHANGES

### A. *Description of proposed changes*

In line with RGoB's request and as mentioned above, following two new sub-components are proposed to be added to the Project: -

#### a) **Public Investment Management (Sub-component 1b – Part II), (US\$ 150,000):**

Public investment management (PIM) relates to the ways through which governments manage their investment expenditure, i.e. how they select, construct and maintain their public assets. PIM is one of the key areas of reforms in public financial management domain. Public investment can be an important catalyst for economic growth, but the benefits of additional investment depend crucially on how it is managed. The public investments make a substantial part of budget for any government and is also the reason for which the debt is undertaken. Given its importance and development impact on the economies, several countries are putting in place programmes of reform that specifically target improvements in institutions for managing public investment. Similarly, PEFA in its latest framework (2016) included a new indicator on PIM, PI-11. During the recent PEFA assessment of Bhutan, one of the indicators where Bhutan scored low was the indicator on PIM. Therefore, based on the PEFA assessment and the guidance available internationally, it is important that Bhutan undertakes PIM reforms starting with a PIM assessment and preparation of a road-map, implementing reforms on policies, procedures and capacity building related to PIM. This sub-component will support: (a) Assessment of the current PIM policies and procedures in the RGoB, development of a road map for strengthening PIM (b) Development of guidelines for the economic appraisal of the investment Projects and capacity building of the RGoB officials.

#### b) **Clustering of Financial Services for decentralized levels of government (Dzongkhags and Gewogs) (Sub-component 2b – Part Ia), (US\$ 150,000.00)**

Ever since the formal establishment of Ministry of Finance (MoF) in 1968, the finance/accounts personnel functioned as a section/unit in any government organizations. With the increase in developmental activities, the manpower requirement for finance/accounts professional has also increased over the years. There are currently over 760 finance/accounts personnel spread across the country as regular civil servants. The government accounting system has also changed over the years. The tedious manual form of accounting has been replaced with the current real time online system - Multi Year Rolling Budget (MYRB) and electronic Public Expenditure Management System (e-PEMS). With this evolution, the roles and mandates of National Finance Services (NFS) personnel has also changed over time. The Department of Public Accounts (DPA) has also recently embarked on e-Payment initiative, which has replaced the existing manual cheque system with the digital and electronic payment system. This sub-component will be added to the IFMIS component.

The 12<sup>th</sup> five year plan provides for significant amount of allocations for Dzongkhags and Gewogs. This requires that the fiduciary controls and systems at the decentralized levels be strengthened. The new digital initiatives on one hand and shortfall of officials on the other hand provides an opportunity to MoF to leverage the digital technology to bring efficiency, economy within MoF and at the same time strengthen the internal control systems. For this objective, MoF proposes clustering of the services through regional offices. The regional offices will help meet the following objectives:



- i. There will be more diverse pool of human resources with mixed of knowledge and experiences in different fields. It will have potential to enhance the performance by transfer and exchange of knowledge and skills among the pool of officials.
- ii. Will have uniform and same service standards in all agencies and will ultimately lead to efficient and effective service delivery to agencies and general public.
- iii. Shortage of manpower will be addressed with the usage of pool services within the cluster group.
- iv. With the online MYRB, e-PEMS, the digital and electronic payment system will be implemented and services can be provided from anywhere.
- v. With proper check and control, minimize the risk of misuse and embezzlement of fund.

The activities under this sub-component will include preparation of a blue-print for a typical cluster office and the approval of the same, office and network equipment and training required for the officials.

**B. Results Framework for the new component**

**Public Investment Management**

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Economic analysis of investment proposals	PI-11.1 dimension score is C				PI-11.1 dimension score improved to B	PI-11.1 dimension score improved to B

**Clustering of Financial Services for decentralized levels of government (Dzongkhags and Gewogs)**

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Clustering of Financial Services - country wide	No accounting cluster offices at decentralized level				Country wide accounting cluster offices established at decentralized levels.	Country wide accounting cluster offices established at decentralized levels.



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### III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Implementing Agency		✓
Project's Development Objectives		✓
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)

RESULTS FRAMEWORK

Project Development Objective Indicators

Enhanced controls in budget execution and disclosure of key fiscal information Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	2016 PEFA Assessment (refer Annex 4 on Summary of PEFA Report 2016)		Enhanced controls in budget execution and disclosure of key fiscal information as evidenced by improvement in PEFA scores	No Change
Date	01-Sep-2017		31-Jan-2021	
Reduced procurement cycle time through increase in percentage of contracts/bids invited through e-GP using national competitive bidding (NCB) , in selected MoE, MoF and MoWHS Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0% of bids invited through e-GP using NCB		75% of bids invited through e-GP using NCB and	No Change
	Procurement cycle time: 60 days		Procurement cycle time reduced by at least 5 days	
Date	01-Sep-2017		31-Jan-2021	

Intermediate Indicators

Enhanced contents in Budget Report consistent with international good practices including gender and climate change aspects Unit of Measure: Text Indicator Type: Custom				
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	Baseline	Actual (Current)	End Target	Action
Value	N/A		Budget Report, consistent with revised template published on MoF website	No Change
Date	01-Sep-2017		31-Jan-2021	
Increased number of companies in compliance with BAS Phase I and II Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	49.00	No Change
Date	01-Sep-2017		31-Jan-2021	
Setting the legal and operational environment for GST implementation Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No GST legislation	Cabinet approved concept note (framework) on GST introduction	GST introduced in Bhutan	No Change
Date	01-Sep-2017		31-Jan-2021	
Improvement in quality assurance process within internal audit function based on methodology of the IIA Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	Baseline to be established in year 1		Repeat self-assessment indicates improvement over baseline	No Change
Date	01-Sep-2017		31-Jan-2021	
Increased number of systems/thematic (performance or value for money) audits undertaken by Internal Audit - number of audits undertaken annually Unit of Measure: Text Indicator Type: Custom				



	Baseline	Actual (Current)	End Target	Action
Value	1		5	No Change
Date	01-Sep-2017		31-Jan-2021	
Improved efficiency of internal audit function - number of internal audit engagements annually Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	109		200	No Change
Date	01-Sep-2017		31-Jan-2021	
Improved presentation of National annual financial statements consistent with international standards Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	National annual financial statements presented not in accordance with international standards		National annual financial statements presented as per Cash-IPSAS based Bhutan standards	No Change
Date	01-Sep-2017		31-Jan-2021	
Public Procurement Bill approved by the Cabinet Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No Bill		Public Procurement Bill approved by the Cabinet	No Change
Date	01-Sep-2017		30-Jan-2021	
Strengthening of PEMS Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	Gaps in Payroll and bank reconciliation functionalities.		PEMS strengthened with Payroll control, bank reconciliation and commitment	No Change



	Commitment control not present.		control functionalities.	
Date	01-Sep-2017		31-Jan-2021	
PFM information systems integrated Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	PFM information systems with minimum integration		Integration of PFM information systems	No Change
Date	01-Sep-2017		30-Jan-2021	
Economic analysis of investment proposals Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	PI-11.1 dimension score is C		PI-11.1 dimension score improved to B	New
Date	30-Jun-2020		31-Jan-2021	
Clustering of Financial Services - country wide Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No accounting cluster offices at decentralized level		Country wide accounting cluster offices established at decentralized levels.	New
Date	30-Jun-2020		31-Jan-2021	

**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Strengthening PFM Legal and Institutional Framework	1.00	Revised	Strengthening PFM Legal and Institutional Framework	1.15



Strengthening Budget Execution and Oversight Capacities	2.20	Revised	Strengthening Budget Execution and Oversight Capacities	2.85
Contingencies and unallocated	0.80	Marked for Deletion	Contingencies and unallocated	0.80
<b>TOTAL</b>	<b>4.00</b>			<b>4.80</b>

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