

**ROYAL GOVERNMENT OF BHUTAN**

**Public Financial Management  
Reform Strategy and Action Plan 2023-2028**

**October 27 2023**



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## ABBREVIATIONS AND ACRONYMS

AASBB	Accounting and Auditing Standards Board of Bhutan	DRC	Department of Revenue and Customs
AFS	Annual financial statements	DTA	Department of Treasury and Accounts
APA	Annual Performance Agreement	eCMS	electronic Customs Management System
BACS	Bhutan Automated Customs System	e-DATS	electronic Daily Allowance and Travel System
BAS	Bhutan Accounting Standards	e-GP	electronic Government Procurement
BIRMS	Bhutan Integrated Revenue Management System	e-PEMS	electronic Public Expenditure Management System
BITS	Bhutan Integrated Taxation System	FAM	Finance and Accounting Manual
BMT	Budget Monitoring Tool	FYP	Five Year Plan
BoLTS	Bhutan Online Land Tax Payment System	GDP	Gross domestic product
CAAT	Computer assisted audit tool	GIMS	Government Inventory Management System
CCC	Cash Coordination Committee	GPMS	Government Performance Management System
CCA	Central Coordinating Agency	GPS	Government Payroll System
CFS	Cluster Finance Service	GRPFM	Gender responsive public financial management
CoA	Chart of accounts	GST	Goods and Services Tax
COVID-19	Coronavirus disease 2019	IIA	Institute of Internal Auditors
CRPFM	Climate responsive public financial management	ICGD	Investment and Corporate Governance Division
DHI	Druk Holding and Investments Limited	ICT	Information and communications technology
DMDF	Department of Macro-Fiscal and Development Finance	IFMIS	Integrated financial management information system
DoLGDM	Department of Local Governance and Disaster Management	IMF	International Monetary Fund
DPBP	Department of Planning, Budget and Performance	INTOSAI	International Organization of Supreme Audit Institutions

PFM Reform Strategy and Action 2023-2028

IPPF	International Standards for the Professional Practice of Internal Auditing	PFM-GG	PFM-Governance Group
IPSAS	International Public Sector Accounting Standard	PIM	Public investment management
LG	Local government	PPD	Policy and Planning Division
MAPS	Methodology for Assessing Procurement Systems	PRR	Procurement Rules and Regulations
MDF	Multi-Donor Fund	RAA	Royal Audit Authority
MFCC	Macroeconomic Framework Coordination Committees	RAMIS	Revenue Administration Management Information System
MFCTC	Macroeconomic Framework Coordination Technical Committee	RCSC	Royal Civil Service Commission
MoENR	Ministry of Energy and Natural Resources	RGoB	Royal Government of Bhutan
MoF	Ministry of Finance	RMS	Revenue Management System
MTMF	Medium-Term Macro Framework	SAI	Supreme Audit Institutions
MYRB	Multi-Year Rolling Budget	SARTTAC	South Asia Regional Training and Technical Assistance Center
NCWC	National Commission for Women and Children	SNG	Sub-National Government
NEC	National Environment Commission	TA	Technical assistance
PAC	Public Accounts Committee	TADAT	Tax Administration Diagnostic Assessment Tool
PEFA	Public expenditure and financial accountability	TNA	Training needs assessment
PFA	Public Finance Act	TSA	Treasury Single Account
PFM	Public financial management	UCoA	Unified charter of accounts

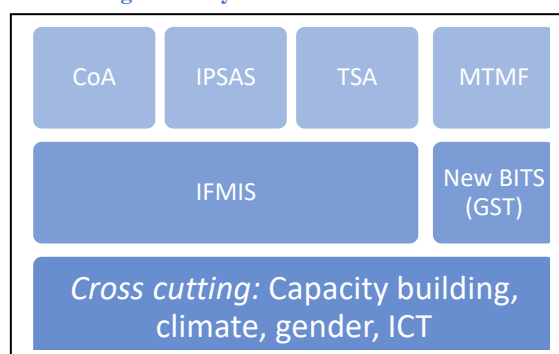
# 1. OVERVIEW

1.1. The Royal Government of Bhutan (RGoB) continues to pursue reforms in public financial management (PFM), including in collaboration with development partners. The Public Expenditure and Financial Accountability (PEFA) PFM assessment conducted during FY 2022-23 concluded that the RGoB’s PFM performance remains strong and that Bhutan’s PFM performance is above the global and regional averages.<sup>1</sup> The PFM framework has been further developed and improved with new systems, procedures and requirements. The PEFA Climate and Gender Responsive Assessments, which were also conducted, show that many aspects in these new focus areas need further development to promote climate and gender mainstreaming and, consequently, in future to enhance performance in these areas.

1.2. Significant success was achieved by the RGoB in implementing actions covered in the PFM Reform Strategy 2017-2021 with development partners support, including through the PFM-Multi-Donor Fund (MDF)-financed and World Bank-administered ‘Strengthening PFM Program’.<sup>2</sup> The RGoB’s new PFM Strategy and Action Plan 2023-2028 will continue ongoing reform activities and initiate new ones so as to further develop and improve the RGoB’s PFM system, including in terms of Climate and Gender Responsive PFM. The PEFA assessments as well as other diagnostics – such as the SAI Performance Assessments 2021, the Tax Administration Diagnostic Assessment Tool (TADAT), and the ongoing procurement assessment based on the Methodology for Assessing Procurement Systems (MAPS) framework – have also highlighted areas of strengths and weaknesses that have informed the development of the new Strategy and Action Plan.

1.3. The PFM Strategy and Action Plan 2023-2028, the RGoB’s third such strategy, aims to continue and deepen PFM reforms in Bhutan and reaffirms the RGoB’s commitment to a sound PFM system. The proposed strategy revolves reforms in the following eight areas: (i) revenue mobilization; (ii) macro-fiscal management; (iii) planning and budgeting; (iv) expenditure, accounting, and reporting; (v) oversight institutions; (vi) cross cutting themes; (vii) climate responsive PFM; and, (viii) gender responsive PFM. There is a specific focus on supporting and facilitating PFM leveraging information and communication technology (ICT), including upgrading and modernizing the PFM system based on an integrated financial management information system (IFMIS) as well as new revenue systems for Goods and Services Tax (GST) and other taxes. There is also a specific focus on capacity building as a cross-cutting initiative (Refer box 1). Other key areas identified and included in the Strategy are: Strengthening public investment management

**Box 1 - High Priority Reform Areas**



<sup>1</sup> The three PEFA assessment reports are available on the PEFA website as follows: <https://www.pefa.org/node/5111>, <https://www.pefa.org/node/5251>, and <https://www.pefa.org/node/5112>.

<sup>2</sup> The PFM-MDF, which was instituted in 2017, ends in December 2023. It has been financed by the Austrian Development Agency (ADA) and the Delegation of the European Union to India and Bhutan (EU Delegation).

(PIM), enhancing macro-fiscal management, including adoption of the Medium-Term Macro Framework (MTMF), deepening fiscal risk monitoring of state enterprises and local governments (LGs), implementing public and private sector accounting standards, enhancing the coverage of the Treasury Single Account (TSA) and improving cash management, strengthening procurement processes and systems, put in place a system of consolidation and reporting expenditure arrears, undertaking PFM actions related to gender and climate, improving service delivery, enhancing internal control, and continuing support for oversight institutions, including internal audit, the supreme audit institution (SAI) and parliamentary committees.

1.4. The Strategy covers different aspects related to implementing the PFM Strategy and Action Plan, including in terms of the institutional framework, monitoring arrangements, risks and mitigation measures, financing, and the need for capacity support. There will be a need for the PFM-Governance Group (PFM-GG) of the Ministry of Finance (MoF) and its secretariat, the Policy and Planning Division (PPD), regularly to monitor the progress in implementing PFM reform activities.

1.5. The basic tenet of the Strategy is to prioritize the areas that have performance gaps in core PFM functions and pursue more advanced reforms in areas where core functionalities have been achieved. The Strategy is accompanied by a detailed Action Plan that provides, for each reform area, high-priority actions that the RGoB could implement in the next five years. The Action Plan tables include, for each action/activity, a problem statement and an outline of the planned PFM reform, expected key tasks and actions, the organizational responsibility, a time frame, key milestones and output, and the cost. There is a provision for a mid-term review to be undertaken of the Strategy and Action Plan to adjust to actual implementation and modification to keep it relevant and contemporary.



## 2. BACKGROUND AND CONTEXT

### 2.1 Background

2.1. Structure of the Government: The public sector comprises the General Government (GG) and the public corporations (PCs).

- The General Government covers (a) the Central Government (CG); (b) the Local Governments (LGs) (Dzongkhags, Gewogs and Thromdes, which are established based on the Local Government Act 2009); and (c) a social security fund.
- The Central Governments consists of (i) the Budgetary Central Government (BCG) – namely the ministries, autonomous agencies, and constitutional bodies.

2.2. The RGoB has pursued PFM reform for many years. This was formalized for the first time with a PFM reform roadmap in 2006, but considerations relating to the development of public finance practices and institutions in fact go back as far as the RGoB's 5<sup>th</sup> Five Year Plan (FYP) (1981-1986), while good governance has been an integral part of Bhutan's development agenda since the 9<sup>th</sup> FYP (2002-2007). Following the first PEFA assessment undertaken in Bhutan in 2010, a comprehensive PFM Reform Program was prepared and implemented jointly by the RGoB and development partners. Similarly, the PFM Reform Strategy 2017-2021 was prepared based on the 2016 PEFA assessment and implementation of the action plan operationalised mainly through the PFM-MDF program.

### 2.2 Context

2.3. Bhutan was, like most other countries, significantly impacted by the coronavirus disease 2019 (COVID-19) pandemic, but overall weathered it comparatively well. This was due to the Government early on implementing wide-ranging policy measures that mitigated the adverse impact on lives and well-being.<sup>3</sup> Despite the challenges faced by the RGoB in this regard during FY 2020-22, it continued to implement its development partner-supported PFM reforms, including the PFM-MDF program, with good results.<sup>4</sup> In fact, the RGoB used PFM reforms inventively as part of its response to the pandemic by further developing ICT systems and procedures in order to disburse funds and enable more PFM tasks to be undertaken online. The RGoB, including the MoF and the Royal Audit Authority (RAA), remains committed at the highest level to pursuing PFM reform.

### 2.3 PFM reform progress since 2017

2.4. There have been notable developments across many PFM reform areas as the RGoB continued to strengthen its PFM systems and deepen its reform agenda based on the PFM Reform Strategy 2017-2021. Support under the PFM-MDF program acted as a catalyst and provided both technical and financial resources. Roll-out of country-wide digital payments by

<sup>3</sup> International Monetary Fund (IMF). 2022. [Bhutan: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bhutan](#). Country Report No. 2022/146. Washington DC, p. 1.

<sup>4</sup> PFM-related technical assistance provided by other development partners included the 'Strengthening Policy Formulation and Implementation' project of the Asian Development Bank (ADB), ADA's 'Professional Capacity for Royal Audit Authority for Better Governance, Final Phase', and the EU Delegation's budget support programs 'Capacity Development for Local Government' and 'Fiscal Decentralization' as well as ad hoc support provided by the IMF's South Asia Regional Capacity Development Center (SARTTAC) and the World Bank.

the RGoB were critical during the COVID 19 pandemic as citizens were able to receive funds digitally (directly in bank accounts), even in far-flung valleys and mountainous areas, thus eliminating the need to collect and cash cheques. Since a significant part of the population relies on tourism, His Majesty's Kidu income support program helped those impacted by lockdowns, which was facilitated by the digital payment reform in the form of the electronic Public Expenditure Management System (e-PEMS). For enhancing transparency, the publishing of quarterly in-year budget reports has been initiated since FY 2020-21, and a new section on climate expenditure has been added in the National Budget Report. The second and third development and implementation phases of the electronic Government Procurement (e-GP) system were launched in June 2020 and July 2022, respectively, and the system is now being used for about one-third of public procurement, hence making procedures more transparent, efficient, and timely (the procurement cycle time has been reduced by at least five days). More than 25 Cluster Finance Service (CFS) offices have been established across the country to strengthen internal control at decentralized levels, reduce payment time, and enhance efficiency and effectiveness. The CFS reform has been so successful that it is now being replicated by other Departments, Ministries and Agencies. A significant number of MoF staff and parliamentarians have received training, which has helped in implementing reforms in their respective areas. A significant step taken by the RGoB was to legislate the GST Act and it is now ready to implement the GST as soon as the required ICT application is developed and rolled-out.

2.5. The cash basis International Public Sector Accounting Standards (IPSAS) were notified in 2022 and the first annual financial statements (AFS) based on cash IPSAS are expected to be prepared for FY 2022-23. The Bhutan Accounting Standards (BAS), which are based on the International Financial Reporting Standards (IFRS) were issued. As a result of technical backstopping provided by the Accounting and Auditing Standards Board of Bhutan (AASBB) under the PFM-MDF Program, 44 large companies (private as well as state enterprises) are in significant compliance of BAS. The internal audit function has also been strengthened, including with an external quality assessment and instituting a quality control mechanism, shifting the internal audit focus to evaluation of adequacy and effectiveness of internal controls, and improved executive response to internal audit findings. However, there remains scope to introduce audit management software, and the RGoB needs to address the issue of vacant positions.

2.6. This Strategy and Action Plan considers the reforms completed, those that are planned or underway, and those that need to be scaled to a higher level. The RGoB endeavors to sustain and accelerate the trajectory achieved in the last few years and the new plan would consider the planned activities and include newer ones that have been informed by various diagnostics and/or those that stem from RGoB's priorities.

### 3. MAIN FINDINGS OF RECENT PFM DIAGNOSTICS

3.1. The five PFM-related diagnostics undertaken during FY 2021-23, and which provide the basis for the PFM Reform Strategy and Action Plan, are briefly described below.<sup>5</sup>

#### 3.1 SAI Performance Assessment 2021

3.2. The assessment establishes the RAA's capability in delivering its mandates in line with the International Standards of Supreme Audit Institutions (ISSAIs),<sup>6</sup> and provides a number of key findings. The Constitution (2008) and the Audit Act (2018) provide for the RAA's full independence, except for financial and organizational independence.<sup>7</sup> The RAA has well-established leadership competencies, and internal processes are satisfactory, except for the lack of a clearly defined system for identifying, mitigating and monitoring major operational risks. Ensuring an adequate audit coverage for financial and compliance audits is challenging due to the size of the audit universe. The RAA is revising its guidance documents in line with the ISSAIs. Overall audit performance is deemed satisfactory, although quality and reporting can be further improved. However, less than half of financial audits are completed within the planned timeframe. The process for preparing performance audits is well-functioning, but the management of audit risk cannot be traced through the documentation. Compliance audit has some shortcomings in the existing guidelines as well as in applied procedures, and only one-fifth of audits are completed within the planned timeframe. A robust IT-based follow-up system is in place that ensures effective implementation of recommendations. The RAA has several externally funded development programs across its work areas, including for capacity building of staff, which needs to be sustained. It has a good working relationship with Parliament through the Public Accounts Committee (PAC) and with the media based on press conferences when audit reports are published, but a formal strategy for citizen engagement is lacking.

#### 3.2 TADAT Performance Assessment 2022

3.3. The Tax Administration Diagnostic Assessment Tool (TADAT) provides a performance assessment of the RGoB's tax administration system.<sup>8</sup> The overall finding is that the RGoB's performance is weak to the extent of being inadequate. A number of specific observations are made. The DRC has in place a centralized and comprehensive database and provides a broad range of information to taxpayers, initial progress has been made in preparing a risk-based compliance improvement plan, the system of advance and withholding tax is effective, DRC inputs to the MoF are proficient and regular, and the revenue accounting system and its interface with the MoF work well. However, the taxpayer registration system is segregated

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<sup>5</sup> A procurement assessment, using the MAPS framework, has been undertaken during 2023 by the Asian Development Bank (ADB) and the World Bank, but the report is not yet finalized.

<sup>6</sup> The assessment was undertaken by a RAA team applying the Supreme Audit Institution (SAI) Performance Measurement Framework (PMF) of the International Organization of Supreme Audit Institutions (INTOSAI).

<sup>7</sup> This because the RAA's annual budget proposal is channeled through the MoF and the RAA is dependent on the Royal Civil Service Commission (RCSC) for human resources.

<sup>8</sup> TADAT assesses the performance of the tax administration system based on nine outcome areas: (1) Integrity of the registered taxpayer base; (2) Effective risk management; (3) Supporting voluntary compliance; (4) On-time filing of declarations; (5) On-time payment of taxes; (6) Accurate reporting in declarations; (7) Effective tax dispute resolution; (8) Efficient revenue management; and, (9) Accountability and transparency.

by tax type, DRC has no real-time interface with the business registration agency, compliance risk management is in its infancy with little compliance oversight, there is no automated or spontaneous third-party data matching, there is limited interaction with tax intermediaries to explain tax provisions or to obtain feedback, the level of timely filing and e-payment are low, the audit program is weak with poor monitoring of assessment quality and effectiveness, and the DRC does not commission independent third-party surveys of public confidence in the tax system. Hence, many areas require improvement.

### **3.3 PEFA PFM Assessment 2023**

3.4. The assessment provides a current diagnostic of RGoB's PFM performance and measures progress since the 2016 PEFA PFM assessment. It covers the central government-level, i.e. the RGoB's ten ministries, autonomous agencies, constitutional bodies and extra-budgetary units (EBUs), and the LG level. Overall PFM performance in 2022 is comparable to 2016, hence PFM performance continues to be sound and in line with many elements of good international practices. PFM procedures are reasonably supportive in achieving aggregate fiscal discipline, quite effective in ensuring strategic resource allocation, and strong in attaining efficient service delivery. At the pillar-level, performance has improved for 'transparency of public finances', 'predictability and control in budget execution', and 'accounting and reporting'. This is a result of improved financial reporting by EBUs, increased performance information for service delivery, better public access to fiscal information, more frequent revenue account reconciliation, strengthened internal audit, more frequent advance account reconciliation, and more timely preparation and submission of the AFS. Performance has decreased for 'budget reliability', 'policy-based fiscal strategy and budgeting', 'management of assets and liabilities', and 'external scrutiny and audit'. This is due to factors within and outside the RGoB, including changes to spending plans and activities necessitated by the COVID-19 pandemic, that the MoF did not include fiscal forecasts and medium-term expenditure estimates for outer years in the National Budget Report for FY 2022-23 (as it was the last year of the RGoB's 12<sup>th</sup> FYP and projections for the 13<sup>th</sup> FYP were not yet available), and that the PEFA Secretariat's Field guide (2018), which was not available at the time of the previous assessment, provides more granular scoring guidance (hence some lower scores in 2023 reflect more exact diagnostics rather than lower performance).

### **3.4 PEFA CRPFM Assessment 2023**

3.5. The CRPFM assessment reviews the extent to which the RGoB's PFM system supports and fosters implementation of climate change policies, i.e. whether it is 'climate responsive'. The overall finding is that initial efforts have been undertaken to implement and mainstream climate change policies in relevant PFM institutions, processes and systems, but that a number of gaps remain. This is reflected in most areas (indicators) being at a basic level and below-basic level of performance. However, four areas – climate-related liabilities, climate responsive revenue administration, compliance of climate-related expenditure, and climate responsive fiscal decentralization framework – show 'good' performance, i.e. climate change issues and policy responses are partially mainstreamed. Also, three indicators – budget alignment with climate change strategies, climate responsive budget circular, and climate-related performance evaluation – have a 'basic' performance, i.e. initial efforts have been made to mainstream climate change issues and policy responses. However, for the remaining

six areas, performance is below the basic level,<sup>9</sup> i.e. efforts to mainstream climate change issues and policy responses remain to be initiated, and one area cannot be scored.<sup>10</sup> Climate responsiveness best supports aggregate fiscal discipline followed by efficient service delivery, and then strategic resource allocation.

### **3.5 PEFA GRPFM Assessment 2023**

3.6. The CRPFM assessment reviews the extent to which gender is mainstreamed in the RGoB's PFM system, i.e. whether it is 'gender responsive'. The overall finding is that initial efforts have only to some extent taken place to mainstream gender in PFM institutions, processes and systems. This is reflected in most indicators being at a below-basic level of performance, and that only few are at basic and above-basic levels. Two areas (indicators) – sex-disaggregated performance information and gender responsive reporting – show 'good' performance, i.e. gender aspects are partially mainstreamed. Another two areas – gender responsive budget proposal documentation and tracking budget expenditure for gender equality – indicate 'basic' performance, i.e. initial efforts have taken place to mainstream gender impact analysis. However, for the remaining five areas – gender impact analysis of budget policy proposals, gender responsive PIM, gender responsive budget circular, evaluation of gender impacts of service delivery, and legislative scrutiny of gender impacts of the budget – performance is 'poor', i.e. gender considerations are not (yet) included.

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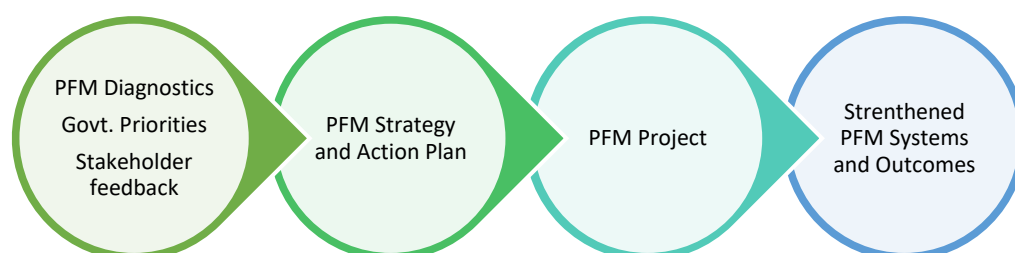
<sup>9</sup> Tracking climate-related expenditure, legislative scrutiny, climate responsive PIM, climate responsive non-financial asset management, and climate-responsive procurement.

<sup>10</sup> The 'expenditure out-turn for climate activities' indicator cannot be scored as the RGoB does not have a methodology that defines what constitutes 'climate change expenditure' and, hence, climate-related expenditure cannot be calculated.

## 4. APPROACH TO DEVELOPING THE PFM REFORM STRATEGY AND ACTION PLAN

4.1 The RGoB pursues PFM reforms through a systematic approach, which includes a reform strategy and action plan informed by diagnostic studies, stakeholder feedback and the Government’s own priorities. The last strategy and action was prepared and prioritized for 2017-2021, and select reforms were included for implementation under the PFM-MDF program, which supported the achievement of significant reforms.

**Figure 4.1: RGoB's systematic approach to reforms implementation**



4.2 The Strategy supports achievement of the relevant Sustainable Development Goals (SDGs) in Bhutan: developing effective, accountable, and transparent institutions (SDG 16.06), ensuring public access to information (SDG 16.10), substantially reduce corruption and bribery in all their forms (SDG 16.5), promote public procurement practices that are sustainable, in accordance with national policies and priorities (SDG 12.7), integrate climate change measures into national policies, strategies and planning (SDG 13.2) and for the promotion of gender equality (SDG 5.c).

4.3 The strategic objectives of the draft 13th FYP of the RGoB (for the period February 2024 to 2029 and is under discussion with stakeholders) revolves around four clusters namely economic development, social development, security and governance to realize the Royal Vision of a “Developed Bhutan” by 2030. The MoF’s vision is to have a transformed and trusted governance ecosystem that drives accelerated economic growth and improves people’s lives and one of the key performance indicators is to strengthen PFM across agencies, and have strong institutions and systems with enhanced accountability. The PFM Strategy and Action Plan aims to contribute towards the achievement of these objectives and would be revisited once the 13th FYP is finalized and approved to further align the two.

4.4 PFM reforms are a long-term continuous process, and there is always need and scope for further improvement. Therefore, it is necessary to update the action plan regularly and keep it contemporary. In line with this good practice, the PFM Reform Strategy and Action Plan for 2023-2028 has been developed by the RGoB in the context of its overall reform

direction to continue *'building stronger institutions through strategic reforms while ensuring a sustainable fiscal path and smooth transition'*.<sup>11</sup>

4.5 The Strategy and Action Plan has been informed by diagnostic studies and identification of areas by line ministries and other stakeholders. It also builds upon the previous PFM Reform Strategy 2017-2021 in terms of those reforms that are underway and need to be continued, and those that need to be pursued in the next period. The RGoB's PFM performance (strengths and challenges) were identified through the 2023 PEFA assessments for PFM, Climate and Gender in addition to other recent diagnostics (see Chapter 3) and priorities identified by the RGoB beyond these diagnostics.

4.6 While the Strategy includes areas identified for reforms, the challenges were prioritized (high, medium, low) and sequenced over a period of five years, and the high-priority areas were tabulated in the Strategy and Action Plan. The reforms were prioritized and sequenced based on the RGoB's desired policy outcomes and priorities, first implementing foundational PFM elements in specific areas so as to 'get the basics right' that would provide for next-level PFM reforms, potential constraints (technical and non-technical, including capacity) that may impact implementation and, thus, the probability of success, Sustainable Development Goals (SDGs) with focus on disaster management and, above all, keeping in mind that the reforms need to be sustained and institutionalized. Further, the approach will be to prioritize reforms with higher potential impact compared to the degree of effort involved and implement 'low-hanging fruits' early on to show accomplishments as well as instill motivation.

4.7 Based on periodical reviews and monitoring, reform actions could be advanced or re-scheduled and, those that are sequenced later, could be re-assessed and included in the Strategy and Action Plan for implementation. The Strategy and Action Plan proposes a governance framework for guidance on implementation, monitoring and review, and potential amendments. This would help keep the Strategy and Action Plan current, updated, relevant, and aligned with the Government's priorities, serving as a benchmark to measure progress and help the RGoB in identifying resources for its implementation.

4.8 The Strategy and Action Plan has benefited from feedback from the RGoB appointed focal points across MoF Departments, National Commission for Women and Children (NCWC), Department of Environment and Climate Change of the Ministry of Energy and Natural Resources (MoENR), Department of Local Governance and Disaster Management (DoLGDM) and the RAA which, within each area of reforms, identified the problem or opportunity for reform and the possible reform activities to address the underlying cause of the identified PFM weaknesses. Guidance was provided by the Acting Secretary Finance as the custodian of the Strategy and Action Plan.

4.9 The Strategy and Action Plan including "Quick Wins"<sup>12</sup> were presented and discussed at a multi-stakeholder Dissemination Workshop in Thimphu on 3 October 2023 and finalized

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<sup>11</sup> MoF. 2023. [Budget Report for FY 2023-24](#).

<sup>12</sup> These are a set of specific reform interventions (Appendix 2) that are akin to harvesting low hanging fruits or windows of opportunity that can be achieved without much effort and resources, but will bring in tangible results/outcomes, add value

based on feedback received. Following a review by the RGoB and peer review by development partners, the PFM Reform Strategy and Plan 2023 was finalized by the MoF and subsequently approved for implementation.

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and be impactful, upgrading the relevant area at least one level on the PEFA scoring scale and bringing Bhutan closer to international best practices. These simply require a change in behavior or a policy/procedure or effective communication to implement.



## 5. AREAS OF REFORM

5.1. This chapter provides an overview of possible areas of reform across the full set of PFM components: Revenue mobilization; macro-fiscal management; planning and budgeting; expenditure, accounting, and reporting; oversight institutions; cross-cutting; climate responsive PFM; and, gender responsive PFM. While the Strategy has separate sections on reforms in respect of climate and gender, these should be implemented along with the reforms included in the main PFM sections.

5.2. Each section comprises a background, summary of diagnostic findings ('challenges') and potential reform actions ('possible areas of reform'), and a matrix showing the reform actions in terms of priority (low, medium, high) and timeline (short-term, medium-term, longer term). All reform actions accorded high priority are included in the Action Plan (Chapter 7), while actions with medium and low priority may, if relevant, be added to the Action Plan following a periodical review, or a mid-term review planned for 2026.

5.3. The prioritizing and sequencing reform actions are based on: (i) the desired policy outcomes and priorities of the RGoB, (ii) establishing foundational PFM procedures and systems first so as to 'get the basics right' before moving on to more complicated PFM reform actions, and (iii) considering potential constraints (technical and non-technical) that may impact on implementation and thus the probability of success. Also, easy-to-accomplish tasks ('low-hanging fruits') should be done early on.

### 5.1 Revenue mobilization

#### Background

5.4. The RGoB's tasks and activities related to revenue administration are mainly undertaken by the Department of Revenue and Customs (DRC). It is responsible for the collection of all direct and indirect tax revenue and non-tax revenue, except grants. While it is organized along the model of a Single Revenue Agency, internally it is organized in separate verticals representing different taxes – Revenue Division, Sales Tax Division, Customs and Excise Division, and Information Division – and support functions such as Revenue Intelligence and Revenue Accounts and Audit. It furthermore comprises eight Regional Revenue and Customs Offices (RRCOs) and a Liaison and Trade Office (LTO) in Kolkata, India, and it administers all twenty Dzongkhags. The DRC reports to the MoF.

5.5. The core taxes collected by the DRC are Corporate Income Tax (CIT), Business Income Tax (BIT), Personal Income Tax (PIT), Sales Tax, and Domestic Excise. Provisions are in place for withholding of tax (Tax Deduction at Source (TDS)) on employees' wages and salaries as well as on interest, dividends, rental income, tour operators and contractors. Domestic revenue reached 22.6% of gross domestic product (GDP) in FY 2017-18, but has remained around 20% of GDP in recent years. Tax revenues account for about two-thirds of total revenues.

#### Diagnostic assessment

##### Revenue risk management

5.6. **Challenges.** The DRC uses a structured and systematic approach for assessing and prioritizing compliance risks for some categories of revenue, including for large revenue payers. However, while a comprehensive Compliance Improvement Plan exists for sales tax, such plans are not systematic and do not cover all taxes, hence interventions covering other taxes are ad hoc in nature. Also, there is no multi-year strategic plan in place.

5.7. **Proposed areas of reform.** The DRC should prepare Compliance Improvement Plans for all taxes including direct taxes and make better use of risk criteria to improve compliance and address tax refunds. Accompanying this should be a multi-year Strategic Plan to improve compliance along with monitoring the progress against the plan.

#### Revenue management systems – Goods and Services Tax (GST)

5.8. **Challenges.** The Goods and Services Tax (GST) Law was passed in January 2020 with the aim of replacing the Sales Tax with the GST by July 2021. However, the GST has not yet been implemented because the necessary ICT support – the Bhutan Integrated Taxation System (BITS) – has not yet been developed.

5.9. **Proposed areas of reform.** While attempts to develop BITS remain ongoing, although with an uncertain timeline, once rolled out it will replace the existing Revenue Administration Management Information System (RAMIS) to provide a single portal to administer all direct and indirect taxes (except customs). Along with BITS, the DRC should complete its transformation from the current organization around taxes and geography to a functional organizational model. Preparations have been underway for some time and will, going forward, require to organize infrastructure and training for specialized functions.

5.10. Pending the introduction of BITS, the DRC is progressing with introducing the Bhutan Integrated Revenue Management System (BIRMS), which will provide the DRC, inter alia, with functionality for tax and duty payments and refunds. It will be an integrated system for all core taxation modules, government agency systems, and financial institutions. It should also be accessible to citizens and businesses via relevant revenue systems<sup>13</sup> providing a payment platform for tax as well as non-tax revenues and enable revenue management with audit support and risk management.

#### Revenue management systems – Indirect taxes

5.11. **Challenges.** The Bhutan Automated Customs System (BACS) of the DRC's Bhutan Customs Administration (BCA) is used mainly for indirect taxes such as customs and sales tax at the point of entry of goods. However, it cannot exchange information on a real-time basis, which causes delays and data inconsistencies. Also, BACS has been used for a number of years and poses a high 'shutdown risk'.

5.12. **Proposed areas of reform.** The electronic Customs Management System (eCMS) should be developed and implemented. It will be a centralized and web-based system that will implement Coordination of Border Management (CBM) via electronic and automated exchange of cargo control data; enable automated electronic data exchange and customs instructions with cargo transporters, operators of dry ports, and warehouse operators; allow

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<sup>13</sup> Electronic Customs Management System (eCMS), BITS, property tax systems, and RAMIS.

for different modes of payment of customs duties and taxes, including e-Payment; support fully automated processing of customs declarations; and, incorporate administration functions to manage customs codes, tariffs, assignment of customs staff to specific process roles, and automated routing of transactions to staff. It will integrate with other systems.<sup>14</sup>

Revenue management systems – Property tax

5.13. **Challenges.** Property tax collections are at present made through the Bhutan Online Land Tax Payment System (BoLTS) as well as the Revenue Management System (RMS) for some Thromdes (e.g., Thimphu).<sup>15</sup> Hence, the approach to property taxes is not consolidated and it does not facilitate accurate assessment and online property tax payments.

5.14. **Proposed areas of reform.** A new consolidated property tax system that is integrated with information on land holdings from the National Land Commission Secretariat as well as a new Housing system (Property Register) should be developed by the Ministry of Infrastructure and Transport’s Department of Human Settlement.<sup>16</sup> This will enable not only accurate assessments and online property tax payments, but also facilitate the introduction of a value-based property tax once legislation for this is in place.

**Prioritization of reform actions**

5.15. The above areas of reform are prioritized as follows:

**Table 5.1: Reform matrix for revenue-related actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	Revenue management systems – GST (BIRMS) Revenue management systems – Indirect taxes (eCMS) Revenue risk management - Compliance Improvement Plans and multi-year Strategic Plan		
	Medium term (2-3 years)	Revenue management systems – GST (BITS) + organizational restructuring Revenue management systems – new Property tax system		

<sup>14</sup> Including the Department of Information Technology & Telecom (DITT) Datahub, Bank of Bhutan Core Banking System, National Single Window (Bhutan TradeNet Financial Network), and airlines.

<sup>15</sup> RMS consist of the Tax Management System (TMS) for direct taxes and the Revenue Accounting System (RAS).

<sup>16</sup> The will be based on enhancing the existing Zhichar system, which is used to collect housing data in urban areas.

		Priority		
		High	Medium	Low
	Longer term (4-5 years)			

5.16. The actions included in the ‘high priority’ column are reflected in Section 7.1 on page 57 of the Action Plan.

### Expected outcomes

5.17. The reform pillar will equip the DRC with modern ICT systems and help improve its risk management procedures. Operationalizing BIRMS and BITS to enable implementation of GST (as a replacement for the Sales Tax), is expected to lead to increased revenue collection. Coordination of Border Management (CBM) through the eCMS will allow for real-time data exchanges and other functions, which will facilitate improved management of indirect taxes. The property tax system will benefit from integration of existing land and property registers to enable more accurate assessments, allow for online tax payments, and facilitate introduction of a value-based property tax (once legislation is passed). Improvement in DRC’s revenue risk management framework will ensure that all categories of taxes are covered by a Compliance Improvement Plan, which is expected to increase revenues. This along with developing a multi-year Strategic Plan will provide a more systematic approach to risk management to improve compliance and progress monitoring. A new organizational model to support the DRC’s transformation from a geographical set-up to specialized functions will improve efficiency in DRC’s operations.

## 5.2 Macro-fiscal management

### Background

5.18. The MoF’s Department of Macro-Fiscal and Development Finance (DMDF) is tasked with coordinating, formulating, and monitoring the RGoB’s macroeconomic policies and programs. It has three Divisions: Macro-fiscal Division, Development Coordination and Debt Management Division, and Investment and Corporate Governance Division. It serves as secretariat to the Macroeconomic Framework Coordination Committees (MFCC)<sup>17</sup> and leads the Macroeconomic Framework Coordination Technical Committee (MFCTC).<sup>18</sup>

5.19. The Investment and Corporate Governance Division (ICGD) under the DMDF monitors the performance of state enterprises.<sup>19</sup> This is because state enterprises pose fiscal risks to

<sup>17</sup> The MFCC is established based on Clause 19 of the Public Finance Act (PFA) 2007 to coordinate macroeconomic policies. In addition to the MoF it includes the Royal Monetary Authority (RMA), Ministry of Economic Affairs (MoEA), National Statistics Bureau (NSB), Tourism Council of Bhutan, and Ministry of Industry, Commerce and Employment (MoICE).

<sup>18</sup> Macroeconomic projections are prepared by the MFCTC at the technical level and endorsed at the policy level by the MFCC.

<sup>19</sup> There are 32 state enterprises of which 15 are stand-alone under the MoF, 15 are under the Druk Holding and Investments (DHI) Limited, and two are under the Queen’s Project Office.

the RGoB in terms of their operations and, hence, demand over budgetary funds. LGs pose fiscal risks to the RGoB for the- same reasons.

5.20. The RGoB's functions related to investment project identification and formulation are overseen by the Department of Planning, Budget and Performance (DPBP) and DMDF,<sup>20</sup> which review project proposals on behalf of the MoF before they are approved by the Cabinet. Ministries and agencies prepare Detailed Project Reports (DPR) or Initial Project Documents (IPD) as well as detailed feasibility studies, and also monitor implementation.

5.21. The Policy and Planning Division (PPD) is the focal for coordinating and spearheading policy and plan formulation as well as setting MoF targets and objectives. The PPD has four sections that cover policy coordination and planning, monitoring and evaluation, media and information, and Dzongkha coordination. The PPD facilitates the work of the Policy and Planning Coordination Meeting (PPCM), which is chaired by the Hon'ble Minister.

### **Diagnostic assessment**

#### Macroeconomic and fiscal forecasting (PI-14.1, 14.2 and 14.3)

5.22. **Challenges.** The MFCTC prepares three-year forecasts for selected macroeconomic indicators on a quarterly basis, which are endorsed by the MFCC. Macroeconomic forecasts and underlying assumptions are included in the National Budget Reports. However, the underlying assumptions stated in the FY 2022-23 National Budget Report covered only projections of GDP growth and inflation, but not interest rates or exchange rates. The same seems to be the case for the 2023/24 National Budget Report.

5.23. The MFCTC's forecast for fiscal indicators (revenue, grants, expenditure, and financing) was included in the FY 2022-23 National Budget Report for the budget year, but not for the following two fiscal years. It also did not include an explanation of the main differences from the forecasts made in the previous year's budget. The FY 2023-24 National Budget Report includes fiscal indicator forecasts for the budget year and the next fiscal year, but not for two years, and also not an explanation of the main differences from the forecasts made in the FY 2022-23 budget.

5.24. The MFCTC prepares, for its internal use, projections based on different policy scenarios and assumptions. The National Budget Reports discuss some external and domestic risks to the macroeconomic outlook, but they do not include a discussion of forecast sensitivities.

5.25. **Proposed areas of reform.** To support macroeconomic and fiscal forecasting, the DMDF is developing a MTMF tool, a fully-fledged macroeconomic analysis that integrates all relevant sectors of the economy and allows for consistent forecasting. The tool could be further developed to incorporate scenario analysis to facilitate a more comprehensive assessment of risks and potential outcomes under different scenarios. Using the MTMF outputs, the DMDF would be able to ensure that all relevant underlying assumptions are clearly stated in the National Budget Reports covering the same period as the forecasts, which

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<sup>20</sup> The functions were assigned to the Gross National Happiness Commission (GNHC) until it was dissolved in October 2022.

should cover the budget year and the following two fiscal years. Similarly the DMDF could try and ensure that forecasts of the main fiscal indicators cover the two fiscal years following the budget year as well as that the main differences from the forecasts made in the previous year's budget are included in the National Budget Report. The DMDF could furthermore aim to have future National Budget Reports include a discussion of forecast sensitivities, or even that fiscal forecast scenarios based on alternative macroeconomic assumptions are published.

*Fiscal strategy (PI-15.1 and 15.2)*

5.26. **Challenges.** While the government is very conscious of the fiscal impact of all policy proposals, there is no proper mechanism wherein the MoF prepares fiscal impact studies of all revenue and expenditure policy proposals. Although some budgetary bodies conduct impact studies internally, these reports are not submitted to Parliament.

5.27. The government has adopted and submitted to Parliament a fiscal strategy that includes quantitative fiscal targets, but the proposed fiscal deficit target was not taken into consideration when drafting the FY 2022-23 budget.

5.28. **Proposed areas of reform.** A procedure for budgetary bodies to prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy could be introduced as part of the annual budget formulation process. The impact studies should cover the budget year and the following two fiscal years, and the results either be summarized in the National Budget Report or the impact study reports submitted separately to Parliament.

5.29. Also, the government could – as previously – develop, adopt, submit to Parliament and publish a current fiscal strategy (that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years) and then apply the proposed fiscal deficit target when preparing the annual budgets.

*Fiscal risk reporting – State enterprises (PI-10.1)*

5.30. **Challenges.** For state enterprises (SEs), three reform areas have been identified: (i) Strengthen monitoring and management by the MoF and Druk Holding and Investments (DHI) Limited, considering the growth in the portfolio and the complexities involved; (ii) Refine/revisit the SE Performance Management System; and, (iii) Assess drivers of profitability of loss-making SEs, considering poor performance and fiscal risks. Also, the preparation and publication of AFS and annual reports were delayed in recent years.

5.31. **Proposed areas of reform.** Transparency can be enhanced if SEs publish their audited AFS and annual reports within six months of fiscal year-end. The ICGD's consolidated annual report on SEs could be expanded to cover all SEs, include financial and non-financial performance information, and be published on a timely basis (within twelve months of fiscal year-end). To facilitate this, a digitized database could be developed to timely capture relevant information,<sup>21</sup> from all SEs.

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<sup>21</sup> For example, corporate governance, human resources, investments, capital expenditure, and non-financial performance.

5.32. For improved fiscal risks management and, SEs' corporate governance (CG) could be further strengthened. The 2013 CG guidelines could be further aligned with the 2016 Companies Act and the CG Guidelines of the Organisation for Economic Co-operation and Development (OECD). The revised CG guidelines should establish clear board and management appointment criteria consistent across SEs and increase the number board directors with private sector experience. To implement this effectively, ICGD in collaboration with DHI could, building on DHI's current CG improvement program, roll-out compulsory CG training program for all key personnel and board members of the SEs.

5.33. Monitoring and oversight of SEs by the MoF could be further strengthened by increasing ICGD staffing and issuing guidelines specifying that the MoF has oversight of all SEs. A DHI and MoF agreement could formalize enhanced collaboration on SE oversight and CG. Furthermore, it would be beneficial to: (a) build capacity in the MoF/DHI as regards oversight, reporting and performance management of SEs; (b) undertake comprehensive SE fiscal risk assessments for the National Budget Reports; (c) make actuarial evaluation of the defined benefit scheme with recommendations to strengthen its financial sustainability or other identified areas; (d) review the MoF and DHI SE performance-based management systems; (e) assess SE investment management practices using international standards/assessment framework and identifying gaps; and, (f) analyze drivers of SE performance and restructure poor performing SEs.

*Fiscal risk reporting – LGs (PI-10.2)*

5.34. **Challenges.** Audited or unaudited AFS of individual LGs on their financial position and performance are not prepared and hence not known to the RGoB or published.

5.35. **Proposed areas of reform.** To facilitate uniform financial reporting, the RGoB's standard setting body could prescribe the standards/protocol for financial reporting by the LGs in terms of preparing AFS to show their financial position and performance, including the timelines and template. Also, LGs should be trained to prepare the AFS in accordance with these standards/protocol and publish the audited/un-audited AFS. Based on these, a consolidated report on the financial position of the LGs could be prepared and published, in line with similar report for state enterprises.

*Public investment management (PI-11.1, 11.2 and 11.3)*

5.36. **Challenges.** While economic analysis is done for major investment projects funded by development partners, it is not applied for RGoB-funded projects. Updated guidelines for economic (cost-benefit) analysis are yet to be published and applied. There is a vast corpus of rules, regulations, and guidelines for project appraisal and defining standard procedures and rules for project implementation. Despite this, appraisal by an independent entity is presently limited and only some major investment projects were prioritized by a central agency. Also, the annual budget documentation contains limited information on the costs of major investment projects – such as projections of total and year-by-year capital costs together with estimates of aggregate recurrent costs for the medium term.

5.37. **Proposed areas of reform.** The RGoB proposes to move towards Performance Based Budgeting. To facilitate this, there is a need to standardize the process by developing a

national framework and guidelines that will require all investment projects to undergo detailed appraisal, including feasibility studies, carry out economic/social cost-benefit analyses, detailed costing, and drawing up implementation plans. Independent entities or bodies should review the appraisal conducted, particularly for large projects, as well as prioritize projects according to established criteria, respectively. The guidelines could also establish clear selection criteria for all major investment projects, which would help the DPBP to develop a screening tool to ensure efficient resource allocation. Additionally, the guidelines should outline project life-cycle costing of major investments. The annual budget documentation could be improved by including projections of the total life-cycle costs of major investment projects, including both capital and recurrent costs with a year-by-year medium-term breakdown. Finally, post-implementation project evaluations should be undertaken to assess whether outcomes and objectives have been achieved as well as to provide lessons. Guidelines for independent evaluation, including principles and coverage, should be issued and a central entity or group designated to oversee evaluations. Human resource capacities across sectors would be a cross-cutting theme to understand, disseminate and implement the guidelines.

### Prioritization of reform actions

5.38. The above areas of reform are prioritized as follows:

**Table 5.2: Reform matrix for macro-fiscal management actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	National guidelines for project appraisal, review and prioritization MTMF development and adoption Fiscal strategy adoption		
	Medium term (2-3 years)	Guidelines for project review/evaluation Fiscal impact of policy proposals Enhance fiscal risk reporting of state enterprises and LGs as well as various other related measures	Include project life-cycle costing of major projects in budget documents Strengthen corporate governance criteria of state enterprises Strengthen monitoring and oversight capacity of the MoF	
	Longer term (4-5 years)		Improve performance of state enterprises	

5.39. The actions included in the 'high priority' column are reflected in Section 7.2 on page 58 of the Action Plan.



### Expected outcomes

5.40. This reform pillar will enable DMDF to prepare macroeconomic analyses and undertake fiscal forecasting using the MTMF tool and provide for more consistent forecasting. Quantifying the fiscal impact of all proposed changes in revenue and expenditure policies in the annual budget, will help to ensure that policies are feasible and sustainable. Improved risk monitoring of SEs and LGs will support a better understanding of the risks in these parastatals and help reduce risks for the RGoB. Increasing PIM efficiency and effectiveness will support the RGoB's social and economic development goals.

## 5.3 Planning and budgeting

### Background

5.41. The planning function in Bhutan is now spearheaded by the office of the Cabinet Affairs under the Cabinet Secretariat. (Till October 2022, the planning function was performed by GNHC). So far, Bhutan has prepared 12 five-year plans (FYP) and 13<sup>th</sup> FYP is currently under preparation for which the stakeholders are being consulted. The 13FYP is expected to be finalized in January/February 2024.

The MoF's tasks related to expenditure planning, budgeting and performance are mainly undertaken by the Department of Planning, Budget and Performance (DPBP). It has four Divisions: Economic, Governance and Security, Social and Local Government Divisions. The MoF's revenue planning and forecasting tasks are done by the Department of Macro-fiscal and Development Finance (DMDF) based on the Medium-Term Fiscal Framework (MTFF). Projections are reviewed by the MFCTC and approved by the MFCC. Day-to-day revenue administration is performed by the DRC.

### Diagnostic assessment

#### Expenditure composition out-turn (PI-2.1 and 2.2)

5.42. **Challenges.** The variances between the original budgets and actual spending – based on administrative classification – were more than 10% in two of the three fiscal years during FY 2019-20 and FY2021-22.<sup>22</sup> However, the variances were significantly higher when calculated based on the economic classification.<sup>23</sup> The variances in FY 2019-20 were mainly due to higher salaries (pay revision for civil servants) and COVID-19 income support transfers as well as lower grants and capital spending. The variances in FY 2020-21 and FY 2021-22 were largely a result of the COVID-19 pandemic with significantly increased spending on social benefits, but to some extent also lower spending on goods and services. For FY 2021-22, the high variance was partly due to higher actuals for goods and services and capital spending, but mainly because of a mismatch in how transfers to LGs are budgeted and accounted for.

5.43. **Possible areas of reform.** While acknowledging the impact of the COVID-19 pandemic on expenditure out-turns, there is room for improving the budget preparation as well as expenditure monitoring processes:

<sup>22</sup> The administrative classification variances were 13.5% in FY 2019-20, 37.2% in FY 2020-21, and 8.3% in FY 2021-22.

<sup>23</sup> The economic classification variances were 27.6% in FY 2019-20, 50.4% in FY 2020-21, and 40.8% in FY 2021-22.

- *Budgeting* – Ensuring that budgetary bodies develop realistic cost estimates, which the MoF aims to achieve by implementing a budget screening tool to prioritize activities based on readiness (e.g., feasibility study, cost estimates and implementation plan). This will require TA to develop the tool itself as well as to strengthen staff capacities.
- *Spending* – The MoF will first focus on developing the IFMIS, which will ensure that a robust financial system is in place. The MoF will thereafter focus on developing other subsidiary components of the system such as the Budget Monitoring Tool (BMT) to enhance the overall financial management system.

*Performance information for service delivery (PI-8.2 and 8.4)*

5.44. **Challenges.** Service delivery performance of all ministries and agencies was evaluated against targets included in Annual Performance Agreements (APAs), through the Government Performance Management System (GPMS) managed by the DPBP. The APAs, entered into by agencies up to FY 2021-22, were published. However, performance information on actual achievement is not published. Performance audits that assess economy, efficiency, and effectiveness in relation to service delivery are done by the RAA covering some ministries

5.45. **Possible areas of reform.** Implementation of APAs was kept on hold during FY 2022-23. While an assessment of reinstatement of the APA approach, or a similar approach, is underway, the MoF proposes to introduce Performance Based Budgeting (PBB) to measure performances against investments. If the RGoB reinstates APAs, or introduces a new approach or system to monitor annual performance, then data on actual service delivery performance will be published at least annually based on the evaluations that will be undertaken by a designated agency/body to enhance transparency in the mechanism. For this purpose, a template for disseminating agency-wise actual performance information will be developed and training provided to potential evaluators (e.g., peer reviewers from line ministries). Furthermore, there is scope for expanding the specialized performance evaluation of the efficiency and effectiveness (performance audit) of service delivery by the RAA to cover more ministries/themes.

*Medium-term perspective in expenditure budgeting (PI-16.1, 16.2, 16.3 and 16.4)*

5.46. **Challenges.** The FY 2022-23 National Budget Report presented expenditure estimates for the budget year by relevant classifications, but no estimates were provided for the next two fiscal years. Also, no expenditure ceilings were provided for the next two years in the Budget Call Circular. Both these issues were due to the non-availability of 13<sup>th</sup> FYP estimates (in the past, the two outer fiscal year projections were provided). Furthermore, while entity-level strategic plans were prepared as part of the FYP, only few expenditure policy proposals underlying the medium-term budget estimates aligned with the strategic plans. Finally, the National Budget Report provided only few explanations of the changes in the expenditure estimates from the previous medium-term budget.

5.47. **Possible areas of reform.** In order to improve the dimension-level scores for PI-16, the MoF would need to (i) include medium-term expenditure estimates allocated by three classifications in the National Budget Reports, (ii) have aggregate and ministry-level expenditure ceilings, including for the medium-term, approved by Cabinet before the Budget Call Circular is issued, (iii) ensure that medium-term strategic plans are costed and

expenditure policy proposals underlying medium-term budget estimates align with strategic plans, and (iv) explain in the National Budget Reports changes to ministry-level expenditure estimates between the last medium-term budget and the current medium-term budget.

5.48. The DPBP aims to review previous practices of multi-year rolling budgeting, which the Multi-Year Rolling Budget (MYRB) system is designed for, and re-institute the approach at the start of implementing the 13<sup>th</sup> FYP. Revamping the system will ensure that there is a budget ceiling for the budget year and the next two fiscal years and, accordingly, the budgetary bodies will need to propose a multi-year rolling budget. The MoF plans to implement a unified charter of accounts (UCoA), which requires that all systems, including the MYRB system, are updated.

**Budget preparation process (PI-17.2 and 17.3)**

5.49. **Challenges.** While the RGoB otherwise has a well-functioning annual budget preparation process, no agency-wise or functional ceilings were included in the Budget Call Circular for FY 2022-23 to guide the process. Ceilings were not included as there was no confirmed 13<sup>th</sup> FYP outlay as well as to avoid substantive supplementary incorporation of external support as budgetary bodies did not propose during the budget process. Also, due to Article 47 of the Public Finance Act (PFA) 2007, as per the Public Finance (Amendment) Act 2012,<sup>24</sup> the budget is submitted to Parliament only short time before the start of the fiscal year, hence leaving relatively limited time for budget scrutiny.

5.50. **Possible areas of reform.** It is understood that the MoF plans to reintroduce agency-level ceilings for RGoB financing in future budget preparation processes. The MoF may also consider whether it may be able to submit the annual budget early on to Parliament, but no reform actions is proposed in this regard since the procedure applied by the MoF for submitting the budget to Parliament is fully compliant with the legal requirements.

**Prioritization of reform actions**

5.51. The above areas of reform are prioritized as follows:

**Table 5.3: Reform matrix for planning- and budgeting-related actions**

		Priority		
		High	Medium	Low
<b>Timeline</b>	<b>Short term</b> (1-2 years)	Medium-term perspective in expenditure budgeting: (i) Re-establish multi-year rolling budgeting through MYRB system (ii) Ensure that budget formulation process has a medium-term perspective		

<sup>24</sup> Article 47 states “The Minister of Finance shall present to the Parliament the Government’s Budget Appropriation Bill no later than five days preceding the budget year”.

		Priority		
		High	Medium	Low
		(iii) Ensure alignment between strategic plans and medium-term budgets (iv) Improve information on ministry level expenditure estimates in the National Budget Report (v) Introduce Performance based Budgeting (PBB)		
	<b>Medium term</b> (2-3 years)	Expenditure composition out-turn: Develop a readiness-based budget screening tool	Performance information for service delivery	
	<b>Longer term</b> (4-5 years)			

5.52. The actions included in the ‘high priority’ column are reflected in Section 7.3 on page 62 of the Action Plan.

### Expected outcomes

5.53. The key outcomes of this reform pillar are to equip ministries and agencies to develop more realistic cost estimates to reduce variances between budgets and actual spending by implementing a budget screening tool to prioritize activities based on readiness as well as focus on developing subsidiary components of the IFMIS, enable better measurement of performance against investments, disseminating agency-wise actual performance information, providing for improved medium-term perspective in expenditure budgeting, and ensuring improved alignment between fiscal policy objectives and fiscal constraints.

## 5.4 Expenditure, accounting, and reporting

### 5.4.1 Accounting and reporting

#### Background

5.54. The MoF’s Department of Treasury and Accounts (DTA) is mandated to ensure that a sound government accounting system with professional finance personnel is place based on the principles laid down in the PFA (2007, amended in 2012). It has three divisions – Treasury Management Division (TMD), Accounts Division (AD), and Payment Management Services Division (PMSD) – as well as a general support services unit.

#### Diagnostic assessment

Cash management (PI-21.1 and 21.2)

5.55. **Background.** The RGoB's Government Consolidated Fund – Treasury Single Account (TSA) – is maintained with the Royal Monetary Authority (RMA) as a set of three linked accounts that are consolidated daily.<sup>25</sup> The RGoB also has several other accounts maintained in bank accounts outside the TSA that are not consolidated, although the year-end balances are reflected in the AFS.<sup>26</sup> As of 30 June 2022, the balances in non-TSA accounts comprised about 55% of the cash balance of the RGoBC. Consolidated RGoB borrowing could possibly have been minimized in some periods thus reducing interest costs.

5.56. Based on information provided by ministries and divisions, the DTA prepares a cash flow forecast using spreadsheets based on the domestic revenue forecast, expected inflow of grants and outflows based on estimated expenditure for the year. The forecast is updated monthly, but without considering actual cash inflows and outflows. A Cash Coordination Committee (CCC) uses the deficit projected in the cash forecast to determine and recommend the volume and timing of issue of Treasury Bills by the RGoB.

5.57. **Challenges.** Maintenance of accounts outside the TSA and their non-consolidation with the TSA obscure the RGoB's true cash position as well as the overall financial health and obligations of the RGoB. It also makes it challenging to manage resources effectively, and may lead to duplication of efforts, inefficient use of funds, and difficulties in identifying surplus or deficit positions. Some steps have been initiated to address these issues, including re-structured and re-categorized Current Deposit (CD) accounts as well as consolidating the balances under these accounts in the TSA regularly. Also, a mandate is being considered for utilizing these funds through the budgetary system and discouraging accumulating cash balances, although the relevant instructions remain to be consolidated and codified.

5.58. Absence of a comprehensive and adequate cash forecasting mechanism leads to material deviations in projected and actual cash requirements (alternately determining the deficit) thereby escalating the cost of borrowing and potentially leading to an actual cash surplus or deficit situation. There are no cash forecasting tools and the forecast is prepared using a spreadsheet, which has not been calibrated for actual results.

5.59. **Proposed areas of reforms.** Development of a comprehensive TSA will require a collaborative effort between RGoB entities, the RMA, commercial banks, and technology providers. The IFMIS (see Section 5.6) will facilitate TSA for treasury management. Foremost, either the instructions should be included in the Finance and Accounting Manual (FAM), or these may be developed in an operational manual/guidance note for the TSA incorporating the composition of the TSA, clear rules for operating bank accounts outside the TSA, procedures for reconciliation, and inventory of all accounts to identify which can be included in the TSA. Based on the final design, changes in the accounting system, including the chart of accounts (CoA), will be assessed and implemented.

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<sup>25</sup> The three accounts are: Royal Government Revenue account, Government Budget Fund Account, and Government Non-revenue Receipts and Deposits Account.

<sup>26</sup> These include: the CD accounts, Refundable Deposits Accounts, Trust and Endowment Funds, National Monument Funds, Escrow accounts, Audit Recoveries Account, accounts operated by the universities and institutes, and other CD accounts maintained by the budgetary bodies for specific purposes. The balances in these accounts vary in terms of numbers and amounts and their proportion to the TSA and could be significant.

5.60. The RGoB could develop a cash forecasting model, based on an online tool and integrated with various PFM applications, as the foundation of effective cash forecasting. The system will ensure that all relevant financial information, including revenues,<sup>27</sup> expenditures, grants, loans, and other inflows and outflows, are properly recorded and updated regularly, both for projections and actuals, and a variance analysis carried out. A specialized cash forecasting and monitoring tool will offer features like real-time updates and predictive analytics and linked to IFMIS. A well-structured TSA (as discussed above) is foremost for cash management.

5.61. Human resources development in advanced forecasting techniques would be required in terms of training and building expertise. This could include exposure visits to select host countries to acquaint with good practices, including TSA design. Knowledgeable staff and the members of the CCC can make a significant difference in the accuracy of the forecasts. A core team of master trainers can be put in place and regularly supplemented with additional staff based on needs and/or to address attrition. It would also be useful to develop a handbook (user manual) on cash forecasting.<sup>28</sup> A monthly briefing note on cash forecast and related aspects could be prepared for the CCC and the Secretary Finance.

Expenditure arrears (PI-22.1 and 22.2)

5.62. **Background.** The RGoB has a mechanism to control the payment of salaries and debt servicing, hence there are no arrears in these areas. Debt is monitored centrally by the MoF while salary is monitored through the Government Payroll System (GPS). A system has been prescribed in the FAM of the Financial Rules and Regulations (FRR) (2016) for recording outstanding and arrears in respect of works, goods and services at an individual unit level, for instance recording in a Bills Inward Register. The FRR as well as the Procurement Rules and Regulations (PRR) (2019) require all budgetary bodies to act on settlement or return of any claim received in an office to be completed within 30 days of receipt of the claim.

5.63. **Challenges.** There is no system for collation, consolidation and reporting of stock, composition or age of expenditure outstanding/arrears, if any, and hence overall status is not known by the MoF. Since the RGoB presently follows the cash system of accounting, the accounting system does not capture this information. While the framework for recording of the expenditure bills – and hence determination of the expenditure outstanding/arrears in respect of goods, works and services is in place at the individual spending unit – there is an opportunity for the MoF to institute a mechanism for collation and consolidation and reporting of the stock, composition or age of expenditure outstanding/arrears. This would not only apprise the MoF of the extent of arrears or liabilities (thus supporting commitment control), but will help in cash management as well as budgeting for subsequent years. The framework could be strengthened by adding a definition of expenditure arrears in the FAM.

5.64. **Proposed areas of reform.** The MoF is currently embarking on significant changes to improve expenditure control and arrear management to enhance financial reporting:

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<sup>27</sup> A new BIRMS system is under development and will facilitate faster deposit of government revenue.

<sup>28</sup> A handbook (user manual) on cash forecasting should include data points and their sources, key principles of cash forecasting, templates of reports for various stakeholders, and principles of decision-making using the data/information

- An online spreadsheet-based portal facilitates the CFS to maintain records on in-wards bills and payment details. It is to be developed into a system to cater requirements that will assist all budgetary bodies to track and record payments details. At present, ten CFS agencies are using the online portal.
- An online system known as Financial Documentation (FinDoc) was developed to maintain relevant records for processing payments as well as to track and record payments details.

5.65. Further, the upgrading of IFMIS is expected to address the above challenges.

5.66. The above system of online portal or FinDoc could be consolidated into a computerized system preferably as a module to the IFMIS. Utilization of this module by spending units will facilitate improve management of accounts payable by spending units and their administrative heads but also by the MoF. The data could be used to generate periodic reports containing the composition and age of outstanding for analysis and decision-making. Once stabilized, the RGoB may consider including the information on pending bills in the AFS and in-year budget execution reports. Although there are no indications of significant arrears, to begin with spending units should be tasked to collate the expenditure outstanding/arrears as on a cut-off date.

#### Suspense accounts (PI-27.2)

5.67. **Background.** Integrity of financial data as reported in periodic and annual reports are impacted by the frequency, adequacy and quality of reconciliation of bank accounts as well as advance and suspense accounts. The RGoB has laid down procedures in the FAM for such reconciliation. Accounting for suspense is done in the e-PEMS. A consolidated statement showing agency-wise aggregate additions and adjustments within the year in the suspense account is included in the RGoB's AFS although opening and closing balances of suspense accounts are not disclosed.

5.68. **Challenges.** Reconciliation of suspense accounts is done only at fiscal year-end, rather than monthly or quarterly. At the end of each fiscal year, a recurring area of concern is non-reconciliation of certain suspense heads, including *inter se* advances. Also, the manual mode of reconciliation is cumbersome, time consuming and has accuracy issues. Hence, requirements for reconciliation should be minimized and the process automated.

5.69. **Proposed areas of reform.** It is proposed to enhance the existing e-PEMS and electronic Daily Allowance and Travel System (e-DATS) to automate proper recording and reconciliation of suspense. In the medium to long term, the development and roll-out of a modernized IFMIS, including implementation of the UCoA, will eliminate reconciliation of suspense accounts.

#### Chart of accounts (CoA)

5.70. **Challenges.** While the MoF has undertaken significant reforms towards improving accounting practices, particularly in terms of IT systems, the underlying data structures as expressed in the CoA has not been upgraded. This has led to challenges in sharing data across different systems as well as in utilizing reporting capacities.

5.71. **Proposed areas of reform.** The South Asia Regional Training and Technical Assistance Center (SARTTAC) of the International Monetary Fund (IMF) in 2020 undertook a review of the MoF's accounting capacity and in May 2022 an assessment of the capabilities of existing IT systems so that sufficient time would be available to enhance functionalities of these systems, or to develop new systems. The target date for implementation of the UCoA is April 2024 and the work to ensure this, led by a working group constituted by the RGoB, is ongoing. SARTTAC's recent report provides recommendations for the short- and medium-term on how to ensure that adequate IT systems will be in place.<sup>29</sup>

Annual financial reports (PI-29.1 and 29.3)

5.72. **Challenges.** The RGoB adopted the cash basis IPSAS with effect from 1 July 2022. The very first cash basis IPSAS financial statements shall be prepared, audited, and published by the RGoB within calendar year 2023. IPSAS requires generation of a Statement of Cash Receipts and Payments, a Statement of Comparison of Budget to Actual, and corresponding notes to Accounts. However, in the absence of an integrated system, the consolidation/preparation of AFS is being done manually based on information provided by MYRB system, revenue system and e-PEMS, which is time-consuming and error-prone. Also, while various disclosure requirements are encouraged by IPSAS, the information availability in the current systems to enable such disclosures is not assessed yet. In addition, cash basis IPSAS requirements need to be fully integrated into the legal and regulatory framework to ensure institutionalization.<sup>30</sup> Furthermore, capacity constraints of reporting entities regarding cash basis IPSAS significantly impacts on the process.

5.73. **Proposed areas of reform.** Four specific actions are proposed:

- *Systems integration or interfacing* – The MYRB system, e-PEMS, revenue system, and asset management system need, if integration is not possible, to be interfaced to enable production of consolidated financial statements. Also, the systems need enhancement to capture information on state enterprises to meet cash basis IPSAS disclosure requirements, thus an assessment will be needed to help prepare a roadmap.
- *Integration of cash basis IPSAS into the regulatory framework* – Necessary amendments to the PFA and manuals (Budget Manual, FAM, Property Management Manual, and Revenue Manual) will support institutionalization of cash basis IPSAS.
- *Additional disclosures* – Specific disclosures should be identified for year-on-year additional disclosures, incorporating an increasing number of assets and liabilities, potentially starting with financial assets and liabilities.
- *Capacity building and technical back stopping* – There is a need for capacity building to ensure that staff of DTA as well as reporting entities are adequately skilled. Technical backstopping of DTA staff is also needed as the cash basis IPSAS financial statements are produced progressively with additional disclosures. The need for capacity building becomes more pronounced due to high turnover of staff. Capacity building is furthermore

<sup>29</sup> IMF-SARTTAC. 2022. *Assessment of ICT Systems Capabilities for Implementing a Unified Chart of Accounts*. New Delhi.

<sup>30</sup> Amendments recommended by consultants that previously supported the MoF on IPSAS adoption are yet to be implemented in the PFA as well as manuals (Budget Manual, FAM, Property Management Manual, and Revenue Manual).



needed for staff of the RAA to ensure the quality of external audit as well as recommendations on the AFS prepared using the cash basis IPSAS.<sup>31</sup>

**Prioritization of reform actions**

5.74. The above areas of reform are prioritized as follows:

**Table 5.4: Reform matrix for expenditure, accounting, and reporting actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	Expend the coverage of the TSA  Upgrade cash forecasting capabilities  Strengthen recording and reconciliation of suspense accounts		
	Medium term (2-3 years)	Strengthen recording of expenditure liabilities and instituting mechanism of periodic reporting and monitoring  Integrate cash basis IPSAS requirements into the regulatory framework  Carry out capacity building and technical backstopping		
	Longer term (4-5 years)	Undertake systems integration or interfacing  Provide additional disclosures as encouraged by cash basis IPSAS		

5.75. The actions included in the ‘high priority’ column are reflected in Section 7.4.1 on page 64 of the Action Plan.

**Expected outcomes**

5.76. The key outcomes of this reform pillar are two-fold: (i) to formalize cash management in the RGoB to ensure reliable and predictable funding to ministries/agencies (e.g., for public investments) and service delivery units; and, (ii) to further strengthen timeliness and accuracy in accounting and financial reporting. Improving cash management will help the RGoB to

<sup>31</sup> This is covered separately under Section 5.5 on oversight.

consolidate its cash balances and assess the quantum and timing of borrowing level (and investments in case of surplus), which should reduce borrowing costs (increase investment income) thus creating more fiscal space. Providing a regulatory basis to produce financial statements compliant with cash basis IPSAS will bring about uniformity in comparison and enhance transparency. Consolidating the AFS through an automated system integrated with all relevant PFM applications, enhancing the CoA, and strengthening controls are expected to enhance the quality of government financial reports and statements.

#### 5.4.2 Procurement

5.77. **Background.** The RGoB's tasks and activities related to procurement are mainly undertaken by the MoF's Procurement Management and Development Division (PMDD) under the Department of Procurement and Properties (DPP). The PMDD is responsible for review, maintenance and updating of implementing regulations, standard procurement/contract documents, and user guides/manuals, and does so on a regular basis.

5.78. **Challenges.** The following specific challenges have been identified for procurement:

- *The electronic government procurement (e-GP) system:* Only about one-third of procurement is carried out through the e-GP system, while the remainder are done manually, which is generally more work-intensive and less transparent.
- *Record keeping:* There is no single comprehensive list of procurement records and documents to be retained. Procuring entities there have no clear guidance on the records and documents to be retained, which may result in procedural inconsistencies as well as hinder performance reviews (as such depend on the availability of records and documents to track each procurement action).
- *Sustainable public procurement (SPP) policy/strategy and implementation plan:* There is no SPP policy/strategy in place to support broader national policy objectives and, therefore, also no implementation plan, systems or tools in place to operationalize, facilitate and monitor SPP application.
- *Lack of resources and insufficient staffing of PMDD:* The PMDD has very few staff to meet its mandate as per the PRR (2019), including training, preparation of annual reports, and e-GP related tasks.
- *Contract execution phase:* The e-GP system does not cover the contract execution phase, which constitutes a gap in the procurement process. This includes that the system does not store contract amendments. Also, no routine analysis is done of the information available in the system, hence there is a lack of systematic data analysis practices.
- *Information gathering capacity:* The PMDD lacks autonomy in extracting queries related to data stored in the e-GP system. This limits the possibility of gathering comprehensive information and thus hinders analysis of aspects such as trends, participation levels, procurement efficiency and economy, and compliance with requirements. Consequently, the system's information may be unreliable and/or incomplete.
- *Limited permanent and relevant training programs:* Available training on procurement does not fully cover requirements in terms of quality and content for the full range of procurement and contract management needs.

- *Public auctions:* Public auctions are being conducted offline, which is time consuming.

5.79. **Possible areas of reform.** Based on the above, the following reform areas could be considered by the RGoB:

- *The e-GP system:* Usage of the e-GP should be expanded to cover the two-thirds of procurement not presently using the system. A full system review could be undertaken to identify limitations that may exist and mitigations formulated on that basis.
- *Record keeping:* Guidelines on safekeeping and retention of records and documents should be prepared for procuring entities. A comprehensive list should be included of which records and documents must be retained at the operational level, in both physical and electronic form, as well as how records and documents are to be securely stored and for which period. The guidelines should reference the e-GP system, as relevant, and be appropriately balanced to best meet the needs for contract management, performance reviews, audits as well as fraud and corruption investigations.
- *SPP policy/strategy and implementation plan:* A SPP should be developed covering economic, environmental, (including climate considerations), and social (including gender equality) aspects in support of broader national policy objectives and reflecting national priorities. This should include a clear implementation plan/road map to operationalize, facilitate and monitor SPP application in priority areas. It should also identify and provide for changes to the legal/regulatory framework so sustainability considerations may be incorporated at all stages of the procurement cycle, ensuring well-balanced application of sustainability criteria from planning through to delivery and monitoring. SPP requirements embedded in the legal and regulatory framework should be reflected in model procurement documents, contract conditions and in supporting practical guidelines implementation and related training.<sup>32</sup>
- *Lack of resources and insufficient staffing of PMDD:* The RGoB should consider allocating additional resources to upgrade a position at least to the level of a Director so that the authoritative standing is commensurate with the PMDD's mandate and required quality of services.
- *Contract execution phase:* The e-GP system should be upgraded to include the contract execution phase, which would help to ensure a comprehensive coverage of the entire procurement process.
- *Information gathering capacity:* Capacity should be created for autonomous extraction of information from the e-GP system to produce reports on and undertake analysis of procurement. Users should be empowered to ensure that all required information is uploaded into the system, including through automated control mechanisms. The introduction of open data standards and machine-readable information may furthermore allow for automated validation of data quality, hence should be considered.
- *Limited permanent and relevant training programs:* The MoF should consider providing additional resources for the purpose of undertaking training for procurement staff.

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<sup>32</sup> This proposed reform action will also be directly relevant for the climate-related reform activities on procurement (CRPFM-8. Climate responsive procurement).

- *Public auctions:* An e-Tool could be developed as a module under the e-GP system, and on a new platform (micro services) integrated with the Government Inventory Management System (GIMS) and e-Auction, the latter to be developed as part of the GIMS.

**Prioritization of reform actions**

5.80. The above areas of reform are prioritized as follows: [to be filled-in when the MAPS-based assessment is available]

**Table 5.5: Reform matrix for procurement-related actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	...	...	...
	Medium term (2-3 years)	...	...	...
	Longer term (4-5 years)	...	...	...

5.81. The actions included in the ‘high priority’ column are reflected in Section 7.4.2 on page 67 of the Action Plan.

**5.5 Oversight institutions**

**5.5.1 RAA, AASBB and PAC**

**Background**

5.82. The Royal Audit Authority (RAA) is Bhutan’s supreme audit institution (SAI) and is a constitutional body. It comprises of three departments – performance and compliance audit (with three underlying divisions), follow-up and regions (with offices in four regions), and sectoral audit (three underlying divisions) – as well as the Auditor General’s Secretariat Services (with a professional development center, policy and planning division, support services division and the administration and finance section, ICT, human resources and international relations divisions, and legal services). There is also a research and quality assurance division under the policy & planning division. There are eight committees. The RAA is governed by the Audit Act (2018) and Audit Rules and Regulations (2020) as well as several policies, and conducts financial, performance, compliance and other audits based on a number of manuals and guidelines in place. It empanels private firms to provide auditing services for government incorporated companies, civil society organizations, religious organizations, and non-governmental organizations. specific entities and projects. The RAA has in place a five-year organizational strategy and strategy for performance and compliance audit as well as an annual operational plan and an annual audit schedule, all of which are published.

5.83. The Accounting and Auditing Standards Board of Bhutan (AASBB)<sup>33</sup> was established in 2010 to promote high-quality financial reporting and auditing standards consistent with international best practices through the development and implementation of the International Public Sector Accounting Standards (IPSAS), Bhutanese Accounting Standards (BAS) and Bhutanese Standards on Auditing (BSA). The AASBB Secretariat is part of the MoF and has four divisions: Financial Reporting Standards, Public Sector Accounting Standards, Auditing and Assurance Standards, and Administration and Finance. The Companies Act (2016) includes specific responsibilities of the AASBB, including to set accounting and auditing standards. The AASBB is represented on the Board of the Office of the Registrar.

5.84. The Public Accounts Committee (PAC) is, based on Article 25 (6) of the Constitution, mandated “... to review and report on the Annual Audit Report to Parliament for its consideration or on any other report presented by the Auditor General”. It is a joint committee of the National Council and the National Assembly, and is governed by the Rules of Procedure of the PAC (2015). The PAC has the power to summon witnesses for hearings to give evidence or produce documents, and may issue a warrant for apprehension if a witness fails to appear or fails to produce requested information or documentation.

### Diagnostic assessment

#### Supreme Audit Institution (SAI) independence (PI-30.4)

5.85. **Challenges.** The RAA meets independence parameters such as appointment and removal of the RAA head, planning and execution of audit engagement, publishing audit reports, legal mandates for audit, unrestricted access to information and records, and execution of the budget. However, similar to other budgetary bodies of the RGoB, the RAA’s budget is submitted to and reviewed by the MoF before it is approved by Parliament. Also, the RAA’s human resources are regulated by the Royal Civil Service Commission (RCSC). Although the budget and human resource requirements have so far always been approved by the MoF as proposed by the RAA, in principle the RAA’s financial and human resource independence hinges on the approval of the MoF and the RCSC.

5.86. **Possible areas of reform.** The following reform areas have been identified:

- *Financial independence* – The SAI Performance Assessment 2021 found that the RAA could improve its financial independence by meeting the following criteria of the International Organization of Supreme Audit Institutions (INTOSAI): “The SAI is free to propose its budget to the public body deciding on the national budget without interference from the executive” and “The SAI has “the right of direct appeal to the Legislature if the resources provided are insufficient to allow [it] to fulfill [its] mandate.” Achieving this would require changes in underlying rules and regulations.
- *Capacity building* – The SAI Performance Assessment 2021 found the RAA’s professional development and training to be weak (a score of 1 out of 4). The RAA’s responsibility to guide and supervise private sector auditors for empanelment as well as to review their work is consistent application of the BAS requires that RAA officials have a good

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<sup>33</sup> An Accounting and Auditing Standards Bill, which provides a legal basis for the AASBB and outlines various organizational aspects, was prepared in 2017, but it is not clear whether the bill was submitted to Parliament and was approved.

understanding of the BAS. Similarly, the recent introduction of cash basis IPSAS requires RAA officials to become familiar with the IPSAS. Hence, capacity building of RAA officials is needed. This should include professional qualification of at least two auditors in Association of Chartered Certified Accountants (ACCA) courses and Certified Professional Accountants (CPA) as well as continuous professional development within Bhutan and participation in INTOSAI Working Group Meetings and similar events. Further, in order to build the capacity of auditors, it would be imperative for RAA to participate in the International Auditor Fellowship Program (IAFP) offered by the United States' Government Accountability Office (GAO), which particularly focused on contemporary and emerging issues, risk management, internal control, and leadership. The RAA will take steps to improve the professional development and training development.

- *Information communication technology (ICT) strengthening* – ICT is now encompassing all sectors, including the MoF's extensive use of technology in processing transactions and preparing financial statements. Hence, using ICT for auditing is equally important. While the RAA is already using audit management software, including computer assisted audit tools (CAATs), support is needed to upgrade existing equipment and infrastructure as well as data analytics tools to effectively carry out audit analyses and interface the audit systems with e-PEMS, MYRB system and other PFM systems.

#### AASBB staff capacity

5.87. **Challenges.** The AASBB in 2022 notified the implementation of the cash basis IPSAS, which came into effect on 1 July 2022 for all budgetary bodies. Starting FY 2022-23, the RGoB's AFS is therefore prepared and reported on this basis. The AASBB has also implemented the BAS, based on the IFRS, which are applied by private companies as well as by state enterprises and the RMA. The AASBB updates the BAS based on changes to the IFRS by the International Accounting Standards Board (IASB), and also the Bhutan Standards on Auditing (BSA). Before adopting such revisions, the AASBB is required to assess implications, provide clarifications and facilitate compliance, but it lacks the necessary staff capacity to do so. The AASBB similarly needs regular capacity building/training in regards to the IPSAS.

5.88. **Possible area of reform.** The following area of reform has been identified:

- *Technical support and capacity building* – To support the AASBB in implementing its mandate related to the BAS, BSA and IPSAS, the AASBB will engage consultants to conduct studies, carry out capacity building, and provide recommendations to the AASBB for future initiatives.

#### PAC hearings of auditees

5.89. **Challenges.** The PAC conducts regular tripartite consultative meetings with the RAA and auditees to discuss the main reasons for unresolved issues and to facilitate resolving the issues. The PAC also conducts field hearings to understand the nature of work at site and problems that affect execution. However, the PAC does not systematically undertake hearings with auditees that receive a qualified or adverse audit opinion or a disclaimer.

5.90. **Possible area of reform.** The PAC should consider adopting an approach whereby it systematically undertakes in-depth hearings with officials from all budgetary bodies that from the RAA receive a qualified or adverse audit opinion or a disclaimer.

**Prioritization of reform actions**

5.91. The above areas of reform are prioritized as follows:

**Table 5.6: Reform matrix for oversight institutions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	RAA capacity building AASBB capacity building and technical support		
	Medium term (2-3 years)	RAA ICT strengthening		
	Longer term (4-5 years)	RAA financial independence	Steps to further enhance the independence of RAA, including staffing Enhance PAC hearings with auditees	

5.92. The actions included in the ‘high priority’ column are reflected in Section 7.5.1 on page 67 of the Action Plan.

**5.5.2 Internal audit**

**Background**

5.93. Internal audit is administered by the Central Coordinating Agency (CCA) under the MoF. The CCA has adopted the International Standards for the Professional Practice of Internal Auditing (IPPF/Standards) issued by the Institute of Internal Auditors (IIA), and has in recent years issued a Charter as well as a manual and various guideline. The CCA follows a risk-based approach to prioritize internal audits, and the internal audit focus has shifted from financial compliance to evaluation of internal controls. A 2019 External Quality Assurance review found that internal audit activities did not fully conform to IIA Standards. The CAA is guided by a Strategic Plan 2021-2025 and is currently implementing an action plan to address the gaps so as to fully comply with the IIA Standards.

**Diagnostic assessment**

Internal audit

5.94. **Challenges.** Currently, the CCA has no internal auditors with professional certifications such as Certified Government Audit Professional (CGAP) or Certified Internal Auditors (CIA).<sup>34</sup> In the absence of a human resource development program and corresponding funds, there

<sup>34</sup> Internal auditors who had obtained CGAP certifications in the past have left the RGoB’s service.

are few opportunities to enhance the skills and knowledge of internal auditors. This makes it difficult for the CCA to attract new staff and creates a barrier for internal auditors in discharging their mandate. Moreover, there is significant attrition in the function and experienced internal audit staff are either leaving or taking up other functions. The RCSC has made institutional changes in the departments, including repealing the concept of Division of Support Services in respect of some divisions, such as internal audit, and restructured it so that each division reports directly to the Finance Secretary. In April 2023, the RCSC endorsed the consolidation of internal audit services to cater to all ministries, agencies and Dzongkhags. Each division will be headed by their Chief Internal Auditor, and approved staffing will be based on the currently existing staffing and will be consolidated under CCA.<sup>35</sup>

5.95. Also, presently internal auditors do not use any audit management system (AMS) software for improving efficiency to partially offset the lack of staff, and the competency of internal audit staff in using such tools is limited. The internal audit activities therefore remain manual.

5.96. Furthermore, while executive responses to internal audit findings have improved, there is scope for these to be improved, also as tracking responses has so far not been done systematically by the internal audit functions.

5.97. **Possible area of reform.** The following reform actions could be considered:

- *Continuing Professional Development:* The CCA could deepen the continuing professional development of internal auditors. The Internal Audit Strategic Plan 2020-2024 highlights this as a critical success factor and proposes the following modes:
  - Capacity Building through tailor-made training, overseas exposure visits, and developing a web-based training framework. The CCA has an agreement with the corresponding internal audit body in Indonesia for capacity building collaboration.
  - International Certification in internal audit or any area associated with this function.
  - Organizing an annual Internal Audit Conference with participation from auditees.
- *Enhancing Effectiveness through an Integrated Internal Audit Management Software (IIAMS):* This would improve efficiency in internal audit processes as well as improve coverage and offset, to some extent, the shortage of staff. The CCA has assessed that the web-based auditing information management system developed in-house by the Druk Green Power Corporation (DGPC) meets its requirements. A dialogue with DGPC to share their software with CCA has been initiated. If this does not materialize, the CCA could work on an alternate approach, including acquiring a CAAT.
- *Sustaining Quality Assurance:* As per IIA standards, the External Quality Assurance Review should be carried out every five years. Hence the next one is due in 2024.
- *Enhancing Executive Response to Internal Audit:* In the earlier system of the internal audit function, it reported to the head of the agency. This is one of the factors that impaired the functional independence and objectivity of internal auditors. As part of the transformation initiative, with the consolidation of the Internal Audit Services, it is

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<sup>35</sup> RCSC. 2023. [Annual Report, July 2022 to June 2023](#). Thimphu.



proposed to institute a National Internal Audit Committee (NIAC) to improve the functional independence and objectivity of the Internal Auditors. The NIAC shall give directions for further actions on those agencies that have not taken actions on internal audit findings and recommendations. This institutional mechanism, along with implementation of the IAMS, would help track audit findings and improve compliance.

**Prioritization of reform actions**

5.98. The above areas of reform are prioritized as follows:

**Table 5.7: Reform matrix for internal audit**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	Updating the current Internal Audit Strategic Plan 2020-2024. Enhancing outreach.		
	Medium term (2-3 years)	Increased use of modern audit techniques and technologies. Compliance with internal audit standards, and quality assurance.		
	Longer term (4-5 years)	Continuing professional development of internal auditors.		

5.99. The actions included in the ‘high priority’ column are reflected in Section 7.5.2 on page 69 of the Action Plan.

**Expected outcomes**

5.100. The key outcomes of this reform theme are to continue strengthening the capacity of oversight institutions to enhance audit and review arrangements, and thereby the RGoB’s risk assessment and management functions. Capacity building and professional development and skilling will improve the overall human resource capabilities in carrying out their responsibilities, and may also help to stem attrition. Automating the internal audit function is expected to improve efficiency in processes and quality of the function and address, to some extent, the shortage in staffing. Improving the quality of financial reports and auditing is expected to improve the capacity of the AASBB and RAA in BAS and IPSAS and tuning processes accordingly. The theme envisages enhancing the independence of the RAA in line with INTOSAI requirements and strengthening legislative scrutiny of audit reports by taking up high-risk audits on a priority basis as well as to facilitate the PAC in playing a key role in timely resolution of audit findings and minimizing backlogs.

## 5.6 Cross-cutting topics

### Background

5.101. This section covers a number of topics that go across specific PFM components and MoF Departments.

#### 5.6.1 PFM information systems for improving service delivery

5.102. **Challenges.** Despite substantial progress in the automation of key PFM functions, there is an urgent need to improve the technology architecture and interoperability of existing information systems. While the budget and expenditure management systems (MYRB and e-PEMS) are fully integrated, and some other initiatives have been recently undertaken, (for example, the electronic Daily Allowance and Travel System (e-DATS) and e-PEMS were recently integrated), there are a number of systems – including RAMIS, e-GP, Government Inventory Management System (GIMS) and Commonwealth Meridian<sup>36</sup> – that operate as stand-alone systems with limited flow of information for data analytics. Furthermore, some existing budget and expenditure management systems (MYRB and e-PEMS) are outdated and have limited scope for enhancements.

5.103. **Proposed areas of reforms.** The MoF is already planning to transition to an IFMIS in the near future, which will involve modernizing and integrating PFM information systems through a number of modules.<sup>37</sup> Required activities for IFMIS transition include undertaking a detailed review of all existing systems, developing an IFMIS roadmap, formulating specific IFMIS requirements, drafting bidding document, carrying out a tender process and, once a provider has been selected an agreement signed, implementing the IFMIS. It will also be necessary to update system hardware and network equipment as well as to undertake change management activities and provide training to staff in all affected budgetary bodies.

#### Service delivery

5.104. **Proposed areas of reforms.** An additional opportunity to improve GovTech<sup>38</sup> maturity focuses on service modernization and delivery. The objectives of the draft digital economy development and transformation strategy show there are demonstrated needs to further develop the e-service portal to enable universal access to e-services. A service modernization strategy can support the RGoB to enhance service access, improve efficiency and quality of services, and promote innovation and private sector participation in public sector modernization.

5.105. Specific activities may include support to develop a service modernization reform plan across the whole-of-government, including service inventory, business process re-engineering, and automation; developing a citizen centric approach to service design to meet the needs of citizens with differing abilities, including persons with disabilities (PWDs);

<sup>36</sup> The Commonwealth Secretariat's (new) Meridian Debt Recording and Management System (DRMS).

<sup>37</sup> Relevant IFMIS modules include financial planning, budget preparation, budget allocation, commitment / expenditure management, cash management, revenue management, debt management, asset management, accounting, internal audit, and fiscal reporting.

<sup>38</sup> 'GovTech' is an approach to public sector modernization that emphasizes: Citizen-centric public services that are universally accessible, a whole-of-government approach to digital government transformation, and simple, efficient and transparent government systems. Also see: <https://www.worldbank.org/en/programs/govtech>.

utilizing a life events approach to service organization and information; supporting data governance, use and re-use policies to enable data exchange and apply the once only principle to service delivery; and creating service standards for quality and accountability. The modernization plan can utilize a modular approach with reusable aspects such as digital seals, payments, and notification that can be used across services for a consistent look and feel.

5.106. To support the development of the digital economy, reforms may focus on developing innovation policies including support for startups and creation of innovation labs to grow local tech ecosystems that can support digital economy growth and support public sector modernization. These labs could work with academia, private sector, and other research bodies to operationalize the digital sandbox and develop internal capacity. These reforms could be supplemented by capacity building on digital skills for both supply and demand sides.

#### Enhancing the use of data analytics and disruptive technologies

5.107. Government to Citizens (G2C) and Government to Business (G2B) transactions generate numerous transactions and, with increased digitization in these areas, the RGoB now has significant digital data available which could be consolidated (data hub), cleaned and analyzed for meaningful insights. Globally, governments are enhancing the use of data analytics and advanced solutions as well as improving management capabilities, which could provide inputs for evidence-based policy action or decision-making, and bring-in improved transparency and accountability in managing public finances. For instance, a business intelligence and analysis unit in revenue departments could help enhance revenue collections, identify control gaps, and improve risk management. The RGoB would benefit by increased use of new age technologies such as artificial intelligence, machine learning and block chain in PFM, and there are opportunities to strengthen controls and oversight, improve efficiency of procedures and operations, allow automated processing of transactions, improve risk management capabilities and, most importantly, enhance service delivery mechanisms for citizens by leveraging these tools. Also, visualization techniques could be used to develop dashboards, including indices, based on various parameters and the needs of the government.

### 5.6.2 Transparency

#### Budget documentation

5.108. **Challenges.** While the National Budget Report prepared by the MoF meets all four basic documentary requirements outlined by the PEFA framework, it only meets two out of eight additional requirements. Hence, the FY 2022-23 National Budget Report did not include: (i) Macroeconomic assumptions, (ii) financial assets, (iii) summary information of fiscal risks,<sup>39</sup> (iv) explanation of budget implications of new policy initiatives and major new public investments, (v) documentation on the medium-term fiscal forecasts, and (vi) quantification of tax expenditures.

5.109. **Proposed areas of reform.** The DPBP could consider which budget elements – (i) Macroeconomic assumptions, (ii) financial assets, (iii) summary information of fiscal risks, (iv) explanation of budget implications of new policy initiatives and major new public investments, (v) documentation on the medium-term fiscal forecasts, and (vi) quantification

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<sup>39</sup> This is because the National Budget Report for FY 2022-23 did not include all contingent liabilities.

of tax expenditures – it should ensure are included in future National Budget Reports so as to ensure that comprehensive information is provided to Parliament as well as the public.<sup>40</sup>

### **In-year budget reporting**

5.110. **Challenges.** To enhance transparency, the MoF’s DPBP has been diligently preparing quarterly Budget Performance Reports (BPRs) and since FY 2020-21 published them on the website.<sup>41</sup> However, the preparation and publication of BPRs is sometimes delayed.

5.111. Another important aspect is to make systemic finalization of both monthly and quarterly reports, especially as reports are currently prepared manually. It will require system updates and automation to change this, including with TA for system development.

5.112. **Proposed areas of reforms.** The DPBP should continue to improve on the timing of preparing the quarterly BPRs so they can be published within one month of quarter-end. While initially the BPRs shall be prepared using the existing e-PEMS, MYRB system and other sources, by June 2026 standard reports shall be made available in e-PEMS/MYRB system that will automate the preparation of the BPRs with minimum human intervention.

### **5.6.3 Capacity building of MoF officials**

5.113. **Challenges.** There are a total of 605 finance personnel, comprising 23 Chief Finance Officers, 77 Finance Officers and 505 Accounts Assistants under the National Finance Services attached with ministries, Dzongkhags and Gewogs, judiciary, autonomous agencies and constitutional bodies. To improve and cater to the growing needs of the stakeholders, effective and efficient service delivery is essential. The MoF has been undertaking path breaking reforms such as cash basis IPSAS, PIM, e-GP, BIRMS, IFMIS and CFS. These require continuous capacity building of the involved officials. Therefore, continuous professional development of finance personnel in the areas of budget and expenditure management, revenue and tax management, debt management and public procurement, etc., is required to enhance service delivery.

5.114. **Proposed areas of reforms.** A training needs assessment (TNA) was prepared at the beginning of the PFM-MDF program. The capacity development needs in specific PFM areas will be established in detail during preparation of the next PFM Project Proposal through an update of the TNA. Some of the capacity development programs envisaged to foster efficient service delivery and professionalism include the following

#### **A. Short-term training, workshops and seminars**

1. Expenditure management
2. Budget management
3. Debt management
4. Procurement management
5. Revenue and customs
6. IT-related to financial management.

<sup>40</sup> If at least four additional elements are included, the score of PI-5 would increase to “A” in future PEFA PFM assessments.

<sup>41</sup> <https://www.mof.gov.bt/publications/reports/budget-reports/>.

*B. Long-term training and capacity development*

1. Certified Professional Accountants (CPA), Australia
2. Master's Degree in Professional Accounting (MPA) / Master of Business Administration (MBA)
3. Master's Degree in Economics
4. Master's Degree in Tax and Revenue Administration

**5.6.4 Local governments**

5.115. **Background.** The Constitution (2008) mandates LGs to represent the interests of local communities with an aim to fulfill their aspirations and needs as well as provide a democratic and accountable government for local communities through direct participation in the development and management of their own social, economic and environmental well-being. The LGs in Bhutan comprise 20 Dzongkhags (district-level), 205 Gewogs (county-level) and 4 Thromdes (municipalities). LGs are governed by the Local Government Act (2009, amended 2014). The administrative ministry for decentralization is the Ministry of Home Affairs (MoHA) where the DoLGDM is the focal agency responsible for supporting LGs.

5.116. The RGoB is committed to enhanced decentralization, including through financial decentralization by increasing the share of resources to the LGs (12<sup>th</sup> FYP). Annual grants to LGs were introduced in 2010 (revised in 2019, 2020 and 2022) that included discretionary grants, and a Division of Responsibility Framework between the RGoB and LGs was introduced in 2012. For FY 2021-22, LGs were allocated 34% of the total budget. LGs do not have power to legislate and they are required to carry out their functions in accordance with national laws as well as sector-specific rules and guidelines framed by the RGoB, line ministries and constitutional bodies. For PFM the LGs primarily use RGoB systems with some additional systems, e.g. in Thromdes. The PEFA PFM 2023 assessment found the horizontal allocation of transfers to LGs to be transparent and rules-based. LGs receive information on their annual transfers through the Budget Call Circular with clear guidelines on how to prepare their budget.

5.117. **Challenges.** A revised functional assignment, or framework, division of responsibilities between the RGoB and LGs could aim at greater decentralization of responsibilities and authority to LGs. It is expected that programs in the areas of health, education and agriculture, supported by development partners, will require LGs to consider the decentralization policies of the RGoB. Functional assignment should be followed by fiscal decentralization. However, being a donor-driven economy, the function supported by development partners is vested in the central government. This creates challenges as the functional assignment is not clear and unambiguous. The LGs, through their five-year and annual planning and budgeting processes, claim certain functions as being vested to them as per the decentralization framework. Hence, there is a need to revise the Division of Responsibility Framework to provide more authorities, responsibilities and resources to LGs as well as to bring more clarity to their responsibilities and accountability aspects.

5.118. As of December 2022, Bhutan had a total of 1,499 elected LG members. The need for capacity development of the elected members is acknowledged. This is especially required in the areas of public service delivery, financial management, and community engagement. Providing capacity building support on financial management will almost inevitably lead to

improved local-level compliance with PFM rules and requirements. Decentralization, which gives greater responsibilities to LGs, will also require enhanced capacity of elected members. A comprehensive training plan covering all elected representatives and LG functionaries will ultimately be required.

5.119. In respect of PFM, an assessment of the actual practice in the LGs has not yet been undertaken. The national-level PEFA PFM assessment covers some relevant aspects, including on the relationship between the central government and LGs, but it is limited to annual transfers and the RGoB's monitoring of fiscal risk pertaining to LGs. Hence, a separate assessment focusing specifically on the PFM work and functioning of LGs is required.

5.120. **Proposed areas of reforms.** The assignment of functions to LGs, along with authority and accountability must be delineated unambiguously through a mutually agreed functional assignment framework. For example, LG functions (roles and responsibilities) in the education, health, agriculture, culture, transportation and waste management sectors must be clearly stated and documented. Based on the functional assignment framework, and the plans and budgets thereof, fiscal decentralization, including fiscal assignment, should be planned and implemented to ensure that LGs have the necessary financial resources, besides human resource, to achieve the expected results.

5.121. It will be necessary to train all elected LG officials and functionaries in governance, PFM, and service delivery. The challenge would be to train the existing elected representatives and then, after each election, to train new members. For this purpose, a multi-pronged approach can be followed by DoLGDM engaging a training agency to develop a comprehensive Capacity Building Plan comprising a training program and calendar as well as training material, developed based on a rapid TNA. Key LG functionaries, including civil servants, may be trained by central agencies or training agencies through the training-of-trainers (ToT) model. On this basis, training can be provided to all elected representatives in accordance with the training calendar. LG functionaries may be trained by the Dzongkhag/Thromde administrations concerned for cost and time efficiency. DoLGDM may also consider developing a Massive Open Online Course (MOOC). Also, national training institutes may be incentivized to start LG-relevant courses.

5.122. A PEFA PFM assessment of the RGoB's performance has been conducted thrice (2010, 2016 and 2022) and the RGoB has benefited from these assessments based on identified areas of strengths and areas for reform. The assessments resulted in the development of PFM Strategy and Reform Action Plans. A PEFA PFM assessment, or similar, for LGs has not yet been undertaken. It is, therefore, proposed to conduct a PEFA assessment using the PEFA Secretariat's Sub-National Government (SNG) framework.<sup>42</sup> The key objective of this assessment would be to provide the RGoB and LGs with an up-to-date diagnostic of LGs' PFM performance. Based on the findings, specific PFM reform areas could be identified and included in the national PFM Strategy and Reform Action Plan.

### **Prioritization of reform actions**

5.123. The above areas of reform are prioritized as follows:

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<sup>42</sup> [https://www.pefa.org/resources/catalog?field\\_resource\\_type\\_target\\_id=5956](https://www.pefa.org/resources/catalog?field_resource_type_target_id=5956).

**Table 5.8: Reform matrix for cross-cutting actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	Transparency: Budget documentation (PI-5) Local government (LGs)		
	Medium term (2-3 years)	Transition to IFMIS Transparency – In-year budget reporting (PI-28)		
	Longer term (4-5 years)	Capacity building		

5.124. The actions included in the ‘high priority’ column are reflected in Section 7.6 on page 71 of the Action Plan.

### Expected outcomes

5.125. The key outcomes of this reform pillar are to (i) support the MoF to transition to an IFMIS, implement service modernization and delivery oaches vis-à-vis citizens using government services, improve transparency in budget documentation and ensure more timely in-year budget reporting, foster more efficient service delivery and professionalism, and support the LGs in their work and functioning as well as promote fiscal decentralization.

## 5.7 Climate responsive PFM

### Background

5.126. The RGoB’s climate change adaption approach is based on the Climate Change Policy (2020), which is anchored in four policy statements: carbon neutral development, resilience to climate change, ensuring means of implementation, and effective and coordinated actions. Sectoral Low Emission Development Strategies (LEDS) have been prepared for four sectors (food security, human settlements, industries, and surface transport), and mitigation strategies further redefined in the ‘Bhutan’s Long-Term Low Greenhouse Gas Emission and Climate Resilient Development Strategy (LTS)’. Several other strategies and plans exist.<sup>43</sup> A National Adaptation Plan (NAP) is presently under preparation. The targets included in Bhutan’s Sustainable Development Goal (SDG) 13 on Climate Action (‘Take urgent action to combat climate change and its impacts’) are relevant to the CRPFM assessment findings.<sup>44</sup>

<sup>43</sup> Renewable Energy Master Plan (2016), National Waste Management Strategy (2019), National Energy Efficiency and Conservation Policy (2019), Energy Efficiency Roadmap (2019), National Environment Strategy (2020), National REDD+ Strategy (2020), Electric Vehicle (EV) Roadmap 2020-2025, Sustainable Hydropower Policy (2021), and Renewable Natural Resources (RNR) Strategy 2040.

<sup>44</sup> 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries; 13.2 Integrate climate change measures into national policies, strategies and planning; 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation,

5.127. The legal and regulatory framework for climate change adaptation includes Articles 5 and 9.2 of the Constitution (2008), Environment Assessment Act (2000), National Environment Protection Act (2007), PFA (2007), Waste Prevention and Management Act (2009), and Water Act (2011). Also, Bhutan ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1995, and the Intended Nationally Determined Contribution (INDC), submitted to the UNFCCC Secretariat in 2015, became Bhutan's first Nationally Determined Contribution (NDC) upon the ratification of the Paris Agreement in 2017. Bhutan presented the second NDC in June 2021.

5.128. The institutional framework comprises the MoENR where the Department of Environment and Climate Change oversees all matters relating to the environment and is responsible for implementing policies, regulations and directives related to climate change adaptation.<sup>45</sup> It is also the national focal point for multilateral environmental agreements. The Climate Change Coordination Committee (C4) is a technical body that serves as a forum for discussing, coordinating and making recommendations on matters related to climate change. Other institutions include the National Center for Hydrology and Meteorology (NCHM), Royal University of Bhutan (RUB), and other research institutions. The Development Coordination and Debt Management Division (DCDMD) under the DMDF coordinates and facilitates mobilization of external grants.

### **Diagnostic assessment**

#### Revenue mobilization (CRPFM 9.1 and 13.2)

5.129. **Challenges.** There are no climate-related tax arrears as taxes are collected in full at the point of import. Also, the DRC has a structured and systematic approach for assessing and prioritizing compliance risk in relation to green tax, and it undertakes audits and investigations. However, while the RGoB registers all fuel importers and vehicle owners, this is not fully and consistently linked to the taxpayer database.

5.130. While the National Environment Strategy (2020) includes some considerations on using taxation to promote cleaner technology and lower pollution, it does not comprise an evaluation of the contribution of the tax policy to climate change, as regards climate-related taxes and taxes that may undermine climate policy goals. The same applies to the Tax (Amendment) Act 2020 and the Tax Act of Bhutan 2022.

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impact reduction and early warning; 13.A Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly \$100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible; and, 13.B Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities.

<sup>45</sup> The National Environment Protection Act (2007) mandates the National Environment Commission (NEC) as an independent authority and the highest decision-making body on all matters relating to the environment and its management. The NEC was transferred to the MoENR as part of the RGoB reorganization in December 2022.



5.131. The RGoB has recently adopted the Carbon Market Rules, which provide a basis for mobilizing carbon revenues at the national level by monetizing emission offsets from hydropower and other renewable natural resources.<sup>46</sup>

5.132. **Possible areas of reform.** The RGoB could work to ensure that for climate-related taxes, a structured and systematic approach for assessing and prioritizing compliance risk is used, green house gas (GHG) emitters are registered in a database linked to the taxpayer database,<sup>47</sup> accuracy and completeness of the emitters' database is regularly controlled, a documented compliance improvement plan exists comprising mitigation activities in respect of identified high risks covering climate related taxes, and planned audits and investigations have been completed as intended. Also, a partial evaluation of the contribution of tax policy to climate change that includes climate-related taxes or the main taxes that are likely to undermine climate policy goals could be undertaken.<sup>48</sup>

5.133. Furthermore and more overall, the RGoB may need to consider policy priorities and efficacy of sector regulation (e.g., mandating a switch to electric vehicles (EVs) or modal transport shifts) relative to the use of climate-related taxes, particularly as most emissions arise from industry and transport sectors.

***Macro-fiscal management (CRPFM 5.1, 5.2, 5.4, 6.1 and 7.1)***

5.134. **Challenges.** The Environmental Assessment Act 2000 requires major investment projects to be assessed for their impact on the environment. The Climate Change Policy 2020 mandates the MoF to formulate and implement fiscal policies and sound PFM in relation to climate change mitigation and/or adaptation, but it does not include require mandatory assessments of new significant investment projects with an impact on national mitigation targets and climate vulnerabilities. Also, investment projects are not prioritized based on climate change aspects (but rather on developmental needs), and the implementation reporting format does not cover climate objectives, targets and indicators.

5.135. The recently implemented web-based GIMS includes a register for non-financial assets, but this does not cover information on climate change adaptation and mitigation approaches.

5.136. The MoF is authorized to borrow and issue guarantees, including for protection from natural disasters and national emergencies, hence guarantees may include those related to climate change. The National Budget Report (Chapter 6) provides information on total estimated costs of contingent liabilities related to natural disasters, which includes climate-related fiscal risks. Also, the Climate Budget Tagging approach has been adopted in the FY

<sup>46</sup> <https://www.worldbank.org/en/news/press-release/2023/08/23/world-bank-helps-bhutan-achieve-resilient-and-green-development> (accessed on 16 September 2023).

<sup>47</sup> Registering GHG emitters could be addressed through the development of a national level measurement, reporting, and verification (MRV) system, which could also serve other purposes such as United Nations Framework Convention on Climate Change (UNFCCC) reporting.

<sup>48</sup> This could be supported through application of, for example, the Climate Policy Assessment Tool or other modeling carried out as part of the World Bank's diagnostic Country Climate and Development Reports (CCDRs). If work is done on climate-related evaluation of taxes, it may be helpful to link this with some of the tools of the World Bank's Climate Change Group on carbon pricing since there is a substantive work program on this topic.

2022-23 National Budget Report to monitor spending on climate adaptation and mitigation activities,<sup>49</sup> and climate co-benefits related allocations are included in the National Budget Report. However, the RGoB does not publish a report consolidating climate-related fiscal risks that includes a quantitative and qualitative assessment of climate-related fiscal risks and considers impacts of such fiscal risks on expenditure and revenue.

5.137. **Possible areas of reform.** The RGoB could work to ensure that the legal or regulatory framework describes the objectives and requirements for investment programs in relation to climate change mitigation or adaptation, that there is a high level of compliance of investment project proposals with climate-related objectives/requirements, and that the scope of climate related objectives and requirements covers central government. Also, that climate assessment and prioritization criteria are used to prioritize new investment projects. Furthermore, that the RGoB requires extra-budgetary units and state enterprises in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent; that most entities report back within nine months of fiscal year-end; and, that reporting covers climate-related funding received from the RGoB to implement investment projects and results against these objectives, targets and indicators. Moreover, that exposure and sensitivity of relevant fixed assets to climate variability, extreme weather events and transition risks are identified for the relevant assets.<sup>50</sup> Finally, the RGoB could produce a report consolidating climate-related fiscal risks, including a qualitative assessment of climate-related fiscal risks as well as information on the impacts of such fiscal risks on expenditure and revenue.

*Planning and budgeting (CRPFM 1.1, 3.1, 11.1, 11.2, 12.1 and 12.2)*

5.138. **Challenges.** The RGoB's annual and medium-term budget is only to a limited extent aligned with climate change strategies. This is reflected in the budget documentation covering just three of six basic elements and two of six additional elements.<sup>51</sup>

5.139. The Budget Call Circular for FY 2022-23, through the introduction of the Capital Budget Proposal Framework (CBPF), provided guidance on incorporating climate change aspects into capital budget proposals. However, it did not include a methodology to track climate change-related expenditure or expenditures that are counter to climate policy, and also did not refer to the Climate Change Policy 2020.

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<sup>49</sup> The Climate Budget Tagging approach was introduced for four pilot entities: NEC, Ministry of Agriculture and Forest, Ministry of Economic Affairs, and Ministry of Work and Human Settlement.

<sup>50</sup> Assessing exposure and sensitivity of fixed assets to climate variability and extreme weather events would likely be critical for mitigating risks at the national level, particularly considering overall economic dependence on rainfall (hydroelectricity generation and export, rain-fed agriculture – both of which contribute substantially to GDP) as well as the high risk and potential costs of glacial lake outbursts considering Bhutan's unique ecology.

<sup>51</sup> The following elements are not covered: *Basic Elements* – (2) Climate-related projects and initiatives are costed in sector medium-term strategic plans; (4) Climate-related expenditure policy proposals in the approved medium-term budget estimates align with sector costed medium-term strategic plans; and, (6) Climate-related annual expenditure and tax estimates align with the approved medium-term budget estimates for the first year. *Additional Elements* – (8) Climate change strategies or climate-related medium-term budget estimates identify funding gaps and funding sources; (9) Medium-term fiscal strategy refers to climate targets; (10) Medium-term fiscal strategy refers to climate-related fiscal risks; and, (11) If there is a gap between climate-related annual expenditure and tax estimates and the approved medium-term budget estimates for the first year, the annual budget document provides the underlying explanation.

5.140. The climate responsive PFM arrangements for LGs are relatively well-developed, as reflected in the Waste Prevention and Management Act (2009), PFA (2007) and PRR (2019) applying to LGs.<sup>52</sup> However, while the legal and regulatory framework states the general mandates and competencies of LGs regarding activities pertaining to environmental protection, including climate change aspects, no evaluation of the implementation of these mandates and competencies has been conducted. Also, while the RGoB's annual grants to LGs enable them to implement competencies and mandates related to climate change, the annual grants are not calculated based on climate related criteria. Furthermore, LGs do not report to the RGoB specifically on the use of the annual grants for climate-related aspects.

5.141. Performance targets are set for all climate-related projects and activities, but detailed performance information (e.g., objectives, key performance indicators, outputs and outcomes consistent with those established in the Climate Change Policy 2020) is not included in the budget documentation submitted to Parliament. Also, performance achieved for climate-related programs and activities is reported in project-specific reports, but these are not submitted to Parliament.

5.142. **Possible areas of reform.** The RGoB could work to ensure that climate-related projects and initiatives are costed in sector medium-term strategic plans (alternatively that climate-related expenditure policy proposals in medium-term budget estimates align with sector costed medium-term strategic plans, or that climate-related annual expenditure and tax estimates align with medium-term budget estimates for the first year) and that climate change strategies or climate-related medium-term budget estimates identify funding gaps and funding sources (alternatively that the medium-term fiscal strategy refers to climate targets, that the medium-term fiscal strategy refers to climate-related fiscal risks, that if there is a gap between climate-related annual expenditure and tax estimates and the approved medium-term budget estimates for the first year, then the annual budget document provides the underlying explanation). Also, that the budget circular provides a methodology to track climate change-related expenditure, and that it contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals and refers to the national climate change strategies. Furthermore, that the legal and regulatory framework clearly states the competencies and mandates of LGs related to climate change mitigation and adaptation, and conduct an evaluation of the implementation of these mandates and competencies. In addition, that climate change-related conditional transfers are associated with objectives aligned with the national climate change strategy, and that LGs report annually to the RGoB on the use of climate-related transfers from the RGoB. Moreover that performance targets are assigned to climate-related programs and activities, and that performance information is available in the budget or supporting documentation submitted to Parliament. Finally, that achieved performance is reported for climate-related programs and activities. Reports are submitted to Parliament.

5.143. It would furthermore be valuable to identify potential needs and sources of funding for climate-related responses. This because there overall is a much higher need for financing as compared to actually available funds, hence an estimation of expected costs would help to ensure that scarce public resources are strategically allocated depending on the financing gap.

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<sup>52</sup> However, there is no framework or procedure for tracking climate-related expenditure, including for LGs, and also no climate change-related investment framework, including for LGs.

This is also relevant considering Bhutan's planned graduation from Least Developed Country (LDC) status and the need for identifying financing sources for its climate priorities.

*Expenditure, accounting, and reporting (CRPFM 2.1, 8.1, 8.2, 8.3, 8.4, 14.1 and 14.2)*

5.144. **Challenges.** The RGoB has in place a solid legal and regulatory framework for internal control, which are also used for climate-related transactions, cover all categories of expenditure, and are subject to external audit once a year. Also, a climate-related evaluation of expenditure, in terms of progress and challenges in the implementation of climate-related programs and activities, has been undertaken in recent years.<sup>53</sup>

5.145. However, the RGoB has not developed a methodology that defines what constitutes 'climate change expenditure' and there is no specific code for climate-related expenditure defined in the CoA.<sup>54</sup> Hence, climate-related expenditure and expenditure related to activities that are counter to climate policy cannot be disclosed in the budget documentation, in-year budget reports, or the AFS. Also, climate-related transfers to LGs, extrabudgetary units and state enterprises cannot be specifically identified in current and capital grants.

5.146. The scope of the PRR (2019) is subject to climate-related procurement principles,<sup>55</sup> but it does not include specific criteria to determine products or services counting as climate responsive, and also does not set quantitative targets, priorities and timeframes. The Simplified Procurement Rules and Regulations (SPRR) (2021) helps expedite procurement in response to climate induced disasters, but there are no climate responsive standards used to determine tender requirements and specifications, or award criteria, and climate responsive criteria are not part of contract performance clauses. Furthermore, climate responsive specifications of tenders and contracts are not verified and there are no records that capture information on climate responsive procurement. Finally, the RGoB does not prepare climate responsive procurement reports.

5.147. **Possible areas of reform.** The RGoB could work to ensure that a methodology is used which defines what constitutes 'climate change expenditure' and that at least two of the following four elements are met: (i) The RGoB applies the same methodology across all ministries, departments and agencies to identify climate-related expenditure; (ii) Expenditure related to activities that are counter to climate policy is disclosed in budget documents and in end-of-year budget execution reports, including spending explicitly or implicitly linked to climate change; (iii) Climate-related expenditure is disclosed by the MoF or budgetary bodies in budget documents and in end-of-year budget execution reports; and/or, (iv) The

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<sup>53</sup> The NEC in 2021, as part of the Mid-Term Review (MTR) of the 12<sup>th</sup> FYP, reported on key climate change actions implemented. This covered status assessments of FYP-related key performance indicators as well as planned development activities and discussions on issues/challenges, including financial progress and proposals for activity and budget revisions as a result of the COVID-19 pandemic.

<sup>54</sup> While expenditure can be tracked through the name of the climate-related activities, and the recently introduced Climate Budget Tagging approach eventually may enable reporting on climate-related expenditure, these do not provide a definition of 'climate change expenditure' or include a code for climate-related expenditure in the CoA.

<sup>55</sup> Para 5.2.2.11 (under 'Specifications/Scope of Works') states that the technical description of the goods, services or works under a bid shall, where possible, include a requirement of goods, equipment or materials that are environment friendly.

methodology applied by the RGoB to identify climate-related expenditure is reviewed by an entity other than the preparing entity.

5.148. The RGoB could work to ensure that the procurement framework establishes clear criteria to determine what products or services count as climate responsive and the scope of procurement operations subject to climate responsive procurement principles as well as sets quantitative targets, priorities and timeframes. Also, the RGoB could work towards using climate responsive standards to help determine tender requirements and specifications (or award criteria), that climate responsive criteria are included in contract performance clauses, that climate responsive procurement examples or templates are included into framework agreements for commonly procured goods, that there are simplified procedures and templates to expedite procurement for response to climate induced disasters, and that circumstances of their activation are clearly defined. Furthermore, the RGoB could work to ensure that compliance of contract awards and implementation with climate responsive specifications of tenders and contracts is verified, that there is an operational system in place for ensuring the compliance of emergency procedures used in case of climate induced disasters, and that procurement databases or records capture specific information on climate responsive procurement and include emergency procurement. Finally, a statistical report on climate responsive procurement should be produced as well as a report on compliance with procedures and rules requiring emergency procurement operations.

*Oversight institutions (CRPFM 4.1, 4.2 and 10.2)*

5.149. **Challenges.** The National Assembly's Economic and Finance Committee (EFC) reviews the annual budget and submits recommendation to the House, but it has so far not specifically reviewed the budget documentation in the context of climate change.

5.150. The RAA has undertaken compliance audits of the environment sector that partially include climate-related aspects.<sup>56</sup> However, so far no audits have been undertaken of climate-related transactions to ascertain that public funds have been used for the proper climate objectives. Hence, while Parliament's joint PAC scrutinizes audit reports and submits recommendations to the House, it has until now not been able to meaningfully make recommendations related to climate change.

5.151. **Possible areas of reform.** The RGoB could work to ensure that two of the following five requirements are met: (i) Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others. A report on the work and conclusions of the committees/groups is published; (ii) A performance or impact assessment review of (a) climate change revenue and (b) climate change programs, including expected results in the future, either through specific impact assessment or information on planned performance; (iii) A review of the positive, neutral or negative contribution to climate change of (a) revenue and (b) programs or actions that are not directly related to climate change; (iv) A review of climate-related fiscal risks; and/or, (v) A public consultation that includes a specific focus on climate. A report on the feedback received during public consultation is published.

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<sup>56</sup> For example, 'Report on the Government Property Management (Disposal) System' and 'Report on Review of Surface Collections and Dredging of Riverbed Materials (RMB) in Phuentsholing and Samtse', which were published in FY 2019-20.

5.152. The RGoB could work to ensure that audit reports and/or evaluation reports submitted to Parliament deal with climate change aspects as well as that two of the following six requirements are then met: (i) Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others; (ii) A review of climate-related executed expenditure and revenue at a level comparable with the approved budget; (iii) A review of audit reports or/and evaluation reports on the performance of climate change programs or activities in line with planned outputs and outcomes; (iv) A review of audit reports or/and evaluation reports of climate change impacts of the executed budget; (v) Recommendations for actions issued by the legislature to be implemented by the executive; and/or, (vi) Follow-up on their implementation.

5.153. The RGoB could work to ensure that audits and fraud investigations are conducted for the major categories of climate-related transactions to ascertain that public monies have been used for the proper climate objectives, that they include access to information on the use of climate related monies by receiving entities and that there is a mechanism for recovering undue transactions.

**Prioritization of reform actions**

5.154. The above areas of reform are prioritized as follows:

**Table 5.9: Reform matrix for CRPFM actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 year)	Define climate-related expenditure (fundamental) Climate-related fiscal risks (upstream) Climate responsive procurement framework, operations (critical for disaster management)		
	Medium term (2-3 years)	Climate responsive asset management (critical for mitigating national-level-risk) Budget alignment with climate change strategies (critical for identifying needs and fund sources) Climate-related evaluation of taxes (upstream) Training/capacity building for all stakeholders,	Climate responsive budget circular Tracking climate related expenditure Climate-related provisions in regulatory framework for PIM and project prioritization	Compliance of transactions PIM reporting from entities in charge of implementation Climate responsive fiscal decentralization arrangements and fiscal transfers

		Priority		
		High	Medium	Low
		including parliamentarians		
	<b>Longer term</b> (4-5 years)		Climate-related expenditure out-turn Legislative scrutiny of budgets Legislative scrutiny of audit and evaluation reports	Climate-related information in performance plans and performance reports Climate-related tax management, audit and investigation

5.155. The actions included in the ‘high priority’ column are reflected in Section 7.7 on page 76 of the Action Plan.

### Expected outcomes

5.156. The key outcomes of this reform pillar includes to: (i) enable the RGoB to track climate-related expenditure, including so as to identify budget lines that support or are counter to the climate policy; (ii) ensure that arrangements can be put in place to manage climate-related liabilities (risks); (iii) provide for climate change and disaster impacts to be considered when undertaking procurement; and, (iv) provide for the annual budget and medium-term budgets as well as sector plans to be aligned with climate change strategies.

## 5.8 Gender responsive PFM

### Background

5.157. The RGoB’s gender policy is based on the National Gender Equality Policy (2020) is a guiding document to achieve gender equality, while the National Plan of Action for Gender Equality 2019-2023 provides a practical approach on how to achieve gender equality. Gender aspects are also included in several other policies.<sup>57</sup> Gender equality and women’s empowerment is included in the 12<sup>th</sup> FYP (2018-2023) based on a dedicated NKRA 10 on ‘Gender Equality’ as well as mainstreaming gender across other NKRA’s.

5.158. The legal and regulatory framework on gender equality includes the Constitution (2008), Penal Code (2004), Labor and Employment Act (2007), Child Care and Protection Act (2011), Regulation on Working Condition (2012), Child Adoption Act (2012), Domestic Violence Presentation Act (2013), and Bhutan Civil Service Rules and Regulation (2018) as well as the rules and regulation prepared for many of these acts.

5.159. The institutional framework comprises the NCWC, which is the nodal agency for women and children, and the MoF, which is the lead agency for implementing Gender Responsive Planning and Budgeting (GRPB). The GRPB approach was introduced in 2012 as a

<sup>57</sup> For example, the National Employment Policy (2013), Economic Development Policy (2016), National Policy on People with Disabilities (2019), National Cottage, Small and Medium Industries Policy (2019), and Policy to Accelerate Mother and Child health Outcomes (2021).

strategy to accelerate investment in gender equality and women's empowerment interventions. A strategic framework for gender mainstreaming and GRPB was prepared in 2013 to enhance coordinated efforts across sectors. GRPB was piloted in the education, health and agriculture sectors in 2014.

### **Diagnostic assessment**

5.160. The findings of the GRPFM and the reform options that follow from these are outlined below across the five key areas of reform.

5.161. Revenue mobilization (GRPFM 1.2): The National Budget Report contains qualitative assessment of revenue for recent fiscal years and projected revenue for the coming fiscal year, but it does not include gender impact analysis of revenue policy proposals or legal reforms. Hence, a framework for gender impact analysis of revenue policy proposals could be developed and implemented as part of the annual budget formulation process.

5.162. Macro-fiscal management (GRPFM 2.1): The PIM function is decentralized. There are no uniform guidelines or standards for economic analysis and feasibility studies and, although there are some sector- and project-specific guidance,<sup>58</sup> neither include gender considerations. There is no evidence to suggest that a gender impact analysis has been undertaken for any major investment projects currently being implemented by the RGoB. Hence, guidance on how to undertake gender impact analysis when preparing investment projects could be developed and implemented.

5.163. Planning and budgeting (GRPFM 1.1, 3.1 and 4.1): The MoF's Budget Call Circular for FY 2022-23 required budgetary bodies to ensure integration of gender (and other crosscutting issues) in their respective budget proposal, but it did not mention specific requirements to include information on gender impact analyses (of existing service delivery programs, new spending proposals, or proposed reductions in expenditures) or sex-disaggregated data (on planned outputs and outcomes of relevant interventions, including service delivery). Hence, a format/template could be prepared for future budget call circulars covering (a) information on the gender impacts of new spending proposals, (b) information on the gender impacts of proposed reductions in expenditures, and (c) sex-disaggregated data on the planned outputs and outcomes for service delivery.

5.164. While the MoF in preparing the National Budget Report for FY 2022-23 conducted impact analyses of budget and expenditure policy proposals, these do not include gender impact analyses of the proposal policy (except for expenditure proposal details directly related to gender activities). Hence, (a) a formal requirement could be introduced, e.g. in a regulation, that budget policy proposals for both revenues and expenditures must include information on gender impacts, and (b) guidance developed on how to assess and present gender impacts in revenue policy and expenditure policy proposals.

5.165. Although the National Budget Report for FY 2022-23 and the Finance Minister's Budget Speech included some details of gender-related allocations, the budget

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<sup>58</sup> However, it is mandatory for projects funded by the European Union (EU), World Bank and Green Climate Fund (GCF) during project preparation to undertake a gender assessment and develop a gender action plan to mitigate the risk of negative impact on gender equality or to address identified gender issues.



documentation – i.e., the National Budget Report, Budget Speech, Budget Appropriation Bill and Infographics – did not include information on the RGoB’s policy and priorities on gender or the impact of budget policies on gender equality. Hence, a framework could be developed for the budget documentation to include (a) an overview of the RGoB’s policy priorities for improving gender equality, (b) details of budget measures aimed at strengthening gender equality, and (c) assessment of the impacts of budget policies on gender equality. The latter may additionally require that technical guidance be prepared for budget officers to apply.

5.166. Expenditure, accounting, and reporting (GRPFM 5.1, 5.2, 6.1, 7.1 and 8.1): Sex-disaggregated data and targeted performance plans as well as performance achieved are available for the majority of service delivery programs in APAs and annual performance reports, respectively. Also, the RGoB prepares and publishes reports that include analysis of gender equality outcomes and sex-disaggregated data on budgetary agencies employment.

5.167. There is an institutional mechanism where expenditure against key gender outcomes and outputs is linked through the budget and the GPMS. Also, the mid-term and terminal review framework for the FYP has provisions to track expenditure and physical progress against key gender outcomes. However, no mapping of expenditure against allocation for GRPB is carried out. Hence, the CoA could be amended to include one or more codes for targeted gender outcomes, which would enable gender-related expenditure to be tracked.

5.168. The Strategic Evaluation Division under the Cabinet Secretariat is responsible for conducting evaluations and impact assessments of policies, plans, programs and activities, budgetary bodies carry out impact evaluations of their own programs and projects, and the NCWC is mandated to conduct gender impact evaluations of service delivery at national and local levels. However, gender impact evaluations are not institutionalized and there is no framework or guidelines in place, hence no comprehensive evaluations are carried out. Hence, guidance on gender impact evaluations could be developed and an approach developed to ensure that independent evaluations of the efficiency and effectiveness of service delivery are undertaken on a regular basis.

5.169. Oversight institutions (GRPFM 9.1 and 9.2): The legislature’s scrutiny of the FY 2022-23 budget documentation did not include a review of the gender impacts of service delivery programs. The legislature’s scrutiny of audit reports during the last three fiscal years likewise has not included a review of the gender impacts of service delivery programs, although this is explained by external audit reports not covering gender-related aspects. Hence, once the annual budget documentation has been developed to include gender-related information (see above), guidance could be prepared for Parliament’s review of the annual budget documentation in relation to gender aspects. Similarly, if and when external audit reports cover gender-related aspects, guidance could be prepared for Parliament.

#### **Prioritization of reform actions**

5.170. The above areas of reform are prioritized as follows:

#### **Table 5.10: Reform matrix for GRPFM actions**

		Priority		
		High	Medium	Low
Timeline	Short term (1-2 years)	Gender responsive budget proposal documentation Gender impact analysis of budget policy proposals Gender responsive budget circular	-	-
	Medium term (3-4 years)		Evaluation of gender impacts of service delivery Tracking budget expenditure for gender equality	-
	Longer term (4-5 years)	-	Gender responsive PIM	Legislative scrutiny of gender impacts of the budget

5.171. The actions included in the ‘high priority’ column are reflected in Section 7.8 on page 79 of the Action Plan.

**Expected outcomes**

5.172. The key outcomes of this reform pillar includes to: (i) ensure that future National Budget Reports will include policy priorities to improve gender equality, details of gender-related budget measures, and reviews of budget impacts; (ii) provide for National Budget Reports to include information to decision-makers on gender impacts of new or additional spending or proposed reductions in spending; and, (iii) require budgetary bodies to provide information on the gender impacts of new spending proposals and proposed reductions in expenditures as well as sex-disaggregated data on service delivery.

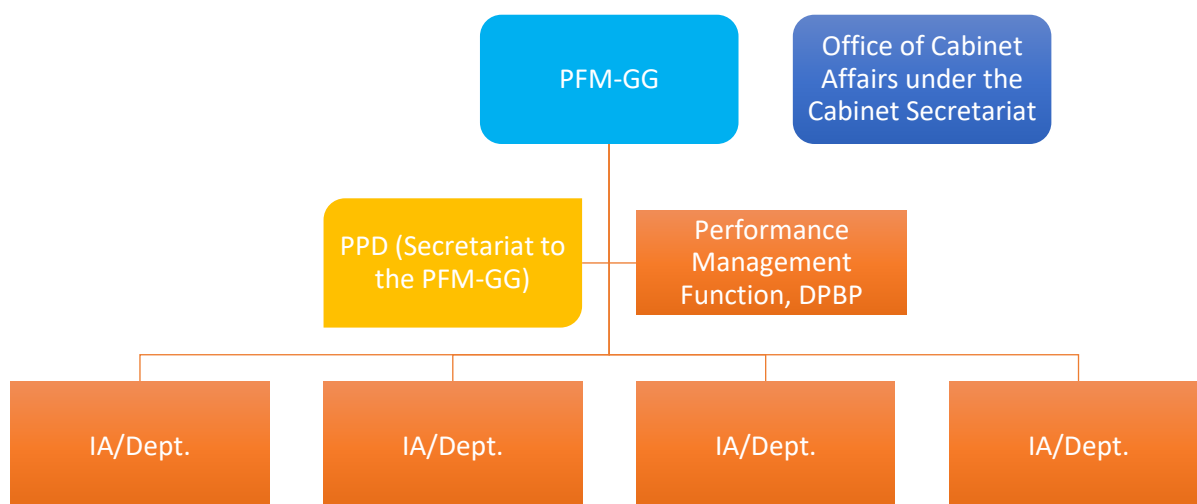
## 6. IMPLEMENTING THE ACTION PLAN

### 6.1 Institutional framework

6.1. The PFM-Governance Group (PFM-GG)<sup>59</sup> shall be the apex body leading and overseeing the implementation of the PFM Strategy and Action Plan. It will also decide on the reforms to be prioritized and allocate budget for specific PFM reform activities.

6.2. The PFM reform programs shall be coordinated and monitored by the MoF’s PPD, which functions as secretariat to the PFM-GG. Actual implementation of specific reform activities shall be carried out by various Divisions and Departments as Implementing Agencies (IAs).

**Graph 6.1: Institutional framework for PFM reform**



6.3. The PPD will work in coordination with the Office of Cabinet Affairs under the Cabinet Secretariat as well as performance management function under the DPBP, and the RCSC as necessary.

6.4. The PPD will require sufficient staffing to fulfill its role and responsibilities, including as regards monitoring and reporting. It will undertake all such actions that will support the PFM-GG fulfill its mandate.

### **Change Management**

6.5. Effective change management is indispensable for the successful implementation of a PFM Reform Strategy and Action Plan. It requires a systematic approach, strong leadership, stakeholder engagement, and a commitment to transparency and continuous improvement. To ensure that the RGoB’s PFM reforms are effectively adopted and sustained in a manner

<sup>59</sup> The PFM-GG was endorsed at the MoF’s Planning and Policy Coordination Meeting (PPCM) on 15 November 2013 and notified on 23 December 2013 together with the issuance of its terms of reference (ToR). It includes representatives from all MoF’s departments. The PFM-GG’s main functions include developing and monitoring PFM reform program as well as providing oversight and guidance on its implementation.

that will allow enhanced practices, improved accountability and, ultimately, delivery of better public services, the PFM-GG and the IAs shall apply the following principles in the context of PFM reform:

- **Leadership and commitment:** Strong leadership is crucial. Secure commitment from senior management, political leaders, and key stakeholders who can champion the reform process. Their buy-in and support will be instrumental in overcoming resistance to change.
- **Stakeholder engagement:** Involve all relevant stakeholders from the outset. This includes government agencies, ministries, departments, civil society organizations, and the private sector. Engage them in the design and planning phases to ensure diverse perspectives are considered.
- **Change communication:** Develop a comprehensive communication strategy. Inform stakeholders about the reform's objectives, progress, and expected outcomes. Address concerns and provide regular updates to build trust and transparency.
- **Capacity building:** Identify skill gaps within the organization and invest in training and development programs. Ensure that staff have the necessary skills and knowledge to adapt to the new PFM processes and technologies.
- **Pilot programs and phased implementation:** Implement reforms in stages or through pilot programs to minimize disruption and test the effectiveness of proposed changes. This approach allows for adjustments based on real-world feedback.
- **Change agents and champions:** Appoint change agents and champions within the organization who can advocate for the reform, provide guidance, and support their colleagues through the transition.
- **Monitoring and evaluation:** Establish key performance indicators (KPIs) to track the progress of the reform. Regularly assess whether the reform is achieving its objectives and make adjustments as needed.
- **Feedback mechanisms:** Create channels for feedback and input from stakeholders and employees. Act on feedback to improve the reform process and address concerns promptly.
- **Risk management:** Identify potential risks and develop mitigation strategies. Be prepared to address unexpected challenges that may arise during the implementation of the reform.
- **Celebrate achievements:** Recognize and celebrate milestones and achievements throughout the reform process. Positive reinforcement can boost morale and maintain enthusiasm for the changes.
- **Sustainability and continuous improvement:** Ensure that the reform's gains are sustainable by embedding the changes into the organization's culture and policies. Continuously monitor and refine the PFM system to adapt to evolving needs.

## 6.2 Monitoring arrangements

6.6. The PPD will undertake monitoring of the implementation of the activities listed in the Action Plan on a monthly basis. This will involve a comparison of planned vs. actual progress in terms of key tasks and actions performed, time frame and key milestones and outputs achieved, and will be established based on consultations with the involved entities.

6.7. The PPD will prepare progress reports on a quarterly basis and present these to the PFM-GG. The PFM-GG will, based on the presentations provided by the PPD, keep the Finance Secretary informed about the PFM reform implementation progress. The quarterly progress reports will be shared with stakeholders as well as published on PPD’s webpage. The MoF may also consider developing a website for PFM reform, which could furthermore include a virtual library with PFM reform documents relevant for Bhutan, information about ongoing and planned reform programs and projects, contact information, and links to relevant web-pages.

6.8. The World Bank will, if required, provide technical support to the PPD in preparing a monthly monitoring template and quarterly reporting format. It will also advise the PPD on how to manage the monitoring process if and when a new development partner-financed program is implemented, so as to avoid overlaps and gaps between the two processes.

6.9. A mid-term review should be undertaken during 2026 to take stock of the reform implementation process. That will be an opportunity to ensure that the Strategy and Action Plan remain relevant to the Government’s objectives as well as realistic and implementable by revising and updating it based on new priorities and taking into account implementation progress, including so as to take corrective measures where delays may have occurred.

### 6.3 Risks and mitigation measures

6.10. The RGoB has a strong good governance framework in place for the public sector as well as for PFM, and there is high-level political commitment for continuous reform and improvement of institutions and accountability procedures. The overall risk associated with the implementation of the PFM reform Action Plan is deemed to be moderate. Some key risks and proposed mitigation measures are outlined below.

Potential risks	Proposed mitigation measure
Reductions in available funding that could slow down or stop reform activities.	Dialogue between the RGoB and development partners. Re-prioritize the Action Plan so key reforms remain supported.
Diminishing political commitment resulting in absence of leadership from senior management.	High-level engagements between RGoB and development partner representatives with joint statements, stakeholder meetings and media briefings to maintain a high PFM reform profile.
Inadequate capacity among staff (skills and experience) to implement the Action Plan.	Assess involved staff vis-à-vis requirements and provide training, where needed and suitable, and consider consultant support in selected areas.
Technology-driven IFMIS process with limited focus on required functionalities.	Ensure high-level project management capability, thorough pre-assessment of functional needs and technical requirements, sound design work, phased approach to implementation, and adequate resources and human resource capacities.

Potential risks	Proposed mitigation measure
Lack of inputs for monitoring process or insufficient coordination between stakeholders.	Dedicated focal persons to be appointed in all involved entities.

6.11. The PPD will, as part of the Action Plan monitoring, also review the extent to which potential risks may adversely impact on implementation and, if so, include such information in its quarterly reporting to the PFM-GG which may then consider adequate responses.

#### 6.4 Financing the PFM Strategy

6.12. The PFM Reform Strategy and Action Plan will be implemented by the RGoB through a mix of financing sources, which will include grants from development partners, loans, and counterpart financing by the Government.

#### 6.5 Capacity support

6.13. The capacity of RGoB institutions and staff is generally considered to be high, but it is recognized that retaining qualified and technically skilled mid-level staff is becoming increasingly challenging. This will to some extent affect the implementation of the reform Action Plan as there, in practical terms, may be fewer staff available to engage in reform activities as well as existing staff lacking the necessary time to do so given day-to-day responsibilities and tasks. This will need to be taken into consideration when prioritizing, as well as planning and implementing reform activities by ensuring that realistic expectations are applied in terms of the timings of activities and hands-on involvement of staff. Given the recent unprecedented attrition in the public sector, based on the nature of reform implemented, there will likely be a need for engaging external support, including one or more options such as (a) engaging national and international consultants, (b) re-engaging retired staff, and (c) engaging a manpower firm which then provides required experts.

## 7. PFM REFORM ACTION PLAN 2023-2028

### 7.1 Revenue mobilization

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
1.1. Compliance Improvement Plans are not in place for all relevant areas.	Improve the DRC's revenue risk management approach.	Introduce Compliance Improvement Plans for all relevant areas. Develop and implement a multi-year Strategic Plan.	DRC	October 2023-July 2025	Compliance Improvement Plans developed and applied. Multi-year Strategic Plan developed and implemented.	Nu. 4 million
1.2. GST yet to be implemented to replace Sales Tax and current organizational model based on taxes and geography.	Develop and operationalize BIRMS to provide required functionalities to the DRC, to integrate with other systems and enable online access.	TBD	DRC	October 2023-February 2024	TBD	Nu. 60.12 million
	Develop and operationalize BITS to implement GST.	TBD	DRC	October 2023-September 2026	TBD	Nu. 667.5 million
	Adopt a functional organizational model.	TBD	DRC	October 2023-September 2024	TBD	-
1.3. The existing BACS cannot exchange information on a real-time basis and poses a high 'shutdown risk'.	Develop and operationalize eCMS for indirect taxes.	TBD	DRC	October 2023-September 2025	TBD	\$3.84 million

PFM Reform Strategy and Action 2023-2028

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
1.4. The current property tax approach is not consolidated and does not facilitate accurate assessment and online property tax payments.	Develop and operationalize a new property tax system.	TBD	Ministry of Infrastructure and Transport's Department of Human Settlement	October 2023-September 2026	TBD	Nu. 1.8 million

## 7.2 Macro-fiscal management

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
2.1 Macroeconomic and fiscal forecasting is not fully supported by a relevant analytical tool (PI-14).	Fully develop and adopt the MTMF.	Draft MTMF tool developed, including scenario simulations, and manual/guidance note prepared. MTMF adopted.	D MDF	2023-2024	Draft MTMF tool developed and operational manual / guidance prepared. MTMF applied.	
2.2 There is no mechanism for the preparation of fiscal impact studies for revenue and expenditure policy proposals (PI-15.1).	Undertake fiscal impact studies of all major revenue and expenditure policy proposals.	Develop a procedure for budgetary bodies to prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies. Include the results in summarized form in the National Budget Report or submit the impact study reports separately to Parliament.	PPD	2025-2027		



PFM Reform Strategy and Action 2023-2028

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
2.3 The proposed fiscal deficit target is not always taken into consideration when preparing the annual budget (PI-15.2).	Adhere to the fiscal targets stated in the FYP.	Continue to develop, adopt, submit to Parliament, and publish a fiscal strategy. Apply the proposed fiscal deficit target when preparing the annual budget.	PPD	2024-2025	The fiscal targets stated in the FYP are applied.	
2.4 The RGoB's fiscal risk monitoring of state enterprises is weak (PI-10.1).	Enhance fiscal risk monitoring of and reporting on state enterprises.	Sign a memorandum of understanding (MoU) to collaborate on enhancing state enterprise governance, oversight, performance and fiscal risk management.	DHI / ICGD	2023/24 onwards	MoU signed and ICGD-DHI collaboration progressing.	
		Publish audited AFS and annual reports of all state enterprises within six months of fiscal year-end.	State enterprises / DHI / ICGD	2024-onwards	Audited AFS for all state enterprises published within six months of fiscal year-end.	
		Expand the consolidated annual report on financial and non-financial performance of state enterprises and publish report within nine	ICGD	2025-onwards	Consolidated report on published annually within 12 months of fiscal year-end.	

PFM Reform Strategy and Action 2023-2028

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		months of fiscal year-end.				
		Develop database to include information on corporate governance, human resources, investments and capital expenditure, and non-financial performance.	ICGD / DHI	June 2025	A digitized database developed and rolled out.	
		Strengthen capacity to quantify, budget and report on state enterprise fiscal risk; state enterprise public service obligations; and manage public investments undertaken / implemented by state enterprises.	ICGD	June 2026	Capacity to quantify, budget and report across specific parameters strengthened.	
		Design and implement joint ICDG/DHI state enterprise training program, including for boards members (directors).	ICGD / DHI	2024/25 onwards	New training program designed and implemented.	
		Review and update state enterprise performance management system of the MoF and DHI.	ICGD / DHI	June 2025	New and joint MoF-DHI state enterprise performance system rolled out.	

PFM Reform Strategy and Action 2023-2028

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
2.5 The RGoB's fiscal risk monitoring of LGs is weak (PI-10.2).	Enhance fiscal risk monitoring of and reporting on LGs.	Prescribe financial reporting standards for LGs showing performance and financial position.	RGoB's standard setting body / RAA	December 2024	LG financial reporting standards published.	
		Audited/unaudited AFS, prepared in accordance with prescribed standards, to be published within nine months from fiscal year-end.	LGs	June 2025 onwards	All LGs publish their AFS.	
		Prepare and publish a consolidated report of the financial position of all LGs.	DoLGDM	June 2025 onwards	Consolidated report on the financial position of all LGs published.	
2.6 Economic analysis is not done for major investment projects funded by the RGoB, appraisal by an independent entity is limited, and only some major investment projects are prioritized by a central agency (PI-11.1 and 11.2).	Issue national guidelines for project appraisal, review and prioritization.	Develop framework and guidelines that mandates projects to undergo detailed appraisal.	DPBP	2024-2025	National guidelines for project appraisal issued. At least two major RGoB-funded projects have been appraised by the sponsoring entity according to the guidelines.	
		Designate two separate and independent entities to review appraisals for major projects and prioritize projects based on published	DPBP	2024-2025	The agency or group has reviewed the appraisal of at least two major projects.	

PFM Reform Strategy and Action 2023-2028

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		standard criteria, respectively.				
2.7 Annual budget documentation contains limited information on the costs of major investment projects (PI-11.3).	Issue guidelines for project review / evaluation	Develop guidelines for post-implementation evaluation of projects.	DPBP	2025-2026	Guidelines for post-implementation evaluation issued.	
		Designate an agency or group to undertake these evaluations.	DPBP	2025-2026	The agency or group has reviewed at least two major projects.	

### 7.3 Planning and budgeting

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
3.1 High variances between original budgets and actual spending due to budgeting issues (PI-2.1 and 2.2).	Budgetary bodies develop realistic cost estimates during the annual budget formulation process.	Develop a readiness-based budget screening tool. Implement the budget screening tool. Support staff in the development and implementation tasks.	DPBP	November 2023-December 2024	Budget screening tool piloted. Budget screening tool finalized.	
3.2 High variances between original budgets and actual spending (PI-2.1 and 2.2).	Introduce Performance Based Budgeting (PBB).	Develop and implement Performance Based Budgeting (PBB).	DPBP	July 2024-June 2026	Performance Based Budgeting (PBB) introduced.	
3.3 Recent National Budget Reports have not included medium-term budgets (PI-16.1).	Re-establish multi-year rolling budgeting through the MYRB system.	Review previous practices of multi-year rolling budgeting. Re-institute the approach at the start	DPBP	January-December 2024	Medium-term budgets are included in the National Budget Report.	

PFM Reform Strategy and Action 2023-2028

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		of implementing the 13 <sup>th</sup> FYP. Include medium-term budgets in National Budget Reports.				
3.4 Expenditure ceilings were not provided in recent Budget Call Circulars (PI-16.2 and PI-17.2).	Ensure that budget formulation process has a medium-term perspective.	Apply medium-term estimates based on the projections included in the 13 <sup>th</sup> FYP.	DPBP	January-December 2024	The Budget Call Circular includes expenditure ceilings for the budget year as well as the next two fiscal years.	
3.5 Only few expenditure policy proposals underlying medium-term budget estimates align with the strategic plans (PI-16.3).	Ensure alignment between strategic plans and medium-term budgets.	Require that budgetary bodies undertake costing of strategic plans. Adjust medium-term budget estimates so they align with (new) strategic plans.	DPBP	January-December 2024	Medium-term budget estimates align with costed strategic plans.	
3.6 Recent National Budget Reports provide only few explanations of expenditure estimate changes from one year to the next year (PI-16.4)	Improve information on ministry level expenditure estimates in the National Budget Report.	Establish the specific changes in the ministry level expenditure estimates between the last medium-term budget and the current medium-term budget. Include a brief text for each budgetary body in the National Budget Reports that explains major changes in the expenditure estimates.	DPBP	January-December 2024	National Budget Reports explain expenditure estimate changes from one year to the next year.	

## 7.4 Expenditure, accounting, and reporting

### 7.4.1 Accounting and reporting

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
<b>Cash management</b>						
4.1 Some accounts are maintained outside the TSA and are not consolidated with the TSA (PI-21.1).	Expand the coverage of the TSA.	Prepare operational manual/guidelines of the TSA, alternatively amend the FAM.	DTA	June 2024	TSA operational manual/guidelines prepared and issued for implementation.	
		Prepare inventory of all accounts outside the TSA and determine their operation rules.	DTA	December 2024	Inventory of all non-TSA accounts prepared, and rules determined.	
		Close, or link to TSA, accounts outside the TSA and not mandatory to be maintained separately.	DTA	December 2024	All non-mandatory non-TSA accounts closed or linked to TSA.	
		Make necessary changes to the accounting system (chart of accounts).	DTA	December 2024	Accounting system upgraded to reflect the expanded TSA.	
4.2 The applied cash forecasting mechanism is not comprehensive and adequate (PI-21.2)	Upgrade cash forecasting capabilities using enhanced methodologies.	Develop a cash forecasting model based on an online tool (IT system) and integrate with various PFM applications.	DTA	December 2024	Cash forecasting tool implemented and used. Margin of error between projected and actual cash forecast reduced progressively to max. 10% in expanded TSA.	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		Provide capacity building to a core team (include member/s of the CCC) of Master Trainers on cash forecasting, including exposure visits.	DTA	December 2024	A select team of RGoB staff trained in forecasting techniques and the tool.	
		A monthly briefing note is prepared for the CCC and the Secretary Finance.	DTA	Continuously from January 2025	Monthly briefing note on cash forecasting and related aspects prepared and disseminated.	
<b>Expenditure arrears</b>						
4.3 Absence of a system for collation and consolidation of expenditure outstanding / arrears and subsequent periodic reporting for monitoring and decision-making (other than salaries and debt-servicing) (PI-22.1 and 22.2).	Strengthen recording of expenditure liabilities and instituting mechanism of periodic reporting and monitoring.	Include a definition of Expenditure Arrears in the FAM.	MoF	June 2024	Definition of expenditure arrears included in the FAM.	
		Develop the template and contents for reporting expenditure outstanding periodically and making these reports available to the spending units and the MoF.	MoF	June 2024	Template for expenditure outstanding information developed and implemented.	
		Spending units collate their expenditure outstanding as on a cut-off date.	MoF / Budgetary bodies	June 2024	Expenditure outstanding details available as on a cut-off date and reported in AFS.	
		Include information on expenditure	MoF	June 2026	Information on expenditure	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		outstanding in the in-year budget execution reports.			outstanding included in budget execution reports.	
		Develop module in IFMIS for recording and reporting of expenditure bills.	MoF	<i>Based on timeline for upgrading IFMIS</i>	A module for recording and reporting on expenditure outstanding / arrears is developed and rolled-out.	
<b>Suspense accounts</b>						
4.4 Manual reconciliation of suspense accounts (PI-27.2).	Strengthen recording and reconciliation of suspense accounts.	Enhance the existing e-PEMS and e-DATS to automate reconciliation of suspense.	DTA	June 2024	Reconciliation of Suspense Accounts automated in e-PEMS and e-DATS.	
<b>Annual financial report/IPSAS</b>						
4.5 Manual preparation of AFS.	Undertake systems integration or interfacing.	Conduct Assessment for System Integration or Interfacing and enhancement, as required to enable required disclosures. As per recommended roadmap, integrate or interface the required systems.	DTA	June 2026	Assessment with Roadmap Completed for System Integration or Interfacing. Implementation of roadmap for integration or.	
4.6 Regulatory framework not completely aligned with cash basis IPSAS.	Integrate cash basis IPSAS requirements into the regulatory framework.	Amend, as required, the PFA and relevant manuals (Budget Manual, FAM, Property	DTA	June 2026	Amendments, as required, to the relevant documents completed.	



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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		Management Manual, and Revenue Manual).				
4.7 Inadequate disclosures.	Provide additional disclosures as encouraged by cash basis IPSAS.	Identification of incremental disclosure requirements for each year. Development of Disclosure Plan and implementation.	DTA	June 2026	Development of Plan for incremental disclosures for each year. Implementation of disclosure requirements as per plan.	
4.8 Capacity constraints.	Carry out capacity building and technical backstopping.	Capacity building and technical backstopping of relevant DTA staff, reporting entities and the RAA.	DTA	June 2026	Development of Capacity Building Plan. Implementation of Capacity Building Plan.	

### 7.4.2 Procurement

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
4.9 ... TBD						
4.10 ... TBD						
4.11 ... TBD						

## 7.5 Oversight institutions

### 7.5.1 RAA, AASBB and PAC

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
Royal Audit Authority (RAA)						

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
5.1 The RAA does not fully have formal financial independence (PI-30.4).	In line with commitments made at various INTOSAI global declarations including Mexico declaration, RAA independence improved.	Changes made in legislation to facilitate financial autonomy of the RAA.	MoF and RAA	June 2028	SAI-PMF Indicator 1, Dimension ii: score improved to “4” from “2”. Score for PEFA PI-30.4 improved to “A” from “C”.	Nu. 0.2 million
5.2 Documentation for accounting and financial reporting RAA capacity building.	Quality of state enterprises audit reports and implementation of BAS and IPSAS improved	Prepare annual training plan for key staff involved in audit of SOEs and IPSAS AFS.	RAA	June 2028	Key staff involved in audit of state enterprises and IPSAS AFS trained nationally / internationally / attend global meet / seminar. At least two officials qualified as Association of Chartered Certified Accountants (ACCA) / Certified Professional Accountants (CPA). Score for indicator SAI-23 improved to “2” from “1”.	Nu. 4 million
5.3 RAA ICT strengthening.	TBD	TBD	RAA	June 2028	TBD	Nu. 5 million
<b>Accounting and Auditing Standards Board of Bhutan (AASBB)</b>						
5.4 AASBB lacks adequate technical support and capacity building.	Quality of SOE AFS and implementation of BAS and IPSAS improved.	Prepare annual recruitment plan and training plan for AASBB staff.	AASBB	June 2028	Output indicators: Implementing agencies fully compliant with BAS and BAS for small and medium-sized enterprises (SMEs).	Nu. 5 million

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
					Outcome indicators: Transparent and reliable Financial Statements of the implementing agencies in line with BAS and BAS for small and medium-sized enterprises (SMEs).	
<b>Public Accounts Committee (PAC)</b>						
5.5 Limited PAC hearings with auditees.	Enhance PAC hearings with auditees.	Make necessary revision in the PAC procedures to enhance hearings for entities with qualified or adverse audit opinion or a disclaimer.	PAC	June 2028	Score on PEFA PI-31.2 findings improved to at least "B".	

**7.5.2 Internal audit**

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
5.6 The CCA has no internal auditors with professional certifications, there is no human resource development program in place, and there is significant attrition.	Current Internal Audit Strategic Plan 2020-2024 to be updated.	Hold workshops and structured discussions to obtain feedback on the Plan for the next period.	CCA	June 2024	Internal Audit Strategic Plan 2024-2028 approved by the MoF.	\$2,000
	Continuing Professional Development of internal auditors.	Develop tailor-made training programs. Organize overseas exposure visits.	CCA	2024-2028	Training programs and exposure visits held. Collaboration with BPKP activated and	\$197,000

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		Re-activate collaboration with Indonesia’s Finance and Development Supervisory Agency [Badan Pengawasan Keuangan dan Pembangunan (BPKP)] Develop on-line web-based internal audit training framework. International certification in internal audit or associated. Organize annual internal audit conference.			exchange programs held. Online web-based training launched. Internal audit staff obtaining international certification. Annual internal audit conference held.	
	Compliance with Internal audit standards, and quality assurance.	Quality assurance unit submits its report on status of compliance with the Internal Audit Standards and other guidance and plan. An independent Quality Assurance and Improvement Program (QAIP) has been conducted.	CCA	Internal report: June 2024 QAIP: June 2025	Improvement in the use of internal audit standards. External QAIP report available.	\$75,000
	Enhancing outreach.	Publish an annual Internal Audit Performance Report	CCA	June 2024 and continuous	Annual Internal Audit Performance Report published.	\$3,000

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
5.7 Internal auditors do not use any audit management system (AMS) software.	Increased use of modern audit techniques and technologies.	<p>Include a medium-term training plan in the updated Strategic Plan.</p> <p>Implement an ICT based IAMS.</p> <p>Acquire an internally recognized CAAT.</p> <p>Provide training in IAMS.</p> <p>Enhance use of data analytics and other new technologies such as artificial intelligence.</p>	CCA	<p>First round of training: June 2025</p> <p>Continuously thereafter according to training plan</p>	<p>A functional Integrated Internal Audit Management System (IIAMS) implemented, and internal auditors trained.</p> <p>Capacity of internal auditors enhanced in new technologies, including use of CAAT and applied in auditing.</p>	\$103,000

### 7.6 Cross-cutting topics

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
<b>PFM information systems for improving service delivery</b>						
6.1 Difficulties in data consolidation and analysis due to fragmented, outdated and disconnected PFM information systems.	Transition to IFMIS.	<p>Modernization and integration of PFM information systems through IFMIS to include modules:</p> <ol style="list-style-type: none"> <li>1. financial planning;</li> <li>2. budget preparation;</li> <li>3. budget allocation;</li> </ol>	MoF	2023-2025	<p>Develop IFMIS roadmap, including assessment of existing systems and development of IFMIS requirements (bidding document).</p> <p>Development and deployment of IFMIS to enhance and/or replace existing</p>	\$9,000,000 (est.), including IFMIS software (custom software), hardware, network equipment, training, change management.

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		4. commitment / expenditure management; 5. cash management; 6. revenue management; 7. debt management; 8. asset management; 9. accounting; 10. internal audit; and, 11. fiscal reporting.			systems (including overhaul of the MYRB system and e-PEMS, if necessary).	
<b>Service delivery</b>						
6.2 Public service delivery needs strengthening.	Enhancing Digital Public Service Delivery (Administrative Services) – a system and transformational change and impact on good governance	Inventorying services provided by ministries and agencies. Study the current framework of service delivery, including institutional mechanisms, rules and regulations, reforms on ease of doing business, and service level targets. Conduct business process reengineering of key services in each department/division to improve efficiency in services.	TBD	2023-2025	Number of services digitized.  Common citizen services portal rolled out.	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		Strengthen the right to public services rules and regulations. Establish/strengthen citizen service centers at the Gewog level. Develop an ICT platform for on-boarding these services – a web-based system based on enhanced workflow as a common citizen portal (integrated service delivery for whole-of-government) Link investments in ICT hardware and connectivity to the national plan.				
<b>Transparency</b>						
<b>Budget documentation</b>						
6.3 Information provided in the National Budget report is somewhat limited (PI-5).	Improve the level of information provided in the National Budget Report in line with international good practice.	Consider which additional budget elements to include in the National Budget report, and ensure that these are added.	DPBP	2025 onwards	All four basic and at least six additional budget elements are included in the National Budget Report.	
<b>In-year budget reporting</b>						
6.4 Timeliness of publishing of the quarterly budget	Enhanced transparency through publication of quarterly BPR within	Create standard reports in e-PEMS /	DPBP	June 2026	BPR produced using existing e-PEMS, MYRB and other reports and	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
performance report (BPR) (PI-28).	on month of quarter-end.	MYRB to automate preparation of BPR.			published within one month of quarter-end (June 2024). BPR produced using standard reports and published within 1 month of end of calendar quarter (June 2026). Score for PEFA-28.2 improved to “B” and criteria on in-year budget execution report under PI-9 remaining fulfilled.	
<b>Capacity building of MoF officials</b>						
6.5 MoF staff require capacity building in selected areas.	Key staff involved in various reforms having sufficient capacity.	Update MoF TNA and thereafter implement the same through annual training plan.	MoF	June 2028	Update MoF TNA (December 2024). Implement MoF TNA (June 2028).	Nu. 50 million
<b>Local governments (LGs)</b>						
6.6 LGs have some weaknesses in regard to PFM functioning.	Division of Responsibilities Framework <i>inter se</i> RGoB and the LGs.	Hold workshops / structured discussions to determine the functional assignments to LGs. Update the 2012 Division of Responsibility Framework.	DoLGDM	December 2024	The 2012 Division of Responsibility Framework updated and notified.	



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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		Disseminate the Framework.				
		Institute a study for determining the fiscal decentralization corresponding to the updated Framework.	DoLGDM	June 2025	Study completed providing the recommendations for enhanced fiscal decentralization.	
	Capacity building of LGs.	Engage training agency to develop Capacity Building Plan and develop training material based on a rapid training needs analysis. Initiate a Training-of Trainers (ToT) program. Organize training program for elected members and LG functionaries. Develop and roll-out a Massive Open Online Course (MOOC). On-board academic institutions to start courses on LGs.	DoLGDM	June 2025	A comprehensive Capacity Building Program developed and approved. Number of training programs held. Proportion of female elected members and functionaries participated. At least one institution starts course on LGs.	
Assessment of PFM performance in LGs.	Conduct PEFA SNG assessment. Develop a PFM Reform Action Plan specific to LGs as part of the	MoF / DoLGDM	June 2025	PEFA SNG assessment completed. A PFM Reform Action Plan for LGs developed.		

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		national PFM Strategy and Reform Action Plan.				

### 7.7 Climate responsive PFM

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
7.1 The RGoB does not have a methodology to track climate change-related expenditure.	Define climate-related expenditure.	Develop, review and apply the same methodology across all entities to identify climate-related expenditure. Expenditure related to activities that are climate-related and counter to climate policy disclosed in budget documents and financial reports.	MoF / MoENR	2023-2025	Climate-related expenditures defined and methodology to track climate change-related expenditure developed.	
7.2 The RGoB does not publish a report consolidating climate-related fiscal risks.	Prepare a quantitative and qualitative assessment of climate-related fiscal risks and impacts on expenditure and revenue.	Produce a report consolidating climate-related fiscal risks.	MoF / MoENR	2023-2025	Quantitative and qualitative assessment reports consolidating climate-related fiscal risks and impacts on expenditure and revenue prepared and published.	
7.3 The PRR (2019) does not include specific criteria to determine products or	Develop a climate responsive procurement	Establish criteria for the procurement framework to determine products or	MoF / MoENR	2023-2025	Climate responsive procurement framework and operations in place,	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
<p>services counting as climate responsive and, also, does not set quantitative targets, priorities and timeframes.</p>	<p>framework and operations.</p>	<p>services that are climate responsive.                      Develop the scope of procurement operations subject to climate responsive procurement principles.                      Include climate responsive criteria in contract clauses.                      Include climate responsiveness in framework agreements for commonly procured goods.                      Develop simplified procedures to expedite procurement during climate induced disasters.                      Produce report on climate responsive procurement.                      Produce a report on compliance with procedures and rules requiring emergency procurement operations.</p>			<p>with defined criteria to determine products and/or services counting as climate responsive.</p>	
<p>7.4 Information on exposure and</p>	<p>Develop a climate responsive asset</p>	<p>Identify exposure and sensitivity of relevant</p>		<p>2024-2026</p>	<p>Climate responsive asset management</p>	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
sensitivity of public lands, buildings, and infrastructures to climate vulnerability, etc., is not identified for assets.	management approach.	fixed assets to climate variability, extreme weather events and transition risks.			approach developed and in place.	
7.5 Medium-term climate change strategies are not well-reflected in costed sector medium-term strategic plans and budgets.	Align the budget with climate change strategies.	Identify funding gaps and funding sources in climate change strategies or climate-related medium-term budget estimates.	MoF / MoENR	2024-2026	Budget aligned with climate change strategies.	
7.6 A structured and systematic approach for assessing and prioritizing compliance risk related to climate related taxes is not in place.	Evaluate climate-related taxes.	Develop and use a structured approach to assess and prioritize compliance risk. Register green house gas (GHG) emitters in a database linked to taxpayer database, and check it regularly. Complete all planned climate-related audits and investigations.	MoF / MoENR	2024-2026	Structured and systematic approach for assessing and prioritizing compliance risk related to climate-related taxes is in place.	
7.7 RGoB officials and others lack information about and familiarity with climate responsive PFM.	Provide training / capacity building for stakeholders, including parliamentarians.	Organize climate-related training and capacity building for RGoB officials and other stakeholders.	MoF / MoENR	2024-2026	Capacity and understanding of climate responsive PFM of RGoB officials and other stakeholders developed.	

## 7.8 Gender responsive PFM

Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
<p>8.1. Budget documentation does not include information on the RGoB’s policy and priorities on gender or the impact of budget policies on gender equality (GRPFM-4.1).</p>	<p>The National Budget Report includes: (i) an overview of the RGoB’s policy priorities for improving gender equality, (ii) details of budget measures aimed at strengthening gender equality, and (iii) assessment of the impacts of budget policies on gender equality.</p>	<p>Develop guidance for budget documentation to include: (a) an overview of the RGoB’s policy priorities for improving gender equality, (b) details of budget measures aimed at strengthening gender equality, and (c) information on assessments of the impacts of budget policies on gender equality.</p>	<p>MoF and NCWC</p>	<p>October 2023-May 2024</p>	<p>Draft guidance (January 2024). Final guidance (March 2024). National Budget Report 2024/25 guidance (June 2024).</p>	
<p>8.2. Impact analyses of revenue and expenditure policy proposals, undertaken as part of the annual budget preparation process, do not include gender impact analyses (GRPFM 1.1 and 1.2).</p>	<p>Most proposed changes in revenue and expenditure policy include an assessment of gender impacts.</p>	<p>(a) Introduce a requirement in the regulatory framework that revenue and expenditure policy proposals must include information on gender impacts. (b) Develop guidance on how to assess and present gender impacts in revenue policy and</p>	<p>MoF and NCWC</p>	<p>January 2024-August 2024</p>	<p>Draft amendment to regulation. Regulation amended. Draft guidance. Final guidance.</p>	

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Problems to be addressed	PFM reform	Key tasks and actions	Responsibility	Time frame	Key milestones and outputs	Cost
		expenditure policy proposals.				
8.3. The Budget Call Circular does require budgetary bodies to include information on gender impact analysis (CRPFM-3.1).	Budgetary bodies undertake gender impact analysis of: (i) existing service delivery programs; (ii) new spending proposals; and, (iii) proposed reduction in expenditures.	Prepare a format for budget call circulars covering: (a) information on the gender impacts of new spending proposals, (b) information on the gender impacts of proposed reductions in expenditures, and (c) sex-disaggregated data on the planned outputs and outcomes for service delivery.	MoF and NCWC	July 2024-December 2024	Draft format. Final format. Budget Call Circular.	

## APPENDICES

### Appendix 1 – PFM information systems for improving service delivery

8.1. For over two decades, Bhutan has been making steady progress in strengthening its PFM policies and systems, and it has good track record in implementing PFM reforms. The RGoB uses a number of stand-alone and mostly web-based systems PFM information systems.<sup>60</sup> The systems were developed at different points in time (mostly in-house developed/custom software solutions), and are used not only at the RGoB-level, but also at the sub-national level by Dzongkhags and Gewogs. A government service bus (eBUS; based on open source WSO2 platform) is being used to automate data exchange between these core government systems.

8.2. The PFM-MDF program has supported efforts towards implementing several GovTech solutions,<sup>61</sup> including e-PEMS, e-GP, BITS for implementing GST, and integrating stand-alone PFM information systems using eBUS and Application Programming Interface (API) technology. The RGoB plans to initiate transition to an IFMIS to support PFM reforms through a secure shared platform starting with the development of a roadmap in the near future. The MoF is focusing on modernizing PFM systems to improve budget performance.

8.3. In 2019, the RGoB launched the e-PEMS as part of the IFMIS development. This platform was extremely useful while responding to emergency responses during the COVID-19 pandemic. The e-PEMS has not only facilitated the smooth delivery of payments to the vendors and for the staff salaries, but also played a significant role in transfer of relief payments to the beneficiaries across the country (Druk Gyalpo's Relief Kidu). The second phase of e-GP has been implemented and is now fully operational in 10 ministries, 11 autonomous agencies, 20 Dzongkhags (districts) and four Thromdes (municipalities). There has been significant progress on reducing procurement cycle time through increased use of the e-GP in inviting bids using national competitive bidding (NCB) in three selected ministries, thereby enhancing competitiveness and transparency in public procurement. The e-GP phase III and the GST implementation are currently underway.

8.4. Regarding GovTech initiatives, Bhutan falls in Group B (significant focus on GovTech) on the GovTech Maturity Index (GTMI) in 2022,<sup>62</sup> and moved up 12 positions in the United Nations (UN) E-Government Development Index (EGDI) ranking due to significant

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<sup>60</sup> e-PEMS: electronic Public Expenditure Management System; MYRB: Multi-Year Rolling Budget; PlaMS: Planning and Monitoring System; GPMS: Government Performance Management System; RAMIS: Revenue Administration and Management Information System; BACS: Bhutan Automated Customs System; e-GP: electronic Government Procurement system; ZEST: Zhiyog Electronic System (human resource data); GPS: Government Payroll System; GIMS: Government Inventory Management System; Commonwealth Meridian: The Commonwealth Secretariat's (new) Meridian Debt Recording and Management System (DRMS).

<sup>61</sup> 'GovTech' is an approach to public sector modernization that emphasizes: Citizen-centric public services that are universally accessible, a whole-of-government approach to digital government transformation, and simple, efficient and transparent government systems. Also see: <https://www.worldbank.org/en/programs/govtech>.

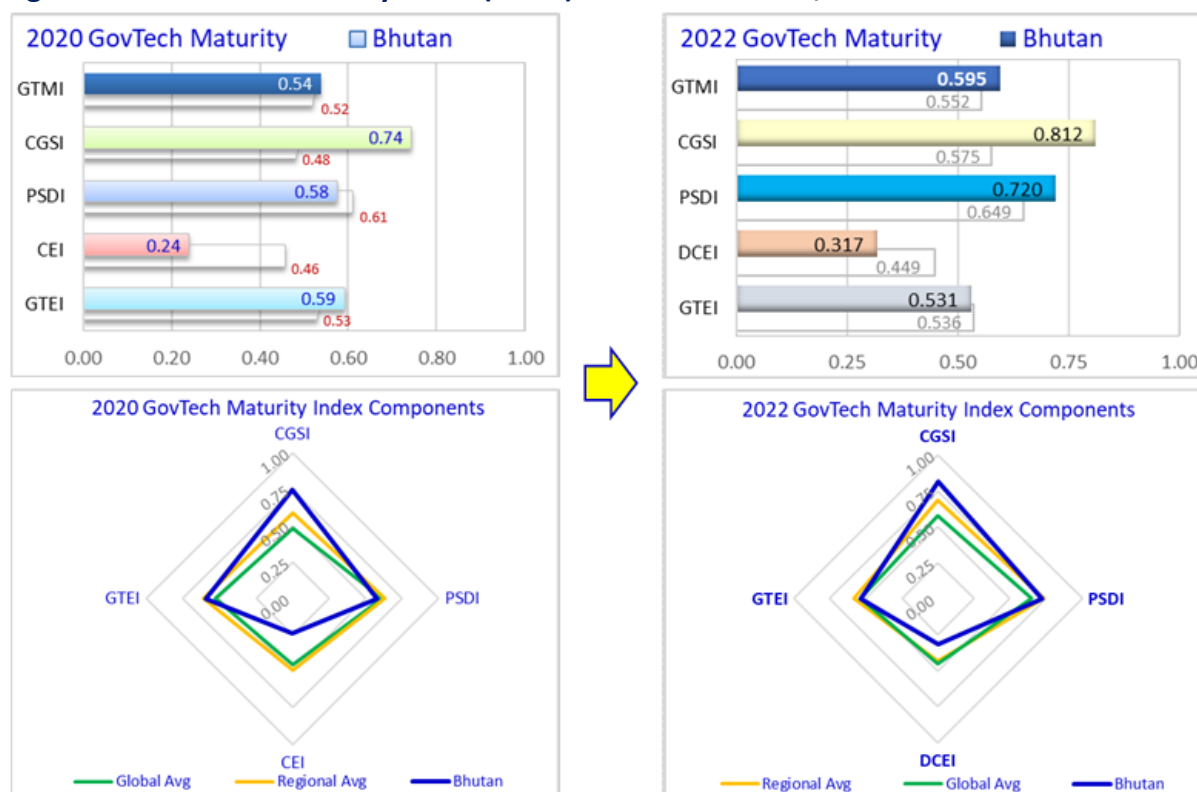
<sup>62</sup> <https://www.worldbank.org/en/programs/govtech/gtmi>.

improvements in several GovTech foundations, including the expansion of internet access, expansion of online services, and digital skills development in the public sector.<sup>63</sup>

8.5. The GTMI is the simple average of the normalized scores of four components (Figure 1):

- Core Government Systems Index (CGSI) captures the key aspects of a whole-of-government approach.
- Public Service Delivery Index (PSDI) presents the state of online portals, e-filing services, e-payment capabilities and more.
- Digital Citizen Engagement Index (DCEI) measures aspects of public participation platforms, citizen feedback, and open government/data portals.
- GovTech Enablers Index (GTEI) captures strategy, institutions, and regulations, as well as digital skills and innovation programs.

**Figure A.1: GovTech Maturity Index (GTMI) scores for Bhutan, 2020 and 2022**



Source: <https://www.worldbank.org/en/data/interactive/2022/10/21/govtech-maturity-index-gtmi-data-dashboard>.

8.6. There have been improvements in all four focus areas in Bhutan compared to the 2020 GTMI data.<sup>64</sup> However, there are several indicators that could be improved to improve the maturity of GovTech initiatives in Bhutan (Figure 2).

<sup>63</sup> <https://publicadministration.un.org/egovkb/en-us/About/Overview/-E-Government-Development-Index>.

<sup>64</sup> World Bank. 2023. *GovTech Maturity Index, 2022 Update — South Asia Regional Brief*. Equitable Growth, Finance & Institutions Notes. Washington DC.



8.7. A dedicated autonomous Government Technology (GovTech) Agency<sup>65</sup> was established in December 2022 under the former Ministry of Information and Communications, replacing the Department of IT and Telecommunications, to drive digital transformation. A high-level Information and communications technology (ICT) Steering Board coordinates digital transformation activities, while the (former) Gross National Happiness Commission (GNHC) monitored and reported on digital government spending. GovTech Agency is promoting the whole-of-government approach and managing shared platforms, including the [e-GIF Portal](#).

Figure A.2: 2022 GTMI Indicators for Bhutan

Ind	GTMI Key Indicators	Pts	Response
<b>Core Government Systems Index (CGSI)</b>			
I-1	Is there a cloud platform available for all government entities?	2	Yes
I-2	Is there a government enterprise architecture framework?	2	Yes
I-3	Is there a government interoperability framework?	2	Yes
I-4	Is there a government service bus platform?	2	Yes
I-5	Is there an operational FMIS in place to support core PFM functions?	2	Yes
I-6	Is there a TSA supported by FMIS to automate payments and bank reconciliations?	1	Planned
I-7	Is there a Tax Management Information System in place?	2	Yes
I-8	Is there a Customs Management Information System in place?	2	Yes
I-9	Is there a Human Resources Management Information System with self-service portal?	2	Yes
I-10	Is there a Payroll System (MIS) linked with HRMIS?	2	Yes
I-11	Is there a Social Insurance system providing pensions and other SI programs?	2	Yes
I-12	Is there an e-Procurement portal?	2	Yes
I-13	Is there a Debt Management System in place? (Foreign and Domestic debt)?	2	Yes
I-14	Is there a Public Investment Management System (PIMS) in place?	2	Yes
I-15	Is there a gov Open-Source Software (OSS) policy/action plan for public sector?	1	Yes (A)
I-16	UN Telecommunication Infrastructure Index (TII)	-	0.526
I-17	Does gov have a national strategy on disruptive / innovative technologies?	1	Planned
<b>Public Service Delivery Index (PSDI)</b>			
I-18	UN Online Service Index (OSI)	-	0.600
I-19	Is there an online public service portal? (Also called "One-Stop Shop" or similar)	2	Yes (T)
I-20	Is there a Tax online service portal?	2	Yes
I-21	Is e-Filing available for tax and/or customs declarations?	2	Yes
I-22	Are e-Payment services available?	2	Yes
I-23	Is there a Custom online service portal (Single Window)?	0	No
I-24	Is there a Social Insurance/Pension online service portal?	2	Yes
I-25	Is there a Job portal?	2	Yes
I-26	Is there a digital ID that enables remote authentication for online service access	-	-
<b>Digital Citizen Engagement Index (DCEI)</b>			
I-27	UN E-Participation Index (EPI)	-	0.466
I-28	Is there an Open Government website / portal?	0	No
I-29	Is there an Open Data portal?	0	No
I-30	Are there national platforms for citizens to participate in policy decision-making?	0	No
I-31	Are there gov platforms for citizens to provide feedback on service delivery?	1	Yes
I-32	Does the gov publish its citizen engagement statistics and performance regularly?	1	Yes
<b>GovTech Enablers Index (GTEI)</b>			
I-33	Is there a gov entity focused on GovTech (digital transform, whole-of-gov)?	2	Yes
I-34	Is there a dedicated gov entity in charge of data governance or data mgmt?	2	Yes
I-35	Is there a GovTech / digital transformation strategy?	1	Planned
I-36	Is there a whole-of-government approach to public sector digital transformation?	2	Yes
I-37	Are there RTI laws to make data/info available to the public online or digitally?	0	No
I-38	Is there a data protection / privacy law?	2	Yes
I-39	Is there a data protection authority?	1	Planned
I-40	Is there a national ID (or similar foundational ID) system?	-	1
I-41	Are records in the national ID system stored in a digitized (electronic) format?	-	1
I-42	Is there a digital signature regulation and PKI to support service delivery?	1	Yes (R)
I-43	ITU Global Cybersecurity Index (GCI)	-	18.3
I-44	UN Human Capital Index (HCI)	-	0.531
I-45	Is there a gov strategy / program to improve digital skills in the public sector?	2	Yes
I-46	Is there a strategy and/or program to improve public sector innovation?	0	No
I-47	Is there a government entity focused on public sector innovation?	0	No
I-48	Is there a gov policy to support GovTech startups and private sector investments?	1	Yes

Source: [GovTech Dataset](#), World Bank Group Data Catalog, October 2022 (updated in March 2023).

<sup>65</sup> <https://tech.gov.bt/>.

8.8. One of Bhutan's flagship programs under the 12<sup>th</sup> FYP is Digital Drukyul, for which the RGoB set aside \$30 million to, for example, deploy a fiber-optic government network, integrate citizen services (figure 3), bring ICT into schools, establish one digital identity, and increase digital talent and literacy. The (former) Ministry of Information and Communications reported that 72% of the program's targets had been achieved as of November 2022.<sup>66</sup>

**Figure A.3: Bhutan's Citizen Services Portal**



Source: <https://www.citizenservices.gov.bt/>.

8.9. Despite substantial progress in the automation of key PFM functions, there is an urgent need to improve the technology architecture and interoperability of existing information systems. While the budget and expenditure management systems (MYRB and e-PEMS) are fully integrated, RAMIS, e-GP, GIMS, and Commonwealth Meridian operates as stand-alone systems with limited flow of information for data analytics. Recently, the DTA developed and integrated e-DATS with e-PEMS to ensure that all travel related data is captured in both the systems. The integration of the Zhiyog Electronic System (ZES) with the GPS is not complete and requires enhancement to ensure there is one source of truth for salary disbursement of the public servants. The existing budget and expenditure management system (MYRB and e-PEMS) are outdated and have limited scope for enhancements and therefore, there is an urgent need for system assessment and if necessary, overhaul of both the systems.

<sup>66</sup> Karma Chimi. 2022. *MoIC Minister Updates Parliament on the Status of Digital Drukyul Flagship Program*. Bhutan Times, 14 November 2022.

## Appendix 2 – ‘Quick wins’

8.10. The table below shows easy-to-accomplish tasks (‘low-hanging fruits’) that the RGoB may consider pursuing early on during the PFM reform process.

**Table 8.1: Quick wins**

Indicator / dimension	Remarks	Change in Score
<b>PI-5 Budget documentation</b>	Include in the National Budget Report one of the following elements: Macroeconomic assumptions, Financial asset details, Fiscal risk summary information, Budget implication of new policies, Medium-term fiscal forecasts, tax expenditure quantification.	C to B
<b>PI-8.2 Performance achieved for service delivery</b>	Publish the available evaluation information on actual achievement.	D to A
<b>PI-9 Public access to fiscal information</b>	Prepare and publish a Pre-Budget Statement or publish macroeconomic forecasts (budget year + next two fiscal years).	B to A
<b>PI-10.1 Monitoring of public corporations</b>	Ensure that financial reports from most public corporations within 9 (or 6) months of financial year-end.	D to C (or B)
<b>PI-11.1 Economic analysis of investment projects</b>	Notify and apply recently developed guidelines for economic analysis to assess some major investment projects.	D to C
<b>PI-14.1 Macroeconomic forecasts</b>	Include forecasts of key macroeconomic indicators (budget year + next two fiscal years) and underlying assumptions in NBR.	C to B
<b>PI-14.2 Macroeconomic forecasts</b>	Include forecasts of main fiscal indicators (budget year and next two fiscal years) and underlying assumptions in NBR.	C to B
<b>PI-15.2 Fiscal strategy adoption</b>	Take the proposed fiscal deficit target into consideration when drafting the annual budget.	D to C
<b>PI-16.1 Medium-term expenditure estimates</b>	Include in the NBR expenditure estimates for the budget year and the next two fiscal years using three classification types.	D to A
<b>PI-16.2 Medium-term expenditure ceilings</b>	Approve, before the Budget Call Circular issued, aggregate expenditure ceilings for the budget year and next two fiscal years as well as ministry-level ceilings for the budget year.	D to B
<b>PI-17.2 Guidance on budget preparation</b>	Include ministry-level ceilings in the Budget Call Circular.	D to A
<b>PI-22.2 Expenditure arrears monitoring</b>	Consolidate existing agency-level expenditure arrears data (stock and composition) at fiscal year-end.	D to C
<b>PI-24.3 Public access to procurement information</b>	Prepare and publish annual procurement statistics.	B to A
<b>PI-28.2 Timing of in-year budget reports</b>	Ensure that quarterly budget performance reports are issued within four weeks from the end of each quarter.	C to B

8.11. The RGoB’s PFM performance would be improved notably if all quick wins were implemented, especially as regards ‘policy-based fiscal strategy and budgeting’ and ‘transparency of public finances’, which would be reflected in a more than 10% increase in the overall PEFA score.