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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX**

to the Commission Implementing Decision on the financing of the annual action plan in favour of Bhutan  
for 2022

**Action Document for Supporting Good Governance and Digitalisation in Bhutan**

**ANNUAL PLAN**

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23(2) of the NDICI-Global Europe Regulation.

**1 SYNOPSIS**

**1.1 Action Summary Table**

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	Supporting Good Governance and Digitalisation in Bhutan OPSYS number: ACT-60987 Financed under the Neighbourhood, Development and International Cooperation Instrument <u>NDICI-Global Europe</u> Regulation
<b>2. Team Europe Initiative</b>	No
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Bhutan
<b>4. Programming document</b>	Bhutan Multiannual Indicative programme (MIP) 2021 – 2027
<b>5. Link with relevant MIP(s) objectives / expected results</b>	Good Governance for inclusive socio-economic development Digital Transition: a driver for change in education and public services delivery
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	<p>Priority 2 (of MIP): Good Governance for inclusive socio-economic development Sectors:</p> <ul style="list-style-type: none"> <li>– Government and Civil Society - General -Public sector policy and administrative management; National monitoring and evaluation; Local government administration and finance; Government and civil society statistics and data; PFM; DRM (151)</li> </ul> <p>Priority 3 (of MIP): Digital Transition: a driver for change in education and public services delivery</p> <ul style="list-style-type: none"> <li>– Education – Basic and Secondary Education (110)</li> </ul>

<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG (1 only): SDG 1 (no poverty) Other significant SDGs (up to 9) and where appropriate, targets: SDG 4 (Quality education); SDG 5 (gender equality); SDG 8 (Decent work and economic growth); SDG 10 (Reduced inequalities) and SDG 16 (Peace, Justice and Strong Institutions)			
<b>8 a) DAC code(s)</b>	Sector 1 – DAC Code 151– Government & Civil Society-general 89% Sector 2 - DAC Code 110- Education-11%			
<b>8 b) Main Delivery Channel</b>	Recipient Government – 12000 United Nations agency, fund or commission (UN) – 41000 Private Sector Institutions – 60000			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>

<b>11. Internal markers and Tags</b>	Digitalisation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Connectivity @	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	NO <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>12. Amounts concerned</b>	Budget line(s) (article, item): BGUE-B2022-14.020131-C1-INTPA Total estimated cost: EUR 9 300 000 Total amount of EU budget contribution EUR 9 300 000 of which EUR 7 000 000 for budget support and EUR 2 300 000 for complementary support.			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Type of financing</b>	<b>Direct management</b> through: <ul style="list-style-type: none"> <li>➤ Budget Support: Sector Reform Performance Contract</li> <li>➤ Procurement</li> </ul> <b>Indirect management</b> with the entity(ies) to be selected in accordance with the criteria set out in section 4.4.2			

## 1.2 Summary of the Action

The EU-funded **Local Government Sustainable Development Programme** is an integral part of the overall development strategy of Bhutan's 12th Five Year Plan (FYP) 2018-2023 and has contributed to the improvement of overall **public administration effectiveness at local level**. The EU intends to continue to support the 12<sup>th</sup> FYP and successive plans to address last mile access challenges and bolster Bhutan's social and economic development, including in relation to gender, with a particular focus on improving public services delivery through green and digital transitions and good governance.

Some of the **recurring key challenges** Bhutan face include incomplete administrative and fiscal decentralisation, limited social accountability mechanisms and engagement with civil society, poor rural revenue mobilisation, limited capacity of the local governments, low representation of women in public and political institutions, wider regional disparities, lack of technical and vocational education and training in school curriculum, lack of qualified and adequately trained teachers, and limited ICT tools and online learning options, among others.

**This Action** intends to contribute to the implementation of Bhutan's MIP 2021-2027 Priority 2 and Priority 3 by supporting an **improved public service delivery** in Bhutan through 1) enhanced capacity of local governments, 2) increased women's participation in local governance and 3) supporting Bhutan's digital transition for better efficacy of education services.

The proposed Action is composed of **three interlinked and mutually reinforcing components** specifically contributing to: (i) **Empowering local governments and other sub-national bodies** through devolution of political, administrative and fiscal powers, authority and responsibilities from central to local government for planning and implementing public functions; (ii) Supporting institutional capacities for **increased women's participation and greater women's empowerment** for a more equal and fair local development; and (iii) **Strengthened digitalisation of public services, especially education**, to enhance efficiency, efficacy, transparency and accountability.

The Action supports the Royal Government of Bhutan's (RGoB's) 12<sup>th</sup> FYP in its broad objective to have a *"just, harmonious and sustainable society through enhanced decentralisation"*. As decentralisation of responsibilities to local authorities for the delivery of public services continues to be unfolded in Bhutan, effectiveness of service delivery will depend heavily on intra-government coordination and greater subnational implementation capacity. Thus, it is important that local governments have adequate capacity to deliver services effectively. **"Gender Equality Promoted And Women And Girls Empowered"** is one of the 17<sup>th</sup> National Key Priority Areas which the Action will also support.

The Action will **contribute to the decentralisation process of Bhutan** by empowering local governments and other sub-national bodies through provision of greater financial and administrative responsibility, authority and accountability. The Action will assist in establishing a coherent policy and legal framework, hence improve the enabling environment for local governments to be more self-reliant, autonomous. It will support the gradual devolution of political, administrative and fiscal powers, authority and responsibilities from central government to local governments for deciding and implementing public functions, providing goods and services, and enhancing local economy and development.

The Action will also **support Bhutan's National Gender Equality Policy and the implementation of the National Plan of Action for Gender Equality** specifically in relation to (i) enhancing women's participation in leadership and decision making and (ii) contributing to transforming socio-cultural perception of gender roles and norms, and (iii) supporting women and girls access to digital tools in the education sector, including **Technical and Vocational Education and Training (TVET)**.

Digital solutions developed will enable inclusive access to education and ICT skills, with a particular focus on women and girls. The Action will **help transform Bhutan's ICT in schools and strengthen links to the TVET system** through formal, non-formal and informal learning. The focus will be on programming ICT education, distance and lifelong learning via e-learning and research. Finally, the Action will strengthen

digitalisation in education nationwide and the digitalisation of public services to enhance efficiency, efficacy, transparency and accountability

The Action will foster **multi-stakeholder sector coordination** with development partners, CSOs and private sector which will further contribute to the realisation of Action objectives. It will strengthen **EU-Bhutan Policy dialogue** and enhance the partnership in multilateral fora. It will contribute to SDG 1 (ending poverty); SDG 5 (gender equality); SDG 8 (Decent work and economic growth); SDG 10 (Reduced inequalities) and SDG 16 (Peace, Justice and Strong Institutions).

## 2 RATIONALE

### 2.1 Context

Bhutan, a politically and economically stable country, transitioned peacefully from absolute to constitutional monarchy in 2008. Since then it has experienced decreasing poverty, peaceful democratisation, and implemented policies protecting the environment, all indicating progress on good governance.

Bhutan's **economy** has rapidly expanded in the past decade, with a GDP per capita of USD 3000 (2020). However it remains heavily dependent on India for its trade balance and revenues from sale of hydroelectric power. As a result of the COVID-19 pandemic, the economy experienced its largest contraction in 2020 with growth estimates as low as -6.3%. Bhutanese public debt has increased to 124.7% (June 2021)<sup>1</sup> of GDP (still considered moderate by the World Bank/IMF), with hydropower debt accounting for 75% of the total external debt. Bhutan is not alone as a country grappling with rising fiscal deficits and debt burdens as a fallout from economic shockwaves induced by the pandemic.

Despite the shocks, the **macro-economic situation** remains stable due to the RGoB's timely implementation of fiscal and monetary measures during the pandemic. The Public Finance Management (PFM) reform process remains a priority, and has progressed well under the ongoing PFM programme supported by the EU (EUR 3 Million) and Austrian Development Agency (EUR 1 Million). In addition, the EU-funded South Asia Regional Training and Technical Assistance Centre (SARTTAC) has been working with member countries, including Bhutan, to help identify, monitor, and manage fiscal risks. The work being achieved through PFM reform will complement this Action and EU support for strengthening the fiscal decentralisation process may in the long run have a positive influence on macroeconomic stability.

**Regional disparities** are also evident, with eastern and highland districts registering 35% of the total poor population. These disparities pertain to provision of services, or lack thereof, in health and education between regions and the reduction of economic activities in the most remote areas. This is likely to widen following the COVID-19 pandemic. Bhutan continues to have a low percentage of people using the internet and there is much scope for improvement in digital literacy as well as professional training and opportunities for ICT to create decent jobs.

Despite a favourable institutional and legislative framework, the **gender equality** status of Bhutan shows a mixed picture. Bhutan ranks still poorly (130 out of 156) in the Global Gender Gap Report 2021. Areas where gender inequalities persist are low representation in public and political institutions, unequal participation beyond secondary education—especially in science, technology, engineering and mathematics (STEM) subjects. Labour force participation rate for women stands at 49.6% against 73.6%

<sup>1</sup> Public debt was 119.9 (FY 2019/20), World Bank (2021)

for men<sup>2</sup>, which indicates discriminatory practices in employment and persistence of gender stereotypes. The impact of the pandemic on employment was widespread with the overall youth unemployment rate increasing significantly from 11.9% in 2019 to 22.6% (female: 25.4%, male: 19.2%) in 2020<sup>3</sup>. Studies have revealed a high tolerance rate of violence against women. The COVID-19 crisis and the lockdowns imposed on the population seem to have aggravated the situation with media report indicating that the number of people experiencing gender-based violence increased by 53.5% in 2020<sup>4</sup>. Gender Based Violence (GBV) against women remains one of the impediments to the realisation of gender equality and women's empowerment. Women and girls with disabilities are more at risk of GBV because of intersecting discrimination and they are in general facing more barriers to find a job, to access and finish education and to get quality health care. Supporting Bhutan in its efforts to strengthen women's participation and promote gender equality is instrumental to building a fairer, more inclusive and more prosperous society.

**Decentralisation** is enshrined in Article 22, Section 1 of the Constitution of the Kingdom of Bhutan. In many respects, the young democracy is considered a success story. Decreasing poverty, peaceful democratisation, responsible stewardship of culture and environment are some noteworthy aspects that are indicative of its success. The proposed decentralisation policy is to enable local governments to achieve their objectives as stated in the Constitution: (a) provide democratic and accountable government; (b) ensure the provision of services to communities in a sustainable manner; (c) encourage the involvement of communities in matters of local governance. Although deconcentration of financial resources to the local governments in Bhutan have taken place, actual devolution of administrative powers and functions remain to be achieved and are still controlled by the central government.

While the Dzongkhag Tshogdu<sup>5</sup> is responsible to regulate water, air and noise pollution and other environmental degradation, the Gewog Tshogde<sup>6</sup> regulates and allocates safe and clean drinking water from water supply schemes and allocation of irrigation water in accordance with the provisions of the relevant laws and conserve and protect water sources, lakes, springs, streams, and rivers. The Thromde Administration protects its own property such as water supply sources, and may take such actions it considers necessary as well as provide services such as water supply, sewerage services, solid waste management, drains, animal control, plantation, and other services including the disposal of unclaimed bodies. The Dzongdag<sup>7</sup> has the responsibility to organize relief measures for natural disasters and emergencies in coordination with the Department of Disaster Management and Local Government.

Bhutan's **Local Government Sustainable Development Programme**, of which the EU remains the only donor to provide support for, is an integral part of the overall development strategy of Bhutan's 12<sup>th</sup> Five Year Plan (2018-2023) and will improve overall public administration effectiveness at the local level. The EU will continue to support the 12<sup>th</sup> and successive plans to address the last mile challenges and bolster Bhutan's social and economic development, including gender issues, with a particular focus on improving public services delivery through green and digital transitions and good governance.

Bhutan's targeted **graduation** from the Least Developed Countries (LDC) group in December 2023 will also require support in order to help manage any economic impact of adjusting to the loss of LDC-associated benefits.

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<sup>2</sup> NAPGE 2019-2023, May 2021

<sup>3</sup> <https://www.nsb.gov.bt/>

<sup>4</sup> <https://kuenselonline.com/gender-based-violence-spikes-53.5%-in-2020/>

<sup>5</sup> Decision making body at the district level

<sup>6</sup> Decision making body at the block level

<sup>7</sup> The chief executive at the District Administration

The Action is in line with the new European Consensus on Development<sup>8</sup> as it promotes accountable and transparent institutions and foster participatory decision-making and public access to information. The Action is aligned with the NDICI focal areas<sup>9</sup> on (i) “Good governance, democracy, rule of law and human rights” and (ii) “Poverty eradication, fight against inequalities and human development, job creation and digitalisation” and with EC priorities on Green Deal, Alliances for Science, Technology and Innovation, and Digital Alliances for sustainable growth and decent jobs. It is also aligned with the Territorial Approach to Local Development, the EU Communication on ‘Empowering local authorities in partner countries for enhanced governance and more effective development outcome’<sup>10</sup>, ‘Digital for Development’<sup>11</sup>, the Gender Action Plan III especially to the thematic engagement “Promoting equal participation and leadership”<sup>12</sup>. It contributes to several SDGs<sup>13</sup>, namely: SDG 1 (ending poverty); SDG 4 (quality education); SDG 5 (gender equality); SDG 8 (Decent work and economic growth); SDG 10 (Reduced inequalities) and SDG 16 (Peace, Justice and Strong Institutions). It is further aligned with the RGoB’s 12th FYP National Key Results Area 13 ‘Strengthening democracy and decentralisation’ and 10 “Gender Equality” as well as with the RGoB’s Digital Drukgyul Flagship Programme<sup>14</sup>.

## 2.2 Problem Analysis

Bhutan is **ranked 134 out of 189 countries and territories** in the Human development index (HDI) published in 2019. Ending poverty, realizing sustainable development and pursuing progress centred on people’s well-being are integral to both SDGs and Gross National Happiness (GNH). In 2017, the poverty rate stood at 8.2 % (rural poverty - 11.9 % and urban poverty- 0.8 %). The Gini index, which measures inequality, hardly changed between 2012 and 2017 (/0.38 in 2017). The country’s literacy rate was 71.4 % in 2017. Poverty and inequality levels may be adversely affected as a consequence of the COVID-19 pandemic, the poverty headcount ratio is projected to increase to 12.5 % in 2021, given continued inflationary pressures and the growth decline. Significant resources are required to reduce the gap especially taking into consideration the geography of the country. With 71 % of pristine forest cover, about 30 % of the Bhutan’s energy consumption today is met through electricity, mostly through hydropower plants. Two-third of total energy demand is met by non-renewable fuels.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

While service delivery functions are being decentralised, the **capacity** of the **local government** to mobilise revenue remains limited. The operations of the Dzongkhags and Gewogs (local administration) are dependent on current account transfers from the central government while the Annual Grants support service delivery projects. The rural tax is the principal source of Gewogs’ internal revenue. However, the level of revenue generated is negligible and inadequate for addressing service delivery demands. Local governments report and remit to the central government the bulk of revenues, which they collect, including various fees and, most importantly, insurance premiums.

<sup>8</sup> [https://international-partnerships.ec.europa.eu/policies/european-development-policy/european-consensus-development\\_en](https://international-partnerships.ec.europa.eu/policies/european-development-policy/european-consensus-development_en)

<sup>9</sup> [https://international-partnerships.ec.europa.eu/funding/funding-instruments/global-europe-neighbourhood-development-and-international-cooperation-instrument\\_en](https://international-partnerships.ec.europa.eu/funding/funding-instruments/global-europe-neighbourhood-development-and-international-cooperation-instrument_en)

<sup>10</sup> <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0280:FIN:EN:PDF>

<sup>11</sup> <https://futurium.ec.europa.eu/en/Digital4Development/library/digital4development-mainstreaming-digital-technologies-and-services-eu-development-policy>

<sup>12</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_2184](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2184)

<sup>13</sup> <https://sdgs.un.org/goals>

<sup>14</sup> <https://flagship.gnhc.gov.bt/digital-drukgyul/#:~:text=Digital%20Drukgyul%20Flagship%20Program%20aims,a%20smart%20and%20inclusive%20society>



Despite gradual improvement in the Human Development Index (HDI) and Gross National Happiness (GNH) scenario, very significant **disparities** remain throughout Bhutan with the eastern and highland districts registering 35 % of the total poor population (people living with less than EUR 27.45 per person per month, in 2017). Moreover, disparities persist regarding provision of services in health and education between regions particularly due to an increasing urban-rural divide. This is likely to widen further due to decline in economic activity following the COVID-19 pandemic and subsequent loss of livelihoods.

Poor access, quality and inclusivity of **education** is identified as one of the contributory factors to poverty, which disproportionately affects women and girls, and children with disabilities. Significant number of out-of-school children are not enrolled in any form of structured learning of whom a significant proportion are children with disabilities<sup>15</sup>. Following the COVID-19 pandemic, youth unemployment rate increased significantly from 11.9% in 2019 to 22.6% (female: 25.4%, male: 19.2%) in 2020, mainly due to inadequacy of skills against job market requirements. This increase is due to the economic crisis with tourism and allied industries -manufacturing, trade, and construction sectors- being the worst affected by the COVID-19 pandemic sanitary crisis. There is limited job creation outside of the public sector and agriculture.

Overall, secondary education and **technical and vocational education and training (TVET)** are not well-aligned. Investment in TVET is insufficient to meet the predicted growth in demand from students, and the quality and accessibility of TVET training is generally poor. A mismatch between skills and employment is the principal cause of high unemployment among young people. As per Bhutan's HDI and component indicators (2019), the country presents higher expected years of schooling than the region (13.0 and 11.7 respectively) but lower mean years of school (4.1 and 6.5 respectively). Information communications technology (ICT) can be instrumental to improve the quality and equity of education and skills starting at the school level.

In terms of **gender**, despite a favourable institutional and legislative framework, the gender equality status of Bhutan shows a mixed picture. Women experience a higher unemployment rate, gender pay gaps and gender-based discrimination. While good progress has been made for women and girls over the years, with gender parity in education (up to secondary level), decrease in maternal mortality, and increase in women's participation in society and work, there are still areas where gender inequalities persist, and even more so for women with disabilities, such as unequal land ownership, women's low representation in public and political institutions, and unequal participation beyond secondary education—especially in science, technology, engineering and mathematics (STEM) subjects.

The **National Gender Equality Policy (NGEP)** points out that there is uneven mainstreaming of gender issues across laws, policies, programmes and projects. While there are several provisions in place, they are either ad hoc or without adequate accountability or monitoring approaches. Further, most of the existing policies have minimal reference to gender (gender neutral/gender blind) or seek to address gender issues through a formal approach. According to a Local Governance Assessment Study<sup>16</sup> (LGAS), challenges persist with regard to participation in Zomdus (community meetings), local 'elite capture', limited influence of women, youth and others persons living in vulnerable situations (i.e. people with disabilities), weak evidenced-based planning, and lack of capacity to formulate plans. Further, the LGAS found that there is no application of gender responsive and pro-poor standards made during community planning or prioritisation at local government level.

<sup>15</sup> Among the 2% of children who are out of school a significant proportion of those are children with disabilities <https://www.unicef.org/bhutan/every-child-learns>

<sup>16</sup> The 2015 assessment was undertaken by Helvetas for the National Council of Bhutan. The lag was informed by the National Council of Bhutan (nc)/house of review's Good Governance Committee (GGC) and a National Reference Group.



The December 2021 **Local Development Planning Manual** (LDPM) requires a participatory and objective approach to the formulation, implementation, monitoring and evaluation of LG plans. Gender analysis is expected to guide the integration of gender equality issues during the planning, prioritisation and budgeting process<sup>17</sup>. A **Mainstreaming Reference Group** (MRG) was instituted in 2012 to support mainstreaming of five cross-cutting issues, including gender, in policies, plans and programmes at all levels of the government and NGOs. However at present, the MRG is only present in a few Dzongkags. The GNHC confirmed its plan to reinvigorate this group. Capacity building directed towards MRGs and LGs would enhance the prospects for a more effective mainstreaming of gender issues at local level with a view to boost women's political and socio-economic participation at local level as well as addressing key barriers to women empowerment.

The **National Commission for Women and Children** (NCWC) was established in 2004 as the national machinery to take the lead in promoting and protecting the rights of women and children in Bhutan and became a fully autonomous agency in 2008. The key focus of the NCWC is to establish a sustainable and comprehensive system to mainstream, protect and promote the rights of women and children in Bhutan. The Women's Division focuses on women's empowerment by coordinating and monitoring activities related to women's rights and gender equality. NCWC is also involved in implementing targeted gender specific interventions as well undertaking awareness raising activities/campaigns with a view of addressing gender stereotypes and norms. The NCWC has established a network of Gender Focal Points (GFP) in various agencies of the government and non-government sectors. This network is a key operational element of the Women's Division in mainstreaming gender and child issues at both formulation and implementation stages of sector/issue specific plans, policies and programs. The NGEF recognises the need for strengthening the technical capacities of the GFPs in particular in mainstreaming gender into climate change policies and actions. Although a capacity need assessment of the NCWC has not been done, the organisation acknowledges the need for technical support with a view to:

- (i) Develop the capacity of NCWC to enhance the quality of its support (technical assistance, advisory role) towards gender focal points, mainstreaming reference groups, local governments, line ministries/agencies and its engagement with non-state actors;
- (ii) Strengthen the Gender Equality and Women's Empowerment (GEWE) monitoring framework/system and support the evaluations of policy and tools (including for the 13<sup>th</sup> FYP);
- (iii) Enhance the engagement with media and general public towards addressing socio-cultural perception and gender norms

## 2.3 Additional Areas of Assessment [For Budget Support Actions only]

### 2.3.1 Pre-condition on Fundamental Values [For a Sustainable Development Goals Contract only]

N/A

### 2.3.2 Public Policy

The country's development is managed through **Five-Year Plans** founded on the principle of **Gross National Happiness**, aiming at citizens' wellbeing instead of quantitative GDP values. The objective of Bhutan's 12th FYP (2018-23) is strongly anchored around a '*Just, Harmonious and Sustainable Society through enhanced decentralisation*' underpinned by the principle of leaving no one behind. The key focus of the 12th FYP is on addressing poverty, reducing inequality, promoting economic growth, and

<sup>17</sup> Gender is mainstreamed along Environment, Climate, Disaster and Poverty (GECDP)

mainstreaming gender, climate change and disaster in all policies and programmes. The 12th FYP identified seventeen National Key Result Areas (NKRAs) to address these key priorities.

In the 12<sup>th</sup> FYP, while priorities under a ‘**just society**’ includes strengthening democracy and decentralisation, improving quality of education and skills, reducing poverty and inequality, reducing corruption and promoting gender equality, among others, priorities under a ‘**harmonious society**’ includes: ensuring liveability, safety and sustainability of human settlements and ‘**sustainable society**’ includes: ensuring macro-economic stability, improving efficiency and effectiveness of public service delivery, among others. A major approach is to strengthen decentralized governance both in terms of roles and responsibilities of the local governments as well as through increased fiscal decentralisation for sustainable development.

The **Bhutanese Constitution** provides the premise, vision and mandate for local governments (LGs). The local government Act of Bhutan 2009 (and amendment Act of 2014) reinforced the concept of democratic and decentralized governance, enshrined in the Constitution. It further brought the two separate legal frameworks for the rural and urban areas, respectively, together into one legislation, defining LGs to include the 20 Dzongkhags (Districts), 205 Gewogs (Blocks) and 4 Thromdes (Municipalities) under one common legal framework. Besides this, the local government Members Entitlement Act was enacted in 2015. A new LG Bill is currently under discussion along with the Decentralisation Policy. In addition, LG rules and regulations (2012) and LG Members Entitlements rules and regulations (2018), local government Planning Manual, Annual grant guidelines for local governments and Gup handbook have been published.

The proposed Action will build upon **the EU Budget Support programme** under the previous MIP, which supported the local government sector’s 11<sup>th</sup> and 12<sup>th</sup> Five Year Plans priorities. RGoB’s execution of the previous budget support operation in the sector has delivered successful development outcomes. Policy level discussions on support for local governance in the past few years focussed among others on implementation of Local Governance reforms, approval of a new Decentralisation policy and the local government Bill, government’s plans to improve ‘local revenue mobilisation’, mainstreaming gender and climate into local government planning process, expand the number of business initiatives undertaken through promotion of green economic development. The 13<sup>th</sup> FYP concept note highlights that ‘LGs will be encouraged to identify unique and focused Local Governments Key Result Areas (LGKRAs)/indicators reflecting area specific economic potential, strength and focus areas to promote creativity, objectivity and returns of investments at the local level.’

Under the **12<sup>th</sup> FYP**, the National Key Result Area on vibrant democracy and decentralisation “*aims to strengthen democracy and governance through decentralisation of decision-making, administrative and financial authority with greater accountability*”. The plan further states that “*these will be achieved through encouraging people’s participation in electoral processes, increased allocation of financial and human resources to the local governments (LGs), and developing clear roles and responsibilities between central agencies and the LGs*”. There are 10 LGKRAs for 10 Dzongkhags and 4 Thromdes and 11 LGKRAs for 10 Dzongkhags with an additional LGKRA, “*Improved and sustained livelihood of highlanders.*” These include, gainful employment created and local economy enhanced, quality of education and skills improved, liveability, safety and sustainability of human settlements improved, transparent, effective and efficient public service delivery enhanced, democracy and decentralisation strengthened, gender equality promoted, women and girls empowered, carbon neutral, climate and disaster resilient development enhanced, food and nutrition security enhanced, community health enhanced and water security ensured and finally, culture and traditions preserved and promoted.

The Constitution of Bhutan requires the State to provide **education** to improve and increase knowledge, values and skills of the entire population for full development of the human personality. It also mandates the provision of free education to all children of school going age up to tenth standard and ensure that

technical and professional education is made generally available and that higher education is equally accessible to all based on merit. The draft Education Policy<sup>18</sup> states that the Schools and Technical Training Institutes shall collaborate in order to enhance the quality of technical, vocational education and training (TVET) subjects and programmes and to promote the TVET system as an equivalent and integral aspect of education and training in Bhutan, schools shall contribute to the expansion of required vocational skills by offering a diverse range of technical, vocational education and training subjects and programmes and information and communications technology (ICT) shall be promoted in schools through provision of ICT based resources and ICT aided teaching and learning. An action plan to implement the recommendations of the Education Policy will be prepared after the approval of the Parliament.

Bhutan has been proactive with regards to implementation of education reforms by publishing the **Bhutan education blue-print** (2014-2024) and **education ICT Master Plan (2014-2018)** strategies. A COVID response Plan – education in Emergency has been developed. The draft **21<sup>st</sup> Century Economic roadmap** highlights *‘building a knowledge-based society through a strong education system and technology’* and suggests *‘revamping and mainstreaming vocational education will help enhance options for students from an early age.’* The strategic thrusts under the 13<sup>th</sup> FYP includes *“building human capital by enhancing knowledge/skills, research, innovation, entrepreneurship, & technological adoption & capabilities.”*

A **National Gender Equality Policy** (NGEP) and **National Plan of Action for Gender Equality** (NPAGE) have been in place since 2020. Their vision is to promote *“equal opportunities for women and men, boys and girls to achieve their full potential and benefit equitably from the social, economic and political development in the country”*. The NGEP notes that currently there is uneven mainstreaming of gender issues across legislations, policies, programs and projects and a key policy aim is to provide a framework to ensure systematic mainstreaming to address existing gender gaps and inequalities. It seeks to strengthen accountability and operational strategies to address priority gender issues, and facilitate deeper collaboration across sectors and stakeholders towards a common vision of gender equality. This includes mainstreaming gender within national planning processes.

The key policy objectives of the **NGEP** are to: (1) provide a coherent strategic framework of the government’s priority towards gender equality; (2) strengthen accountability and operational strategies to address priority gender issues; and (3) facilitate deeper collaboration across sectors and stakeholders towards a common vision of gender equality in Bhutan. A key focus of the NGEP policy is to provide an enabling environment to increase the participation of Bhutanese women in decision-making and in the public sphere – including the private sector. Planned provisions include: developing women’s networks, alliances and advocacy to promote leadership in public/political domains; and research and assessment into gender equality issues.

The policy also addresses (inter-alia) the requirement to mainstream gender in all disaster and climate change related initiatives through acknowledgment of the differential impacts of disasters and climate change on women and men, and the positive roles that women can play in adaptation and mitigation efforts. The NGEP continues the requirement for **Gender Responsive Planning and Budgeting (GRPB)**, through the introduction of mandatory gender analysis and encouraging a minimum percentage of budget allocation to ensure the integration of gender at the time of submission of budgetary proposals. The Ministry of Finance (MoF) is leading the GRPB including training and guidelines, developed in close consultation with the **National Council for Women and Children (NCWC)**. NCWC noted the need to expand the scope of GRPB (additional sectors and local level).

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<sup>18</sup> The Approved Education Policy will have an Action Plan. In 2020 Bhutan has come out with Education Policy Guidelines and Instructions

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

### 2.3.3 Macroeconomic Policy

The RGoB is pursuing a stability-oriented macroeconomic policy. The Public Finance Act, 2007 and Amendment 2012 of Bhutan mandate the Ministry of Finance to coordinate government macro-economic policies and report on the state of the economy and fiscal position of the Government. The Department of Macroeconomic Affairs is responsible for macroeconomic coordination, fiscal policy, debt management and investment and corporate governance.

Fiscal revenues from **hydropower** have helped finance large investments in human capital, which led to significant improvements in service delivery and educational and health outcomes. Hydropower construction and supportive fiscal and monetary policy have contributed to solid growth and macroeconomic stability. Nevertheless, structural challenges remain, including high public debt, an underdeveloped private sector, and a high youth unemployment rate. The current account deficit (CAD) is expected to narrow to 11.4% of GDP in 2020-21 from 12.1% of GDP in 2019-20 with the reduction in imports having a greater overall impact on the trade balance. Amidst COVID-19 disruptions, hydropower generation peaked in 2020 as energy export earnings increased by 87.3% during the year. Total imports from India also declined by 9.3% as the pandemic slowed public investment projects and delayed hydropower construction. The country is confirmed to graduate from its current LDC status to the Middle Income Countries group by December 2023 with a GDP per capita of USD 3000 (World Bank, 2000), but ODA needs will remain important until electricity exports will reach full capacity.

The total **public debt** stock as of 31st December 2021 stood at EUR 2,821.08 million, accounting for 126.8% of FY 2021-22 GDP estimate (projected to be 133.5% of GDP in 2022). However, as the bulk of the debt is linked to hydropower project loans from India, under intergovernmental agreement wherein India is contractually obligated to purchase the electricity at tariffs based on cost-plus-margin pricing debt sustainability risks are moderate. 68% of Bhutan's external debt was owed to GoI, followed by 14% to ADB and 12% to IDA. Debt management shall be carried out prudently to ensure that the external debt stock remains at sustainable level within the thresholds prescribed in the Public Debt Policy 2016.

Bhutan has suffered a significant socio-economic setback in 2020 due to the **COVID-19** pandemic and respective containment measures, with the tourism sector having suffered the most. According to the IMF, the real GDP growth was -1.9%. The economy is projected to contract further, by 1.8%, in FY2020-21 and 4.4% in 2022. The foreign exchange reserves as of on 31st March 2021 stood at USD 1,507.34 million, which is adequate to cover 27 months of essential imports. The Human Development report 2020 score for Bhutan was 0.654 and a rank of 129. The economy experienced largest contraction in 2020 triggered by the COVID-19 pandemic. The growth is expected to drop to an all-time low of -6.3% as output from tourism-related services, construction, and manufacturing sectors deteriorated. Credit growth slowed from 13.3% (y-o-y) in FY19/20 to 6.5% in FY20/21 despite monetary policy measures to ensure financial sector liquidity. RGoB's revenue out-turn has been severely affected by the COVID-19 pandemic. The aggregate demand also remained subdued as household and public consumption is estimated to fall by -24% and 3.1%, respectively. Services sector output is expected to fall by 3.7% and labour shortages, high input prices, and trade disruptions will continue to affect construction, manufacturing and non-hydropower exporting industries. Bhutan's other key export sectors, including agriculture, and construction have been adversely affected by the COVID-19 pandemic due to supply side disruptions for critical inputs, labour shortages and lower external demand, especially from India. Exports and imports have decreased significantly, in line with weak foreign and domestic demand and disruptions to trade. Fiscal deficit is estimated at 8.59% of GDP in FY 2021-22 to support economic recovery besides responding to containment measures. The unemployment rate has almost doubled from

2.7% in 2019 to estimated 5% (2022). The youth unemployment rate also increased to 22.6% from 11.9% in 2019, mainly because tourism and allied industries, manufacturing, trade, and construction sectors have been heavily affected. Due to inflationary pressures and the growth decline, poverty rate is projected to increase from 11.2% in 2020 to 12.5% in 2021. The poverty headcount rate based on USD 1.9/day is expected to result in over 12,000 additional poor people (1.6% of the population). Different fiscal-monetary measures rolled out during 2020-21 as a countercyclical measure were imperative to cushion the impact of the pandemic as well as stimulate the economy and enhance the recovery process. The government projected that the GDP growth in 2021 is expected to rebound to 4.2% and moderate to 3.9% in 2022.

External risks continue to stem from weaker growth and higher inflation in **India**, Bhutan's main trading and development partner, and increases in global oil prices. The inflation rate is expected to increase in future with an increase in food prices in India and higher fuel prices. Average inflation increased from 3% in 2019-20 to an estimated 8.1% in 2020-21 (and 7.9% in 2022), driven by an increase in domestic and imported food prices as the pandemic disrupted the supply chain from India, although some of the change was offset by lower non-food inflation following lower demand for consumer durables. While non-food inflation remained modest, averaging 1.7% in the first half of 2020/21, food inflation rose to an average of 15.3%. The composite food price index, which carries a 46% weight in the CPI basket, soared to 16.4% in October 2020. According to the World Bank, since India is the main trading partner, inflation rates between the two countries are strongly correlated. This has helped keep the real effective exchange rate (REER) stable.

The government of Bhutan's **domestic revenues**, as a share of the economy, have remained largely unchanged during the past decade at around 20%-22% of GDP. In fact, the tax-to-GDP ratio was lower in 2018-19 than in 2011-12. There have been limited effort in improving revenue mobilisation. The introduction of a Goods and Services Tax (GST), a single indirect tax to replace other existing indirect taxes like sales tax and excise duty, will be levied on sales at a single standard rate of 7% with some deviations. There has been a setback on the start date of GST implementation that has been postponed further by two years. The Goods and Services Tax (Amendment) Bill of Bhutan 2022 was tabled in the National Assembly to defer the implementation date from 1st July 2022 to 1st July 2024, on account of the unfavorable economic situation of the country and the operational readiness of IT system (Bhutan Integrated Taxation System). The fiscal deficit is projected to widen to 9.7% of GDP, mainly due to a shortfall in domestic revenues. Over-reliance on hydropower revenue (which accounted for 37% of domestic revenue in 2019-20), increases fiscal volatility, creates pro-cyclicality risks and complicates budgetary management, as temporary one-off profit transfers and large temporary revenue spikes tend to trigger permanent increases in current spending (as evidenced by the recent salary increase in 2019-20).

Bhutan is a member country of the **International Monetary Fund** (IMF) since September 1981. The IMF supports Bhutan through the Article IV consultation process on a 24-month cycle. The last report was published in October 2018<sup>19</sup>. However, due to COVID-19 related travel restriction, no Article IV consultation took place in 2020 (or 2021) because of the pandemic. The latest Article IV Consultation for Bhutan was held in February 2022. The IMF Executive Board was scheduled to meet on May 13th to conclude the consultation. The IMF welcomed the improvement in Bhutan's economic performance and commended the significant economic progress in recent years. The World Bank publishes its annual Bhutan Development update with the latest published in April 2022.

To ensure sustained growth, management of macro-economic pressures, **diversification of the economy** and inclusive **job creation** will continue to be priorities. Urgent steps are required to reduce unemployment among youth with focus on improving linkages of technical and vocational education and

<sup>19</sup> <https://www.imf.org/en/Publications/CR/Issues/2018/10/30/Bhutan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46319>

training with the school education. There continues to be a need to improve fiscal management, including a comprehensive medium-term debt and cash management, tighten fiscal policy and implement revenue reforms to strengthen fiscal framework as well as accelerate **Goods and Services Tax (GST)** implementation with social protection measures.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

#### 2.3.4 Public Financial Management

The **PFM reform strategy** remains sufficiently relevant and credible, with satisfactory progress. Good Governance is one of the four pillars of the Gross National Happiness (GNH) Index. Improving governance and accountability is one of the main agendas of the Royal Government of Bhutan (RGoB) and Strengthening Public Financial Management (PFM) is a key element of good governance. The PFM reform programme in Bhutan is based on the 2010 **Public Expenditure and Financial Accountability (PEFA)** and updated following the publication of the 2016 PEFA assessment. The 2016 PEFA assessments confirmed that Bhutan has good fiscal discipline through comprehensive coverage of budget execution, good control of expenditure commitments and oversight aggregate fiscal risk and the quality and timeliness of budget reports. The PFM Reform Strategy and Action Plan (2017-2021) continues to be the roadmap to consolidate recent PFM reforms, close gaps, improve transparency and accountability, build domestic revenue, and integrate or interface several stand-alone computerized information systems. A new PEFA assessment is planned to be concluded by 2022. This PEFA will also include modules of climate change and gender assessments. Its results will inform the PFM Reform Strategy and Action Plan for the next period.

As such, Bhutan continues to show strong commitment to implementation of **reforms for strengthening PFM in a wide range of areas** including planning, budgeting, revenue administration, asset and liability management, procurement, budget documentation, public access to information, internal control, audit and legislative scrutiny. Through support of the EU-ADA Multi donor fund for PFM implemented by the World Bank, there has been progress in the implementation of the Goods and Services Tax (GST); cash-basis International Public Sector Accounting Standards (IPSAS) and moving towards an Integrated Financial Management Information System (IFMIS). The GST legislation was passed by the Parliament in January 2020 and received the Royal Assent in April 2020. However, there has been a setback on the start date of GST implementation that has been postponed further by two years. The Goods and Services Tax (Amendment) Bill of Bhutan 2022 was tabled in the National Assembly to defer the implementation date from 1st July 2022 to July 2024, on account of the unfavourable economic situation of the country and the operational readiness of IT system (Bhutan Integrated Taxation System).” . The final review of draft GST rules and regulations and designing of GST Forms and Notices, procurement process for the procurement of outreach & communication materials, refurbishment of GST Training Centre have been completed. The drafting of GST training materials and FAQ on GST and development of strategy for ending of Sales Tax & smooth transition to GST are ongoing. South Asia Regional Technical and Training Centre (SARTTAC) provided TA through support for a new integrated tax system, which will eventually provide integrated online services for all Department of Revenue and Customs’ administered taxes and duties.

The **electronic Government Procurement (eGP)** system is being implemented in three phases, with the phase II now completed. Another reform implemented is the electronic Public Expenditure Management System (e-PEMS), which is an online accounting and payment system to promote cashless and digital payments. With this system, all government payments are now processed electronically on a real-time basis. In 2020-21, the major reforms undertaken amongst others included: IFMIS- Integrated Financial management Information System: integration between e-PEMS and ZESst-MoF implemented the new Government Payroll System (GPS) as a separate system within the electronic Public Expenditure

Management System (e-PEMS) that is integrated with the Royal Civil Service Commission's (RCSC's) new web-based human resource management system (civil service information system); online travel allowance (TA)/ dearness allowance (DA) system development launched and the Administrators Training in Thimphu, Punakha and Bumthang Regions have been conducted. The Annual Grants have been allocated to Dzongkhags and Thromdes, in addition to Gewogs; and the Ministry of Finance have initiated clustering of finance services in local governments. On Audit, there has been development of Performance Audit Guidelines; internal Audit Strategic Plan and Quality Assurance Improvement Programme Guidelines; development of guideline/framework for financial and budget scrutiny for Parliamentarians.

The annual **procurement** plan prepared through the electronic-Government procurement (e-GP) by pilot ministries. So far, invitation of more than 50% of bids conducted through the e-GP platform. 100% of the Annual Procurement Plan is done through e-GP using National Competitive Bidding (NCB) by three pilot ministries. PFM reform actions that are relevant as part of the RGoB's anti-corruption efforts include the Corruption Risk Management (CRM) plans being developed in collaboration between the Anti-Corruption Committee, Royal Audit Authority and the Ministry of Finance's Central Coordinating Agency (CCA) for Internal Audit Service for ministries, Dzongkhags, Thromdes and autonomous agencies.

The Constitution of Bhutan requires that recurrent spending should be funded from domestic revenues. The manifesto of the new government (in office since November 2018) also placed emphasis on **Domestic Revenue Mobilization (DRM)**. Domestic revenue realised in 2019-20 at EUR 426.11 million accounting for 20.2% of GDP. The tax to GDP ratio was 12.69 %. It is expected to grow by 7% during the FY2021-22, from a drop of negative (-) 8% in FY 2020-21, mainly on account of estimated growth from income taxes, followed by increased consumption taxes. Weaknesses in the domestic revenue base is being addressed by the introduction of the Bhutan Integrated Taxation System (BITS) and GST, while volatility in fiscal revenues and expenditures is tackled through the Bhutan Economic Stabilization Fund (BESF). The Department of Revenue initiated major legislative reforms to create an enabling policy environment for DRM. It includes enactment of Fiscal Incentives Act and Customs Act; endorsement of Double Taxation Avoidance Agreement (DTAA) with Bangladesh and an introduction of Ad-valorem taxation system on royalty on mines and minerals.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

### 2.3.5 Transparency and Oversight of the Budget

The Ministry of Finance prepares annual **Budget Report** in consultation with the budgetary agencies within the directives of the Cabinet. The budget report is discussed in detail by the Economic and Finance Committee (PFC) of the National Assembly after its presentation by the Finance Minister to the Parliament. The Finance Committee further conducts public consultation with relevant stakeholders. The Executive Budget for the 2021-22 was approved in May 2021 and published in the Ministry of Finance website. It includes the following documents: Economic Overview; Fiscal Policy; Resources; Expenditure covering the budget for 2020-21, revised budget for 2019-20 and Annual Financial Statement (AFS) for 2019-20; Public debt; Fiscal risk; and Financial position of public sector institutions and investments. Budget Utilization Plan User Manual has been developed to monitor performance. The Supplementary Appropriation bill for a sum not exceeding EUR 32.37 million on account of incorporation of donor-funded activities and technical adjustment was approved in May 2021.

For 2021-22, the **total resources** are estimated at EUR 667.83 million, of which domestic revenue is EUR 418.82 million accounting for 17.8% of GDP (of which 64% is tax revenue and 36% is non-tax revenue), external grants are EUR 241.48 million, and other receipts is EUR 7.53 million. Total



expenditure is estimated at EUR 869.64 million, which is 7% increase from the previous FY. Capital expenditure of EUR 450.83 million, 33% of the 12FYP outlay- highest annual allocation during the plan period and recurrent expenditure of EUR 418.81 million.

The MoF annually prepares all **key budgetary documents** such as Executive budget proposal (Budget Report), enacted budget (Budget Appropriation Bill), in-year reports (Quarterly Budget Performance Reports), mid-year report (Mid-Year Budget Review), year-end report [Audited Annual Financial Statements (AFS)], audit report (Annual Audit Report (AAR)), and citizen information (Budget Report Summary and Budget Infographics). All documents, except for the ‘mid-year budget review’, are published and all documents are prepared in a timely manner, although there were delays as regards two of four in-year reports during 2020-21.

The **Budget Report** is consistent with international good practices including gender and climate change aspects. The budget for gender related activities in 2020-21 was EUR 6.817 million. For FY 2021-22, EUR 10.18 million has been allocated for climate change- and EUR 6.817 million for gender- related activities. In addition, EUR 0.395 million has been allocated to the National Commission for Women and Children (NCWC). The **Budget Report** of **2021-22** for the first time included a section on climate co-benefits. Gender responsive budgeting had already been included as part of the Budget Report for the past few years. In order to deepen fiscal decentralisation and provide flexibility in the budget execution, the budget for Dzongkhags and Thromdes has been provided as annual grants from 2020-21, similar to the Gewogs.

The **Royal Audit Authority (RAA)** as the Supreme Audit Institution (SAI) of Bhutan is responsible to audit and report on the economy, efficiency and effectiveness in the use of Public resources as per Article 25.1 of the Constitution of the Kingdom of Bhutan. The Royal Audit Authority (RAA) publishes Annual Audit Report (AAR). AAR are further presented to the Parliament and to the Public Accounts Committee and finally made available to the public within twelve months of the year-end.

As part of the PFM reform programme, **internal controls and capacity of the accountability institutions** are being strengthened. This is being done by enhancing internal audit, supporting the Accounting and Auditing Standard Board of Bhutan (AASBB), establishing professional accountancy organisation and building capacity of parliamentary committees. Staff shortage is a challenge especially in Internal Audit units, AASBB, and procurement departments.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

### 3 DESCRIPTION OF THE ACTION

#### 3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to **reduce poverty** in Bhutan.

The Specific(s) Objective(s) (Outcomes) of this action are:

- 1 Strengthened local governance and decentralisation.
- 2 Strengthened gender mainstreaming including at local level
- 3 Strengthened digitalisation of public services, especially education.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are

#### Induced Outputs

- 1.1 contributing to Outcome 1 : Improved efficiency of LGs in the delivery of services

- 1.2 contributing to Outcome 1 : Decentralisation of administrative and fiscal authority, functions, and resources to LGs promoted.
- 1.3 contributing to Outcome 1 : Strengthened capacities at national and LGs to leverage service delivery impact
- 2.1 contributing to Outcome 2 : Women's participation enhanced and gender-sensitive policies /plans/ programmes mainstreamed in LGs.
- 3.1 contributing to Outcome 3 : Improved digital governance and policy environment towards quality **inclusive** education and skills with focus on women and girls.

### **Direct Outputs**

- 1.1 Increased fiscal space and predictability of funds to support LGs service delivery.
- 1.2. Improved strategic policy dialogue and coordination
- 1.3. Improved LG performance assessment and monitoring
- 2.1. Strengthened capacity for enhanced policy implementation

## 3.2 Indicative Activities

### Activities relating to Output 1.1, 1.2 and 1.3

- 1) Contribute EUR 7,000,000 via **budget support** to the 12th FYP (until 2023) and the subsequent 13th FYP (until 2027) to implement the LG sector policies and programmes through budget support programme. The financial support is expected to contribute to the outcome 1 outlined above under 3.1. The activities will include capacity development of new local government functionaries, local revenue mobilisation, mainstreaming gender and climate into local government planning process, holistic area-based development, strengthen community engagement at village level, community contracting protocol, clustering financial resources for improved transparency and accountability, promote gree economic development and improving social accountability mechanisms.

Conduct **strategic multi-stakeholder policy dialogue** by promoting formal development partners coordination as well as civil society participation representing the voice of different rights-holders groups, at national level, building on local level data and views, to review context and sector analysis, optimise resources, harmonize policy dialogue and maximize aid effectiveness.

- 2) Complementary Support to Budget Support for EUR 2,300,000

### Activities relating to Output 1.1 and 2.1:

Provide for a **technical assistance component** to support studies, research, assessment, capacity building/trainings, exposures and knowledge events. The technical assistance will strengthen the capacities of the RGoB in designing, implementing, and monitoring reforms in relation to local governance and decentralisation, as well as the capacities of the National Commission for Women and Children (NCWC) to promote gender mainstreaming and gender equality and women's empowerment, statistics and use of digital tools. The technical assistance support is expected to contribute to all the outcomes outlined under 3.1 above.

### Activities relating to Output 3.1:

Part of the complementary support could be implemented through a **contribution agreement**, for support to digital transition in education, based on the outcome of further negotiations with RGoB authorities. Activities like studies, research and capacity assessment relating to access, efficacy and quality of digitalised education and TVET will particularly help prepare the grounds for future larger investment, at larger scale, on digital transition in the education sector.

### 3.3 Mainstreaming

#### **Environmental Protection & Climate Change**

The EU budget support programmes on the Renewable Natural Resource Sector and Local Governance sector address climate change impacts through promoting climate resilient practices. The new programmes under the MIP 2021-2027 will focus on promoting Sustainable Agri Food System in Bhutan and will aim to promote and scale up climate smart agricultural practices in the country. The local government programme will continue to support mainstreaming the crosscutting issues Gender, Environment, Climate change and Disaster risk reduction in policies and programmes. The action will strengthen the mainstreaming reference group or MRG at the Dzongkhags or districts. The performance based grants that focuses on mainstreaming Gender Environment Climate Disaster and Poverty (GECDP) in the local level plans will be scaled up to cover all the Gewogs or blocks. It builds on existing national systems and provides an incentive for local governments to mainstream climate change adaptation into the regular planning and budgeting cycles and is disbursed to the local governments through the intergovernmental fund transfer system. The grants will also be used for sustainable land management, landslide and flood risk mitigation, promotion of new crop varieties and vegetable production, biogas plant development. A large part of these investments pertained to re-development/improvement of farm roads, bridges, irrigation systems, and rural water supply schemes. The government recognized the need to work with local governments and communities to adopt improved practices and standards to adapt to climate change and increase the climate resilience of local development investments. The EU Delegation had discussed with United Nations Capital Development Fund (UNCDF) who supported the RGoB introduce Local Climate Adaptive Living Facility (LoCAL) in two phases (2012-2013 and 2015-2016). The technical cooperation through LoCAL assisted local governments with planning and financing mechanisms to integrate climate-adaptive measures in local development investments in selected blocks or Gewogs. The EU supported this activity from 2017 onwards and plans to scale it up to all blocks under this action. In addition to the LoCAL, green business initiatives will be promoted through green economic development at local level. Strengthening the climate resilience of local communities and the economy with small scale investments which will pave the way for the country to have full solid national roll-out of climate change adaptation intervention and to demonstrate that the mechanism can be successfully mainstreamed into national development priorities. The support for digitalisation of education in Bhutan, digital tools and platforms can be a powerful tool to improve access and equity in education, delivery of quality learning and teaching and can play a significant part in providing key data on the environment as well as improve student and teachers access to information on and understanding of the state of the environment.

**Outcomes of the SEA screening** (relevant for budget support and strategic-level interventions)  
No further action was required.

**Outcomes of the EIA (Environmental Impact Assessment) screening** (relevant for projects and/or specific interventions within a project) No need for further assessment.

**Outcome of the CRA (Climate Risk Assessment) screening** (relevant for projects and/or specific interventions within a project)  
No need for further assessment.

#### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this Action is labelled as G1. This implies that Gender equality is an important and deliberate objective, but not the principal reason for undertaking the programme. The Action foresees direct technical assistance to enhance gender mainstreaming at local level and to strengthen the capacity of the National Commission for Women and Children (NCWC) in its mandate and key roles to mainstream, protect and promote the rights of women and children in Bhutan.

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**Human Rights**

The proposed Action will follow a human rights-based approach, particularly in ensuring ‘no one is left behind’, with a particular attention to people living in the most vulnerable situations, in poverty and in marginalised situations in all the activities. The Action will reinforce active engagement with CSOs in all their diversity (women organisations, human rights defenders, minority representatives, etc) in policy dialogue and development processes, advocating a participatory approach by engaging with all the relevant stakeholders, thereby contributing to improved transparency and governance as well as accountability and participation.

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**Disability**

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D0. This implies that the Action does not have focus on disability, at main or significant objective level. However as the Action promotes inclusive development and adopts ‘no one leave behind approach’ people affected by disability will benefit from the Action and will not be discriminated on any grounds.

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**Democracy**

Bhutan transitioned to democracy (constitutional monarchy) in 2008 and democracy has continuously matured since then. The local government elections in 2016 and 2021, the National Council elections in April 2018 and the National Assembly elections in September/October 2018 conducted smoothly. So far the elected bodies have exercised their functions smoothly and efficiently. The capacity of the legislature, as most of the members are first time parliamentarian, both at the central and local levels can be further improved for functions such as scrutiny and approval of plans, budget and audit. The proposed Action will foster democratic values and further strengthen the governance of the sector at country level.

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**Conflict sensitivity, peace and resilience**

The risk of a violent conflict originating in Bhutan is extremely low as there are no major grievances at present that could trigger a conflict. If the border dispute between China and India were to escalate it could have implications for Bhutan as some territory linked to this is also disputed between Bhutan and China. While it refrains from entering into formal diplomatic relations with China as part of its larger policy to avoid formal ties with all the P5 countries, Bhutan enjoys good relations with both India and China therefore the risk of Bhutan being drawn into a conflict is highly unlikely. The Action aims at strengthening the resilience of the farming community and promote the GNH principles. The Action do not foresee any conflict sensitive issues. Germany and Bhutan established diplomatic relations in November 2020.

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**Disaster Risk Reduction**

Considering that Bhutan is extremely vulnerable to climate change and disasters, the action through the Local Climate Adaptive Living Facility (LoCAL) programme will provide necessary support to smallholder farmers to enhance irrigation systems for better climate resilience, mitigate flood risks through storm-water drainage to secure school and farmlands, improve rural water supply scheme to address seasonal water scarcity and other activities, including promoting sustainable management and conservation of forest, land and water resources. The action will facilitate last mile weather and climate services ensuring reliable information/forecasts are accessible to communities at all times, in order to mitigate the risks of natural hazards. The action will also benefit from synergies and complementarities with actions implemented under other priority areas of the country MIP, including contributing to strengthen local disaster preparedness. Realising the importance to build resilience in the country, the EU provided support to the Department of Disaster Management for establishment of National training centre for Search and Rescue and to train search and rescue team across the country under the local governance programme (2016-2022). In addition, the programme also supported in procurement of equipment and rescue/other vehicles for the training centre and other operations.

**Other considerations if relevant**

The Action contributes to the progressive achievement of SDG(s) especially SDG 1 (Ending Poverty), SDG 4 (Quality education), SDG 5 (Gender Equality), SDG 8 (Decent work and economic growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced inequalities) and SDG 16 (Peace Justice and Strong Institutions). It is further aligned with the RGoB's 12th FYP National Key Results Area 13 'Strengthening democracy and decentralisation' and is further aligned with the RGoB's Digital Druknyul Flagship Programme

### 3.4 Risks and Lessons Learnt

Category	Risks	Likelihood(High/Medium/Low)	Impact(High/Medium/Low)	Mitigating measures
1-to the external environment ;	The impact of the COVID-19 pandemic is bound to exert unprecedented stress on the economy (e.g. loss of revenue, dependence on external market, vaccine roll out)	M	M	The Royal Government of Bhutan has managed the pandemic effectively by implementing the 2020 Economic Contingency Plan. The government has frontloaded 12th FYP foreseen investments to mitigate the COVID-19 impacts. It is expected that the socio-economic impact of the pandemic will continue to be managed by import substitution, domestic resource mobilization, diversification of the economy and skills development. Economic growth is expected to recover in FY2022 with strong policy responses to the pandemic, including the country's vaccination drive. The country has managed to fully vaccinate 72.8% of the adult population by December 2021.
1-to the external environment ; 2-to planning, processes and systems;	i) Sluggish GDP growth rate. ii) Services sector output is expected to fall, as tourism activity is not expected to resume until travel restrictions and quarantine measures are withdrawn. iii) Labour shortages, high input prices, and trade disruptions will continue to affect	M	M	Implementation of macroeconomic and PFM reforms

	<p>construction, manufacturing and non-hydropower exporting industries.</p> <p>iv) Fiscal deficit is projected to widen, mainly due to a shortfall in domestic revenues.</p> <p>v) Public and publicly guaranteed (PPG) debt increased.</p> <p>vi) Unemployment rate increased significantly.</p> <p>vii) Poverty rate increased.</p>			
4-to legality and regularity aspects;	Bhutan is in the process of LDC graduation by December 2023 and this may lead to limited access to concessional loans and grants to the government.	M	M	The ongoing development partners including Government of India, World Bank, Asian Development Bank, Japan International Cooperation Agency and resident UN agencies may continue their engagement and financial support beyond Least Developed Countries (LDC) graduation. The current Action will promote donor coordination within the LG and education sector to ensure complementarities and economies of scale as well as sustainability of the programmes.
1-to the external environment ; 2-to planning, processes and systems; 3-to people and the organisation ;	<p>i) Domestic revenues as a share of the economy is low.</p> <p>ii) Tax-to-GDP ratio reduced over the years.</p>	M	H	Weakness in the domestic revenue base is being addressed by the introduction of GST.
2-to planning, processes	Weak institutional capacity to promote inclusion and gender	M	M	The proposed Action foresees technical support to accompany effective mainstreaming of gender

and systems; communication and information.	transformative approaches including human rights based approach.			issues at various governance levels (local and central) with a view to boost women's political and socio-economic participation as well as addressing barriers to women's empowerment.
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**Lessons Learnt:** This proposed Action will **build on the ongoing Local Government Sustainable Development Programme (2016-2022)** implemented through the EU-funded “*Capacity development for Local Governance and Fiscal Decentralisation programme*”. It will help further strengthen the decentralisation process in Bhutan. **Despite significant achievements, local governments continue to face challenges**, including: nascent governance and democratic systems at the local level; administrative and fiscal decentralisation not yet fully anchored (hampering expansion of own-source revenue); lack of capacity to perform certain roles and responsibilities mandated in the local government Act; poor accountability of local government towards citizens, gaps related to inclusive education and limited women's participation in local governance.

The programme was strong on fiscal decentralisation and capacity building of local governments and elected officials. The focus was on mainstreaming rather than on innovation. There is a **need to focus on establishing social accountability mechanisms** for more civic engagement at appropriate levels of planning, implementation and monitoring; **Need to continue strengthening capacity in areas related to fiscal decentralisation and Public Finance Management (PFM).**

There has been **limited success in improving revenue mobilisation**. More focus on other components of fiscal decentralisation would be necessary, such as own source revenue (OSR) mobilization and inter (and intra-) governmental fiscal coordination. IMF and World Bank are planning to undertake Tax Administration Diagnostic Assessment Tool (TADAT) workshop in Bhutan. IMF / SARTTAC had informal discussions on TADAT with RGoB. Goods and services tax (GST) offers an opportunity to discuss the design of a shared tax system. However, software issues have resulted in the delay of the implementation start date. Clustering of financial services at the local level will be needed to ensure accountability and transparency of expenditure. The **decision-making process for prioritization of activities and allocation of grant** at the Gewog level needs to be strengthened especially through revitalization and strengthening the institution of Zomdu (village meeting). The **engagement of civil society organizations in areas such as women's participation** in local governments, capacity development and social accountability proved to be successful. The capacity of the Department of Local Governance needs to be further strengthened. There is need to strengthen institutions at central and local level for **mainstreaming gender equality, environment, climate, disaster and poverty**. **Digitalisation of public services** need to be encouraged.

Women in Bhutan, in general, enjoy a favourable socio-cultural environment. However, in the emerging democratic political environment, **representation of women** has been dismal. While women make up 50.8 % of the total eligible voters and generally turn up in more numbers than men for the elections, elected women local government functionaries constitute a mere 12.96 % of the filled posts at the local government level (3rd LG election). Therefore, targeted Action at supporting women by creating a gender-friendly and inclusive environment, building leadership capacity and creating a network of women leaders must be pursued.

There is a need to **strengthen development partner coordination** in the country in order to ensure complementarity of similar projects and programmes as well as to jointly review the sector performance at Ministry level on an annual basis. It is also felt that engaging with UN agencies especially WFP, UNDP, ITU and UNICEF besides the IMF, World Bank and ADB is important both for providing technical



assistance as well as for pursuing the LG and education sectors policy reform agenda in a coherent and synergetic way. It has become extremely challenging to implement a technical assistance project in the post-COVID-19 context due to the difficulty of mobilizing international experts. Hence, engaging with country-based stakeholders including UN agencies and CSOs are important elements to be considered when planning for the delivery of the complementary support.

Lessons learned from the EU-Bhutan sector policy reviews identified the need to ensure sustained growth, managing macro-economic pressures by assisting the government to strengthen the monetary and fiscal policies for resource mobilisation, public debt management and capital market development as well as diversifying the economy and creating more decent jobs to reduce unemployment among youths (women and men). There is a need to **continue strengthening financial and control capacities** to ensure consolidation of the existing - and implementation of next-generation - Public Finance Management (PFM) reforms. These include social protection measures, financial inclusion and fiscal decentralisation. The domestic revenue mobilisation measures will also focus on alternate revenue sources at the local levels. The Public Expenditure Financial Accountability (PEFA) assessment is foreseen in 2022 and will be instrumental guiding future activities.

### 3.5 The Intervention Logic

The **Specific Objective 1** aims at improving public services delivery through strengthening local government reforms through the implementation of the RGoB's decentralisation policies. The Action will contribute to efficient and effective service delivery by local government in addition to mainstreaming gender, climate change, disaster risk reduction, employment/livelihoods opportunities into local government policies. The Action will support intra-government coordination, integrated local area-based planning and foster enabling conditions for green development. It will also have provision for training and capacity building of local government officials to deliver their roles and responsibilities efficiently and promote greater participation of women, including from more marginalised groups in decision making and the democratic process. It will also help develop improved access to digital tools to enhance transparency and accountability of local government.

The **Specific Objective 2** will complement S.O.1 by supporting the NCWC and relevant local governance actors in order to enhance women's participation in local level planning, leadership and decision making, and address gender stereotypes. By doing so, the role of NCWC will be strengthened and the capacity of local government in gender mainstreaming efforts in planning and implementation of public services also accompanied.

The **Specific Objective 3** aims at fostering effective public service delivery with support to improving the country's ICT solutions, especially in the education sector. Accessible digital solutions developed will enable inclusive access to education and ICT skills, with a particular focus on women and girls. The Action will help transform Bhutan's ICT in schools and strengthen links to the Technical and Vocational Education and Training (TVET) system through formal, non-formal and informal learning. The focus will be on programming ICT education, distance and lifelong learning via e-learning and research. Besides, the support will enhance the ICT capacity of teachers, integrate ICT into the curriculum, put in place accessible ICT tools in schools to augment online mode of teaching and upgrade governance and policy environment towards quality education and skills with focus on women and girls. Use of digital technology to target 'out of school children' through national TVET system for development of IT skills will be promoted. Further, the Action will aim to contribute towards improved access to digital connectivity and public services in remote areas, while contributing to transparency and accountability of the government, increasing the number of people accessing digital government services, and improving data collection and analysis for multi-hazard disaster response.

### 3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Caveat: the indicators used in the LFM refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (2027)	Sources of data (1 per indicator)
<b>Indicative Impact of the policy</b>	To reduce poverty in Bhutan	National Poverty Rate	1. 8.2% (2017)	1. < 2% (2027)	1. Bhutan Living Standard Survey
<b>Expected Outcomes of the policy</b>	1. Strengthened local governance and decentralisation	1.1 Percentage of target population reporting improved satisfaction with involvement in local political processes	1.1 X%	1.1 X+10%	1.1 Government Reports
	2. Strengthened gender mainstreaming, including at local level.	2.1 Percentage of seats held by women in local governments	2.1 12.96% (2021)	2.1 >12.96%	2.2 Government Reports
	3. Strengthened digitalisation of public services, especially education	3.1 Number of students having access to online schools disaggregated by sex and age	3.1 NA	3.1 10,000	3.1 Government reports, Ministry of Education, Ministry of Information and Communication
<b>Induced Outputs</b>	1.1 Improved efficiency of LGs in the delivery of services	1.1.1 Number of area based development programmes promoted and sustained	1 NA	1.1.1 10	1.1.1 Government Reports. Department of Local Governance (DLG)

	1.2 Decentralisation of administrative and fiscal authority, functions, and resources to LGs promoted	1.2.1 Percentage of own sources of revenue	1.2.1 0.1%	1.2.1 > 5 %	.2.1 Government Reports, DLG, Ministry of Finance (MoF), GNHC, RCSC
		1.2.2 Percentage of rates of fees and charges approved by LGs	1.2.2 0%	1.2.2 TBD	
		1.2.3 Percentage of staff recruited by local government	1.2.3 0%	1.2.3 TBD	
	1.3 Strengthened capacities at national and LGs to leverage service delivery impact	1.3.1 Number of National Public Service Institutions having Organisational Development (OD) strategy and action plan developed and implemented	1.3.1 0	1.3.1 2	1.3.1 Government reports, Donor consultations
		1.3.2 Number of Community Engagement Platforms (CEP) established and sustained for enhancing citizen participation in the democratic process of local governance and development	1.3.2 6	1.3.2 50	1.3.2 DLG reports, CEP Minutes of Meetings, Government ReportsGovernment ent
	2.1 Women's participation enhanced and gender-sensitive policies /plans/ programmes mainstreamed in LGs.	2.1.1 Number of LGs adopting gender, climate change and Disaster Risk Reduction strategies and employment/livelihood opportunities into LG plans and programs	2.1.1 100 LGs	2.1.1 All LGs	2.1.1DLG and National Commission for Women and Children (NCWC) and GNHC Reports
		2.1.2 Number of elected female LG functionaries trained on leadership and management of overall governance	2.1.2 NA	2.1.2 190	2.1.2 Government Reports, DLG

	3.1 Improved digital governance and policy environment towards inclusive quality education and skills with focus on women and girls	<p>3.1.1 Status of the education Policy to strengthen school education links to the Technical and Vocational Education and Training (TVET) system</p> <p>3.1.2 Number of pilot schools with ICT enabled teaching and learning for integrating TVET</p> <p>3.1.3 Number of in-service and pre-service teachers trained on digital pedagogy</p>	<p>3.1.1 NA (2021)</p> <p>3.1.2 NA (2021)</p> <p>3.1.3 NA (2021)</p>	<p>3.1.1 Policy adopted (2027)</p> <p>3.1.2 5 pilot schools (2027)</p> <p>3.1.3 300 (2027)</p>	<p>3.1.1 Government Reports</p> <p>3.1.2 TVET Reform Plan, MoLHR</p> <p>3.1.3 Government Reports</p>
<b>Direct Outputs</b>	1.1 Increased fiscal space and predictability of funds to support LGs service delivery.	1.1.1 Percentage of Annual Grants budget utilisation by LGs	1.1.1 90%	1.1.1 >95%	1.1.1 Ministry of Finance / DLG Reports
	1.2 Improved strategic policy dialogue and coordination	1.2.1 Number of inter-governmental coordination and collaboration promoted and strengthened	1.2.1 NA (2021)	1.2.1 5 (2027)	1.2.1 DLG Reports
	1.3 Improved LG performance assessment and monitoring	1.3.1 Status of performance based grant allocation to LGs.	1.3.1 100 LGs (2021)	1.3.1 All LGs (2027)	DLG Reports
	2.1 Strengthened capacity for enhanced policy implementation	2.1.1 Number of NCWC / LG officials trained in designing, implementing, and monitoring reforms	2.1.1 NA (2021)	2.1.1 1000 (2027)	RGoB / NCWC/ DLG reports





4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Royal Government of Bhutan.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is **72 months** from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 7 000 000, and for complementary support is EUR 2 300 000. This amount is based on accompanying budget support to local governments, gender and to prepare the grounds for future increased investments in digital transition of public service delivery in general, and in education in particular.

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

	Year 1 (2023)	Year 2 (2024)	Year 3 (2025)	
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Country fiscal year and quarterly breakdown	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total in MEUR
Fixed tranche in MEUR	2				1								3
Variable tranche in MEUR					2				2				4
Total in MEUR	2				3				2				7

#### 4.3.2 Criteria for Disbursement of Budget Support

##### a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the 12<sup>th</sup> Five Year Plan and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

The specific conditions as well as the tranches to which they apply are as follows:

##### b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- Percentage of target population reporting improved satisfaction with involvement in local political processes.
- Number of area based development programmes promoted and sustained
- Number of LGs adopting gender, climate change and Disaster Risk Reduction strategies and employment/ livelihood opportunities into LG plans and programs
- Number of Community Engagement Platforms created

- Number of female LG functionaries (elected) trained on leadership and management of overall governance.

#### c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

#### d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### 4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Bhutan Ngultrum will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

#### 4.4 Implementation Modalities [applicable for complementary support to a BS]

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>20</sup>.

##### 4.4.1 Direct Management (Procurement)

The procurement is meant: to accompany the budget support to local governments (Good Governance) contributing to the achievement of the specific objective 1 (outputs 1.1, 1.2 & 1.3) and to enhance gender mainstreaming (including support to the National Commission for Women and Children) contributing to the achievement of the specific objective 2 (output 2.1).

##### 4.4.2 Indirect Management with a pillar assessed entity

A part of this action may be implemented in indirect management with a pillar assessed entity, which will be selected by the Commission's services using the following criteria:

- Existing engagement in providing technical assistance support to government sector policy reform agenda in Bhutan;
- Active participation in the sector coordination mechanism;
- Proven capacity to implement activities relating to Output 3.1;

This implementation entails preparing the grounds for future increased investments in digital transition in education contributing to the achievement of the specific objective 3 (output 3.1).

##### 4.4.3 Changes from direct to indirect management mode (and vice versa) due to exceptional circumstances (one alternative second option)

In case the part of the action cannot be implemented in direct management (procurement) specified in 4.4.1 for the reasons outside of the Commission's control, the alternative implementation modality will

<sup>20</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

be indirect management with a pillar assessed entity, which will be selected by the Commission's services using the following criteria:

- Existing engagement in providing technical assistance support to government sector policy reform agenda in Bhutan;
- Active participation in the sector coordination mechanism;
- Proven capacity to implement activities related to outputs 1.1, 1.2, 1.3 and 2.1.

This implementation entails contribution to the achievement of the specific objectives 1 and 2.

#### 4.4.4 Changes from indirect to direct management mode (and vice versa) due to the exceptional circumstances (one alternative second option)

In case, due to the circumstances outside of the Commission's control, it is not possible to implement the part of this action in indirect management with a pillar-assessed entity to be selected in accordance with the criteria set out in section 4.4.2, the alternative implementation modality will be direct management (procurement).

This implementation entails contribution to the achievement of the specific objective 3.

#### 4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply. The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.6 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR) million	Third-party contribution, in currency identified
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<b>Budget support</b> - cf. section 4.3	<b>7 000 000</b>	
<b>Implementation modalities for complementary support</b> – cf. section 4.4	<b>2 300 000</b>	
Direct management (procurement) - cf. section 4.4.1	1 300 000	
Indirect management with a pillar assessed entity – cf section 4.4.2	1 000 000	
<b>Evaluation</b> – cf. section 5.2 <b>Audit and verification</b> – cf. section 5.3	0 <sup>21</sup>	
<b>Contingencies</b>	NA	
<b>Totals</b>	<b>9 300 000</b>	

#### 4.7 Organisational Set-up and Responsibilities

The proposed sector reform contract will be concluded with the Gross National Happiness Commission (GNHC) on behalf of the RGoB. GNHC is the overall planning, coordinating and monitoring agency for all sectors in Bhutan and hence will be the signatory of the EU supported budget support action. The Department of Local Governance, Ministry of Home and Cultural Affairs, is the main implementing agency of the local governance sector policies and programmes. Similarly the Ministry of Finance is a key stakeholder in terms of Macro-economy and Public Finance Management.

Joint annual reviews will take place in order to establish the achievement of agreed results, which will inform the decision-making on the actual amount of fixed and variable payment releases. The timing of the reviews will be such that the information on actual payment releases will be available in time to inform the budget preparation process. Since the budget calendar does not follow a calendar year cycle but rather the period July – June, the information on EU payments needs to be available by February each year at the latest. For that reason, the annual reviews will take place around September each year in order to allow time for processing the payment decision before informing the RGoB in February about the amounts to be disbursed. An overall programme steering committee will be established to undertake the above mentioned joint annual reviews. Such annual review are the means to conduct strategic policy dialogue on sector policy reforms as well as on Macroeconomic stability, PFM, Accountability and

<sup>21</sup>STTA funds will be used for TA Audit and Evaluation of the programme. Alternatively funds could be top up during the mid term review.

Budget transparency. The annual review will include and engage with development partners and CSOs in order to ensure effective monitoring and review of the implementation of sector policies and programmes at country level.

It is also proposed to conduct annual sector policy dialogue with the GNHC along with other development partners to jointly review the sector and sub-sector performance (including on GEWE), at an annual interval, prior to the programme steering committee meeting, outlined above. Sector policy dialogue will strengthen the donor coordination, identify challenges in the sector, channelize demand driven technical assistance both from EU and from other development partner sources and ensure synergies and complementarities of different actors. As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## 5 PERFORMANCE MEASUREMENT

### 5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support). Indicators shall be disaggregated at least by sex. All monitoring and reporting shall assess how the action is taking into account the human rights based approach and gender equality.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

Within the RGoB, the reform monitoring is carried out by the GNHC at national level using the Planning and Monitoring System (PlaMS). Besides, Multi-Year Rolling Budget System (MYRBS) of the Department



of National Budget and Public Expenditure Management System (PEMS) of the Department of Public Accounts within the Ministry of Finance are involved in planning and monitoring of the budget. The performance of the ministries as well as autonomous agencies is monitored directly by Prime Minister Office and the Cabinet through Annual Performance Agreement (APA) with the agency. The reports of performance assessment, annual public expenditure and sectoral statistics are all published and available online. The 12th FYP (2018-2023) is based on a Results Based Planning (RBP) framework and Key Result Areas (KRAs) have been identified at the National, Agency, Dzongkhag, Thromdes and Gewog levels. RGoB conducts midterm of the FYP and also engage and consult wider stakeholders in designing the FYP every five years. The midterm review of 12th FYP is due in FY 2021/22. At the sector level, the DoLG and MoHCA is responsible for periodic collection of data and reporting of LG statistics annually.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the Action as follows:

- Importance has been given in the Action to strengthen the statistical capacity of the Ministry through the technical assistance component
- Evidence based policy design and implementation has been given importance in the policy review
- Sector coordination framework helps to identify the data gaps and will reinforce the importance of statistical and credible monitoring system

## 5.2 Evaluation

Having regard to the nature of the action, a mid-term and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

A mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to providing recommendations for necessary adjustments of the Action and to informing the preparation of potential further support to the sector.

A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the lessons learnt will further feed into shaping up of LG sector / RGoB and EU policy objectives. The evaluation shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment. Expertise on human rights and gender equality will be ensured in the evaluation teams.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 3 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

The financing of the evaluation may be covered by another measure constituting a Financing Decision.

### 5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

## 6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.