



Supplementary Appendix

Project Number: 39221
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Proposed Asian Development Fund Grant Kingdom of Bhutan: Micro, Small, and Medium-Sized Enterprise Sector Development Program

Asian Development Bank

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MACROECONOMIC ANALYSIS

A. Macroeconomic Performance

1. The economy of Bhutan has experienced strong growth, averaging 7% of gross domestic product (GDP) per annum since 1980s. The GDP growth in 2005¹ was 6.5%, marginally slowing down from 6.8% in 2004 due to decline in construction activities, especially in view of the completion of the Tala hydropower project. The huge Tala hydropower project started commercial production in July 2006. As a result, the estimated nominal economic growth is expected to accelerate from 6.5% in 2005 to 9% in 2006 and 18% in 2007.² Nearly all output of power projects is exported to India. The average growth rate of power production from all four power projects (Basochu, Chukha, Kurichhu, and Tala) is 30% per year. Specifically, the total export sales of power grew by 54% to Nu4.9 billion (about \$109 million) in 2005 as a result of commissioning of the Basochu power project.

2. The agriculture and relevant sector, such as livestock production, forestry and logging, grew by 1.2% in 2005 and the industry sector (including manufacturing, electricity, and construction) was by 2.6%, while the services and trade related sector have grown impressively at 13.3%. In terms of its relative share to the total GDP, the agriculture sector accounted for 23.8% of total GDP, the industry sector for 34.4%, and the services and trade sector for 41.8%. The impressive growth performance in the service and trade related sector is due to the significant growth in tourism and finance. For tourism, the significant improvement was attributed to the unprecedented media coverage during 2005 with news of Bhutan changing political profile and promotions in travelogues, which helped generate vast international interest in the country. Regarding the growth in finance, it was mainly due to the increased returns from the financial sectors' foreign investments (i.e. significant interest income growth of the Royal Monetary Authority of Bhutan).

3. Despite significant developments in the service and trade sector, unemployment rate in 2005 increased to 3.1% from 2.5% in the previous year. The majority of the Bhutanese labor force is still engaged in the agriculture sector; over 43.6% of total labor force was employed by the agriculture or agriculture related activities, while only 17.2% was in the industry sector and 9.4% in the services sector. However, the relative low share of agriculture sector to the overall GDP and the decreasing growth of the agriculture sector indicate that the economy is still predominantly dependent on subsistence farming. The scope for improving the productivity of the labor force on agriculture has been limited.

4. The revised budget estimates Fiscal Year (FY) 2005–2006 indicated that the Government's fiscal position improved, with the overall budget deficit narrowing to Nu2.6 billion, or 13.1% of GDP from 17.6% in the previous year. A small decline in capital expenditure and an increase in foreign grants were largely responsible. Capital expenditure was reduced by 1.5%, mostly reflecting the high 2005 base when the Government purchased two Airbus aircraft. Current expenditure rose by 11%, which included outlays for draft constitution meetings and establishment costs for new institutions, such as the anticorruption and election commissions. Total expenditures, including capital spending, amounted to Nu16.2 million, a growth of 4% compared to 2004.

5. Given the higher inflow of foreign grants and aid during FY2005–2006, there was a strong build up of foreign assets in the monetary sector. Net foreign assets grew strongly, pushing the money supply growth to a higher level of 24.8%, as compared to the 10.7% in FY2004–2005. The

¹ Bhutan's fiscal year ends on 30 June. The growth data, however, is based on a calendar year. Therefore, the recent growth data is available up to 2005 only, according the most recent annual report 2005–2006 of the Royal Monetary Authority (published January 2007).

² Forecast is based on Asian Development Bank Outlook 2007.

impact of this was also seen in the deposit liabilities of the banking sector, particularly the time and foreign currency deposits, which grew at a faster pace during the review year. On the other hand, the Bhutanese banking sector experienced a slow down in the domestic credit mainly due to continued increase in government deposits with the commercial banks, which in turn has added to the continued build up of excess liquidity (Nu7.6 billion as of June 2006) in the system. Nevertheless, the growth in the credit to private sector was higher at 32% in FY2005–2006 as compared to 26% in FY2004–2005. Meanwhile, inflation was recorded at 6.2% during the second quarter of 2006. The higher inflation was due to the rise in prices of both food and non-food items.

6. Bhutan's balance of payments (BOP) in FY2005–2006 was substantially improved in the current account deficit which fell to Nu1.3 billion from Nu9.4 billion in FY2004–2005. Boosts in Indian and particularly third country exports, combined with lower imports and a huge improvement in the invisibles accounts, contributed to the narrowing of the overall current account deficit. Bhutan's BOP with countries other than India recorded a current account surplus of Nu612 million in contrast to the deficit of Nu5.2 billion in 2005. Within the invisibles account, tourism performance during 2006 continued to display strong signs of improvement. A total of 15,096 tourists visited Bhutan during 2006, while subsequent convertible currency earnings grew by 35.8% to \$20.8 million from \$15.3 million in FY2004–2005. Convertible currency earnings from tourism accounted for 70.8% of the total services exports in FY2005–2006. Notably, exports of communications services to both India and other countries, including a 49.8% growth in income from foreign investments abroad, were some of the main contributors to the surge in invisibles receipts during the FY.

7. As usual, countering by the capital and financial account balance, the overall BOP resulted in a positive amount of Nu5.2 billion in 2005–2006. As also has been the case in the last three years, over 90% of the inflows in the capital and financial account were contributed by capital grants (Tala project) and loans to the Royal Government of Bhutan, underscoring the importance of official inflows in offsetting the current account deficit. Corresponding to the positive overall BOP, gross international reserves grew by 30.7% to \$478.8 million in FY2005–2006. Due to lower growth in imports relative to the growth in reserves, the reserve cover of merchandise imports improved to 14.3 months from 10 months as of FY2004–2005. With the inclusion of service imports, Bhutan's gross international reserves can finance up to 12.4 months of imports (merchandise and services).

8. The main development challenge for Bhutan is that the current economic growth is highly dependent on the hydropower sector which has lower employment elasticity and, therefore, posed an imminent constraint on employment generation and sustains economic growth in the future. With more people entering the labor market each year, the Government must stimulate greater private sector activity and diversify the economy to boost employment, increase income, and reduce poverty.

9. In addition, another challenge is the preparation for its planned transition from a monarchy to a two-party democratic system in 2008. The Government has established institutions to ensure high standards of governance and transparency. An autonomous Anticorruption Commission has been established, and autonomous status is envisaged for the existing Auditor General's Office. The National Assembly has set up a public accounts committee and a fiscal responsibility bill is expected to be presented for passing. The actual transformation and workings of a two-party democracy may lead to some initial uncertainty, but the transition is unlikely to result in any significant economic policy changes. Furthermore, Bhutan is trying to integrate itself with regional and international economic groupings, as it is currently negotiating to become a member of the World Trade Organization. The third meeting of the working party was held in October 2006.

B. Macroeconomic Indicators**Table SA1: Country Economic Indicators**

Item	Fiscal Year ^a				
	2001/2	2002/3	2003/4	2004/5	2005/6(p)
A. Income and Growth^b					
1. GDP per Capita (\$, current)	499.7	545.2	623.7	834.0	1,265.0
2. GDP Growth ^c (% , in constant prices)	7.2	10.0	7.6	6.8	6.5
a. Agriculture	5.7	3.2	2.2	1.6	1.2
b. Industry	9.9	18.1	7.3	4.5	2.6
c. Services	13.3	7.9	11.8	12.4	13.3
B. Money and Inflation (annual % change)					
1. Consumer Price Index ^d	2.7	1.8	4.6	5.5	6.2
2. Total Liquidity (M2)	17.6	28.7	4.0	10.7	24.8
C. Government Finance (% of GDP)					
1. Revenue and Grants	38.6	26.9	38.0	37.5	36.7
2. Expenditure and Net Lending	50.1	49.6	52.5	77.8	80.5
3. Overall Fiscal Surplus (Deficit)	(6.1)	(14.4)	2.9	(17.6)	(13.1)
D. Balance of Payments					
1. Trade Balance	(23.9)	(22.3)	(23.8)	(53.9)	(25.4)
(% of GDP)					
2. Current Account Balance (% of GDP)	(15.6)	(20.0)	(16.5)	(47.0)	(6.7)
3. Export (annual change, %)	8.2	8.2	32.4	15.9	61.5
4. Import (annual change, %)	12.9	1.0	20.6	60.3	(3.2)
E. External Payments Indicators					
1. Gross Official Reserves (including gold, \$ million)	315.3	373.3	383.3	366.5	478.8
(in months of current year's imports of goods)	18.9	21.2	17.6	10.0	14.3
2. External Debt Service (% of exports of goods and services)	4.9	5.0	4.2	7.2	5.3
3. Total External Debt (% of GDP)	61.5	74.0	82.1	84.3	82.5
F. Memorandum Items					
1. GDP (current prices, Nu million)	22,857.50	26,254.10	29,269.00	32,178.10	36,914.8
2. Exchange Rate (Nu/\$, average)	48.2	47.9	45.4	44.6	44.7
3. Population ('000)	716.0	734.0	750.0	769.0	634.9 ^e

GDP = gross domestic product.

^a Fiscal year 2005–2006 ended on 30 June 2006.^b GDP data is on a calendar year basis. Therefore, the entry under 2005–2006 refers to 2005 for growth data illustration.^c The economic prospects for the review year are outlined on the basis of data provided by the National Statistical Bureau (NSB) in National Accounts Statistics, October 2006. Following the re-basing of the national accounts statistics from 1980 to 2000, the GDP data was revised again to meet the recommendations of the 1993 NAS. Improvements have been made in terms of wider coverage of available information and some of the sectors are further disaggregated into subsectors to provide more meaningful presentation. Accordingly, data for the past years have also been revised. Therefore, the GDP data, particularly for past years, may appear to be inconsistent with data published in the earlier reports.^d Data till 2003 refer to the old CPI (average of the first half of the calendar year) of the NSB with the 1979 base year. Since rates of change (year-to-year) for the newly introduced quarterly CPI (Q3, 2003 = 100) are not available prior to the third quarter of 2004, the CPI for 2003–2004 is based on NSB's new quarterly CPI and refers to the average for the third quarter of 2004 and 2004–2005 refers to second quarter 2005.^e The data is updated with the Population and Housing Census 2005, conducted by NSB.

Sources: National Statistical Bureau of Bhutan 2006, and Royal Monetary Authority of Bhutan Annual Report 2005/2006, published in January 2007.

Activity	Deadline	2007*	Year 1 (2008)				Year 2 (2009)				Year 3 (2010)			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
RMA forms a central registry working group to commence a feasibility study of establishment of a central registry at RMA	Nov 2007													
RMA, based on recommendations of the central registry working group, prepares plan to establish a central registry at RMA	May 2009													
RMA establishes the central registry, including drafting and issuing necessary legal amendments	Nov 2010													
4. Strengthen business support infrastructure														
MSME division assesses BDS requirements by MSMEs and based on the recommendations of TA 4412 ^b to design a CSF	Nov 2007													
MSME division establishes a CSF	May 2009													
MSME division starts implementation of the CSF	Nov 2010													
Government establishes a standards working group	Nov 2007													
SQCA submits the Standards Act to the National Assembly	May 2009													
Based on the recommendations of the standards working group, Government prepares plan for testing, establishment of standards, and product certification	Nov 2010													
D. Project Components	Inception													
Subproject 1: BDFC credit line Credit line disbursement	Jan 2008													
Subproject 2: CSF CSF implementation	Jun 2008													
E. Technical Assistance for program implementation and institutional capacity building	Jun 2008													
(i) Recruitment of an international MSME policy specialist and national MSME development expert to assist the Government in developing a MSME policy and strategy	Mar 2008													
Recruit international BDS and CSF specialists and a national business development IT specialist to assist the CSF	Mar 2008													
(ii) Recruit an international RIA specialist and a national legal expert to develop and pilot RIA	Mar 2008													
(iii) Recruit an international secured transaction system expert and two legal experts (one international, one national) to establish a central registry	Mar 2008													
(iv) Recruit an international SMTQ specialist, an international legal expert, and a national standards expert to plan for and organize establishment of product standards	Mar 2008													
E. Reporting														
Program reports			X		X			X		X		X		X
TA consultants' reports			X	X	X	X	X	X	X	X	X	X	X	X
ADB monitoring and review			X		X			X		X		X		X

Note: * Project preparation ■ Continuous ■ Intermittent

ADB = Asian Development Bank; BDS = business development services; CSF = cost-sharing facility; MSME = micro, small, and medium-sized enterprise; MTI = Ministry of Trade and Industry; OSS = one-stop shop; PSDC = Private Sector Development Committee; Q = quarter; RIA = regulatory impact assessment; RMA = Royal Monetary Authority; RTIO = regional trade and industry; SMTQ = standards, metrology, testing, and quality; TA = technical assistance.

^a Draft Bhutan Enterprises Registration Act and/or Industries and Investment Act.

^b ADB. 2004. *Technical Assistance to the Kingdom of Bhutan for Small and Medium Enterprise Development*. Manila (TA 4412-BHU approved on 8 October).

Source: ADB estimates.

FINANCIAL MANAGEMENT ASSESSMENT & QUESTIONNAIRE

I. FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction to Financial Management Assessment

1. The objective of the financial management assessment (FMA) is to determine whether the entities implementing the project components have acceptable financial management (FM) arrangements including procedures for making payments, accounting treatment of transactions, financial reporting, audit of financial statements, and internal control procedures to minimize misuse or misappropriation of funds/assets. Asian Development Bank (ADB) considers arrangements acceptable if the executing agency (EA) and the implementation agencies (IA) are able to timely submit their payments, to record correctly all transactions and balances, to support the preparation of regular and reliable financial statements, to safeguard entities' assets, and are subject to appropriate internal and external audit. The FMA additionally provides the stakeholders an opportunity to raise any issues related to the existing proposed funds flow and FM structure and to contribute to the finalization of the FM arrangements to be in place before loan effectiveness.

2. This FMA is explored from the information and data collected from the EAs and IAs, including Ministry of Finance (MOF), Ministry of Trade and Industry (MTI), and Bhutan Development Finance Corporation (BDFC), using completed questionnaires (see details in Section II: FMA Completed Questionnaires).

B. Country Issues

3. The FM has been improved by creating internal audit units in each ministry (and the Royal Monetary Authority [RMA]) and by separating aid management from budget and accounts. Particularly, importance for financial accountability is included in the latest version of the MOF financial manual. The 1988 financial manual was revised to incorporate new rules for the delegation of financial powers and to define better the institutional roles and relationships for budgeting, accounting, and aid management. The Financial Rules and Regulations (FRR) 2001 were effective beginning in the fiscal year 2001–2002.

4. Significant improvements have been made in the quality and reliability of the accounting information with the adoption of the computerized Budgeting and Accounting System and Central Budgeting System across all Government's spending units. The key challenge facing the Government now is to network the database across the spending units and improve the oversight and control function.

5. While comprehensive expenditure controls exists and effectively limit commitments to actual cash availability and approved budget allocations, external audit reports have identified a number of irregular transactions, suggesting that transactional controls are not complied with and are circumvented due to inadequate supervisory controls. Reconciliation of banking and fiscal records is undertaken on a monthly basis. Controls on suspense and advance accounts, however, appear to be inadequate and the annual financial statements do not provide the aging information on the advances.

6. The Royal Audit Authority (RAA) conducts regularly audits and submits its reports to the King and to the National Assembly, including a set of recommendations for improvements. In the Annual Audit Report (AAR) 2004, the auditors made several recommendations: (i) to establish an exclusive centralized follow-up division to examine the responses consistently, ensure appropriate responses, and to split up the dual function of auditing and follow-up of the current divisions; (ii) to draft and issue audit memos with all the relevant records, including photographs as necessary and to prepare comprehensive audit checklists for all types of audit; (iii) to explicitly delineate the authority to issue audit Inspection Reports among the Auditor General of Bhutan, Head of the Departments, Head of the Office of the Assistant Auditors General, and Division Chiefs in the Head Office; (iv) to incorporate the

result of audit of annual accounts, the overall financial condition, and results of operations of the Government; (v) to incorporate the results of performance and value for money audit in the AARs; (vi) to form an exclusive audit team to conduct audit of Income Tax, Property tax, and Land tax; (vii) to carry out training needs assessment for the auditors; (viii) to form one dedicated information technology audit team and impart appropriate training; (ix) to devise a system to ensure disposal of all incoming communications, correspondences etc; and (x) to provide special training/attachment courses to officers in the Special Audit & Investigation Division. While some of the training-related recommendations had been implemented, RAA also formulated an Action Plan to implement the rest of the recommendations.

7. The evidence suggests that the audit function is by and large effective for both MOF and MTI. Both MOF and MTI have internal departments with adequate staff and extended practical auditing experiences (minimum 6 years and maximum 35 years) at respective ministries, despite having no professional certifications. However, to further improve the existing capacity and function, there is still a need for the MOF to set up mechanisms to actively track and monitor the responses to audit observations. In addition, continuous and advanced FM training to financial staff and senior personnel in charge of programs would result in better FM and increased accountability.

8. While MOF and BDFC have prior experience of successfully managing ADB financed projects which represents cognizance with ADB's procedures and FM requirements, MTI has none. However, MTI has other similar experiences of implementing projects funded by the United Nations Development Program, Danish International Development Agency, and Netherland Development Organization, and is adequately staffed. Its staff is well and constantly trained to deal with FM requirements. In addition, according to the FRR 2001, the budgeting and accounting procedures of MTI have involved MOF in terms of reporting, submission, and compliance as statutory requirements. MOF will further approve MTI's yearly budget before final submission to the National Assembly for approval. Funds flow arrangements also come from MOF to MTI for both project and annual budgets. Therefore, concerning Micro, Small, and Medium Enterprise Sector Development Program (MSME SDP or the Program) related managements; MTI will be guided by the EA, i.e. MOF, who has extensive experience with ADB's procedures. In addition, ADB will provide relevant project implementation and administration training before loan effectiveness, tentatively in early 2008, to improve the effectiveness and compliance of ADB's procedures and FM requirements.

C. Risk Analysis

9. The FM risk of the MSME SDP, arising from the identified weaknesses, together with their mitigation measures are highlighted in Table SA C1.

Table SA C1: Risk Analysis

Risk	Risk Rating	Risk Mitigation Measures
Possible limited effectiveness of the internal auditors or financial staff in government departments and involved agencies due to a lack of professional training or qualification (including MOF, MTI, and BDFC)	Low	Target specialized training for internal auditors and financial staff, including MOF, MTI, and BDFC
MTI with no project experience in ADB's procedures and FM requirements	Low/Medium	Training at ADB headquarters or in Bhutan for selected staff in the program and project implementation unit as well as in concerned government agencies Provision of reference and documents of ADB's project implementation and loan disbursement requirements to MTI
Overall Risk Rating	Low/Medium	

ADB = Asian Development Bank, BDFC = Bhutan Development Finance Corporation, FM = financial management, MOF = Ministry of Finance, MTI = Ministry of Trade and Industry.

Source: ADB staff estimate.

D. Institutional Arrangements

10. The EA for the MSME SDP is MOF. Under the Program, MTI will be the main IA, except for the credit-line related component, for which BDFC will be the IA, and the product standards related component, for which Standards and Quality Control Authority will be the IA. An Inter-agency Program Steering Committee (PSC) will be set up composed of, among others, representatives from the MOF, MTI, Ministry of Agriculture, and the RMA, with the MTI Secretary as chair, to ensure appropriate coordination of the Program and Project. The committee will meet every quarter year, or as often as needed, to monitor progress, coordinate implementation, and ensure effective fulfillment of the proposed policy reforms. ADB shall be entitled to receive all reports and minutes of the PSC and may attend meetings of the PSC as an observer.

11. For the project component, MTI will be the IA for the Subproject 1 (cost sharing facility component) and Subproject 3 (program implementation and institutional capacity component). BDFC will be the IA for the Subproject 2 (credit line). MTI will establish an MSME unit that will act as the project and program management unit to be headed by a senior staff of MTI, responsible for implementing the MSME SDP and coordinating support for program and project administration. The MSME unit will have one core group to implement the MSME SDP and also one coordination group to support and oversee the implementation of policy actions and related projects under the MSME SDP. The coordination group will compose of the representatives of respective divisions at MTI, Ministry of Agriculture, Debt Management Division (DMD) of Department of Public Accounts (DPA) at MOF, RMA, Bhutan Food Regulatory Authority, Standards and Quality Control Authority, BDFC, and Bhutan Chamber of Commerce and Industry to monitor and coordinate activities between various entities involved in delivering outputs. One of the representatives will be designated as an alternate director of the coordination group for program and project implementation from time to time.

E. Funds Flow Arrangements

12. For the Program loan component, the DMD submits withdrawal application to ADB that states the fulfilled requirements. Foreign currency for the amount requested would be credited to RMA's foreign currency reserves by ADB. A local currency equivalent would then be credited in the Government Budget Fund (GBF) which is maintained by MOF's DPA at Bank of Bhutan. The GBF could then be utilized for multi purposes depending on the requirements of the government.

13. For the project loan components, DMD submits withdrawal application to ADB in order to replenish the imprest account. Supporting documents need not be submitted to ADB but must be kept on file for inspection during statement of expenditure (SOE) review missions conducted by ADB. Two separate imprest accounts will be opened for managing ADB funds: one for the credit line to BDFC and the other one for the cost sharing facility and relevant program implementation and capacity building components, which is under management of MTI. RMA informs DMD about receipt of ADB funds into the imprest accounts (which is in foreign currency). DMD then directs RMA to convert and transfer the requested amount in equivalent local currency to the GBF maintained by DPA at Bank of Bhutan.

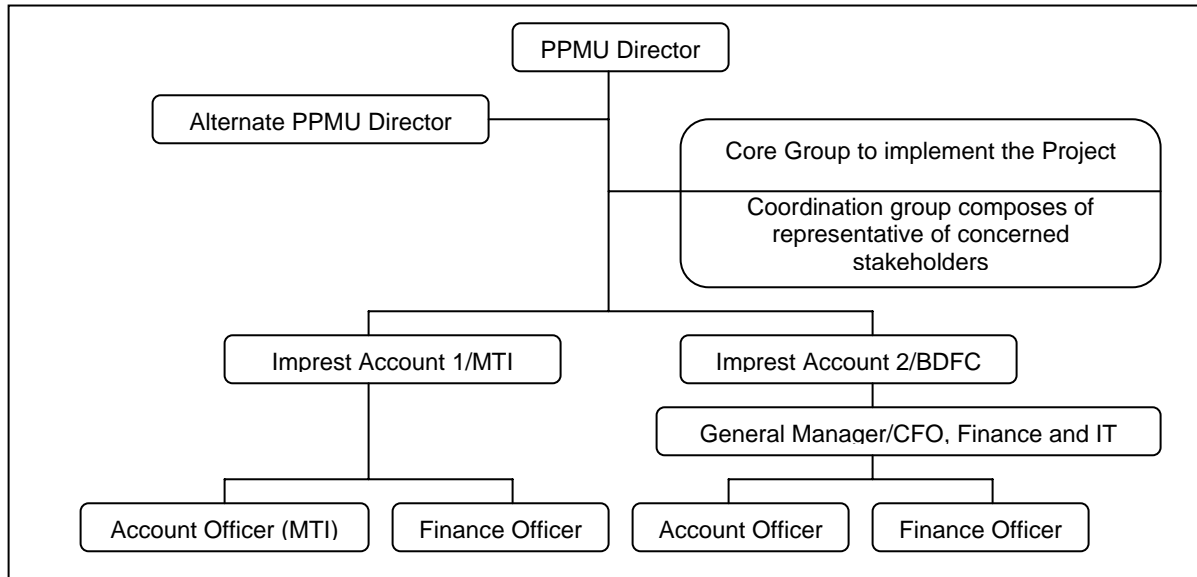
14. In addition, based on requirements and monthly progress reports, including project letter of credit accounts, DMD will advise DPA to release funds to IAs (i.e. BDFC and MTI). The counterpart funds are also retained in GBF. Program and Project Management Unit (PMU) must request DMD for access to the counterpart and ADB funds at GBF.

F. Staffing Arrangements

15. The infrastructure of the PMU, i.e. MSME Unit, is adequate and capable to provide the FM arrangements required for the Program since qualified regular MTI staff would be employed or

assigned for the various positions within the PMU. The PMU will be headed by a senior staff of MTI, responsible for implementing the MSME SDP and coordinating support for program and project administration.

Figure SA C1: Program and Project Management Unit Structure Chart



CFO = Chief Finance Officer. IT = information technology, MTI = Ministry of Trade and Industry, PPMU = Program and Project Management Unit

Source: ADB staff estimate.

G. Organization and Staffing of IAs

16. **Ministry of Trade and Industry.** The finance and accounting department of MTI is considered adequately staffed. There is a Chief Financial Officer (CFO) and a Deputy CFO as well as a Budget Officer in charge of the budgeting of MTI. There is an Accounting Secretariat where all the accounts of the department are consolidated and the Program accounts are managed and kept. There are four departments: Department of Energy, Department of Trade, Department of Tourism, and Department of Geology and Mines. All the accountants and officers have been trained at the Royal Institute of Management in Thimphu. The Deputy CFO and the Budget Officer have a degree in FM, whereas the others have a diploma from the same institute. Accounts staff has a 5 years contract that can be extended. In fact, the turnover is very low, and transfers are allowed only if a substitute is found. The last transfer was in 2003. In-house training from the Royal Institute of Management is provided in shifts once or twice a year and more in a form of refresher course. Key accounts staff receives external training for 2 to 3 weeks long once a year or every other year.

17. **Bhutan Development Finance Corporation.** The operational consequences of the political mandate for BDFC have been an extensive branch network established to serve rural lending purposes. From its head office in Thimphu, BDFC operates 3 regional offices, 22 branches and a mobile banking facility, which is already operational in 120 gewogs (blocks). The organization has 147 employees, of which 65 working at the head office. Two graduates will be employed in 2007—one as replacement and one additional back office staff. Training was provided to one Financial Officer who resigned, as there is no training policy in place to retain the training capacity. Therefore, a proper training policy and human resource management is needed as much as more technical training to both new and existing staff to further enhance skills. Training in areas of FM and accounting and

ADB's procedures should be provided on a regular basis, particularly for staff who will work under the ADB project.

H. Accounting Policies, Procedures, and Financial Reporting

18. **Ministry of Finance, and Ministry of Trade and Industry.** Cash accounting is used in all ministries, including MOF and MTI. MTI follows generally accepted accounting principles as laid out in the FRR 2001 of MOF. Specifically, the Finance and Accounting Manual are adequate for the reporting under the Program. The accounting system will allow the recording of project financial transactions, including the allocation of expenditures, in accordance with the respective components, disbursement categories, and source of funds. Cost allocation of various funding is accurately made also in accordance with the FRR 2001. Financial documents are retained beyond 20 years and accessed only by authorized users. Financial reports are prepared on a monthly basis according to FRR 2001. The reporting system is adequate for the Program and doesn't need to be adapted, as any liability or asset of the Program would be reflected in RMA's books of account. Additionally, financial reporting can be easily cross checked against physical completion given that the functions will be centralized within the MSME unit. Financial reports will be generated automatically by the computerized Budgeting and Accounting System.

19. Different persons are in charge of authorization to execute a transaction, recording of the transaction, and custody of assets involved in the transaction (i.e. the Heads of Department, the Finance Section and the Store Section). The functions of ordering are under the responsibility of the Head of Administration and Finance Division, receiving is under the Store Section, accounting is under the Accounts Section, and the payments are made by the Finance Section. Bank reconciliations are done by the Account Section whereas approval of payments is done by department heads (within their authorized financial delegation) or the Secretary.

20. Budgets include physical and financial targets, based on budgets submitted by MTI's department heads. Budgets are prepared for all significant activities in sufficient detail and the monitoring takes place on monthly basis by budget section. Variations from the budget, if anticipated before, require approval in advance, and if after the facts they are done by MOF. Budgets submitted by MTI's departments are compiled at the budget section of MTI and submitted to the Department of Budget (under MOF). Their approval is undertaken by National Assembly. For preparation of annual budgets, all departments are required to come up with a work plan by January each year. Yearly budget allocations are usually not realistic and over-budgeted; however, in terms of overall project budget allocations, plans and budgets are realistic since there is an imperative commitment to try to complete donors' projects ahead of schedule.

21. **Bhutan Development Finance Corporation.** BDFC has an accrual basis accounting and follows international accounting standards requirements for the banking industry. Accounting procedures are in compliance with the RMA statutory requirements, with the provisions laid out in the Procurement and Financial Management Manual of the Government and with the provisions outlined in the Companies Act 2000. There is an internal control system in place to identify the person in charge of the credit and differentiate between paying and receiving with a joint signatory system design. Accounting and supporting documents are retained for 5 years as per Companies Act 2000, and only two persons are authorized in the file room. Management Orders and Circulars serve as reference for FM and related administrative activities. The development of a Financial Management Manual is currently on-going with support of an ADB technical assistance.³

³ ADB. 2006. *Technical Assistance to Bhutan for Preparing the SME/Microenterprise Development Program: Financing Component* (TA 4837-Bhutan approved on 11 September 2006). Manila.

22. BDFC's reports are prepared in a monthly basis and latest by the 15th of the following month. The reporting system is accurate as every beneficiary can be traced. BDFC prepares financial budgets centrally based on past trends assessment and includes all significant activities (major items, expenditures, cost of funds, assets in net present value) in sufficient detail. Key indicators, portfolio growth, target variance reports are made on a quarterly basis. Administrative and physical budgets are prepared with bottom-up approaches according to the requirements of the branches. Actual expenditures are compared to the budget on a quarterly basis. Any major variations must be taken to BDFC's Board for approval.

23. BDFC's safeguard over assets is quite accurate, by location there is an automated registration system, and when auditors go to branches for auditing purposes, he/she performs physical assets verification. Additionally, the external auditors do random sample checks and verifications. To protect larger assets there is a comprehensive insurance scheme.

I. Information System

24. **Ministry of Trade and Industry.** The FM system is computerized since 2002, the system can produce the necessary financial reports for the Program and all 13 staff is trained to maintain it. The management organization and processing system are designed to safeguard the confidentiality, integrity, and availability of the data, as each account staff is provided of an identification card that allows access to their responsibility.

25. **Bhutan Development Finance Corporation.** In 2006, a fully automated banking system has been purchased and implemented and can accommodate needs of BDFC's internal reporting and Management Information System requirements. Financial reports are automatically generated by the new system in place. Staff has been adequately trained to use and maintain the system, and the management organization and processing system safeguard the confidentiality, integrity, and availability of the data.

J. Audit Arrangements

26. **Ministry of Trade and Industry.** Internal audit department comprises of two staff, with both a postgraduate in FM and extensive auditing experience in MTI. The internal audit reports to the Secretariat who takes appropriate actions depending on the seriousness of the finding. Financial statements are audited regularly by an independent auditor, the RAA in accordance with FRR 2001. Audit reports are issued within 6 to 9 months after closure of the fiscal year, in accordance with International Organization of Supreme Audit Institution's Auditing Standards. Audit reports for the Program will be submitted to ADB.

27. **Bhutan Development Finance Corporation.** Internal audit has been in place since the commencement of BDFC operations in 1990. The internal audit department has 6 staff in total, of which 4 at headquarters and 2 assigned to Eastern and Central Regional Offices. The internal audit department reports directly to the Audit Committee and the Board of Directors. The internal audit department will review the accounts of the MSME SDP. Managers in the Internal Audit Department have been there since 1990. The auditor has 16 years of experience and was transferred from the central bank to the audit department (i.e. RMA) in 2007. BDFC's financial statements are audited regularly on annual basis. Since 2004, the audit has been performed by the independent auditor T.K. Ghose & Co. (Indian Chartered Accountants). According to the Companies Act 2000, which requires the auditor to be changed every 3 years, the Government will therefore assign a new auditor in 2007. Audit is carried out by 15 January each year and the report is finished by the end of the month or latest at the beginning of February.

K. Disbursement Arrangements

28. **Program.** Disbursements under the Program loan will be made in line with ADB's simplified disbursement procedures and audit requirements. To withdraw the proceeds of the loan, the Borrower will certify that the value of eligible imports exceeds the amount of ADB's projected the disbursements under the Program loan in a given period. ADB reserves the right to audit the use of the loan proceeds and verify the accuracy of the Government's certification. The loan proceeds are expected to be utilized over a period of 36 months from the date of effectiveness.

29. **Project.** The Project loans will be disbursed, (a) using the SOE procedure for the reimbursement of eligible expenditure and to liquidate the advances, in accordance with ADB's *Loan Disbursement Handbook January 2007*. ADB will advance 6 months of expenditures or 10% of the total, whichever is lower, into the imprest account. MOF, on behalf of the Government, will open at the RMA, within 3 months of effectiveness, two (2) imprest account denominated in US dollars. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$50,000; and (b) for consulting services, a direct payment procedure shall be established in accordance with ADB's *Loan Disbursement Handbook January 2007*, and detailed arrangements agreed upon between the Government and ADB. The Project loan disbursement will be for a period of 4 years, taking into consideration of credit line disbursement. As eligible expenditures are incurred and paid from the Account, the borrower/EA requests liquidation/replenishment of the Account by submitting a withdrawal application on a regular basis. Any balance of the advance not liquidated should be promptly refunded to ADB, in the currency of the Account.

L. Conclusion

30. **Ministry of Finance.** The FM capacities of MOF are at a satisfactory level to ensure their smooth functioning as an EA, despite training limitations in auditing and FM. MOF has prior experience of successfully managing ADB financed projects which represents cognizance with ADB's procedures and FM requirements.

31. **Ministry of Trade and Industry.** MTI has sufficient staffing with extended experience in accounting and reporting. To ensure understating of ADB requirements under the MSME SDP, MTI should be provided with adequate training to familiarize with ADB's requirements. In this regard, ADB has scheduled project implementation and administration workshops in early 2008 (tentatively) to improve MTI's understanding and familiarity of ADB's procedure and FM requirements. In general, based on the assessment and improvement being made, the financial arrangements for the MSME SDP appear appropriate and that the IA's systems can be relied upon the purpose of the project FM.

32. **Bhutan Development Finance Corporation.** Following international accounting standards along with the use of adequate set of orders and circulars, BDFC's finance and accounting system is found adequate. To further enhance FM, the ongoing ADB technical assistance 4837 (footnote 1) will provide step-by-step guidance and sustainable capacity building to develop a FM manual along with the preparation and implementation of a new 5-year BDFC strategy and business plan.

33. BDFC has prior experience of similar projects and is familiar with ADB's FM requirements. Based on the assessment and prior ADB experience of similar projects, the financial arrangements for the MSME SDP at BDFC appear appropriate. BDFC's systems can be relied upon the purpose of project FM. Nonetheless, ADB will provide targeted training to further strengthen and familiarize staff with ADB procedures and requirements for project implementation and administration.

II. FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRES

A. Completed Financial Management Assessment Questionnaire of Ministry of Finance

Topic	Response	Remarks
1. Implementing Agency		
1.1. What is the entity's legal status/registration?	The BOB and RICB are registered under the Companies Act.	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	For RICB, yes . RICB has implemented an ADB TA. For BOB, no .	
1.3. What are the statutory reporting requirements for the entity?	BOB and RICB publish financial statements on monthly basis and the annual financial accounts for the RGoB and their respective Boards. The annual accounts are audited by statutory (external) auditors from India.	
1.4. Is the governing body for the project independent?	In terms of the entity (i.e. RMA), the entity is independent. In terms of PD, it is not independent since PD works under the management/guidance of RMA.	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes. PMU does not have sole authority for effecting transactions (a governance measure) but PMU will have knowledge/awareness of all transactions related to the project.	
2. Funds Flow Arrangements		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	See FMA report for details.	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government/Finance Ministry) to the entity satisfactory?	Yes. The process under 2.1. is the same for all donor funds/agencies and so far, no complaints or suggestions regarding change in system.	
2.3. What have been the major problems in the past in receipt of funds by the entity?	None.	

Topic	Response	Remarks
2.4. In which bank will the Imprest Account be opened?	RMA, because Imprest Account is in Foreign Currency.	
2.5. Does the (proposed) PIU have experience in the management of disbursements from ADB?	PMU has implemented ADB TAs in the past and should be familiar with ADB disbursements.	
2.6. Does the entity have/need a capacity to manage foreign exchange risks?	Yes. MOF will bear the burden of foreign exchange risk.	
2.7. How are the counterpart funds accessed?	From the same Government Budget Fund Account (but not ADB source) described in 2.1.	
2.8. How are payments made from the counterpart funds?	PMU must request MOF's DADM for counterpart funds and ADB funds. DADM requests RMA to transfer required amount from Imprest Account to GBF. GBF will release to PMU.	
2.9. If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	N/A	
2.10. Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3. Staffing		
3.1. What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.2. Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.3. Is the project finance and accounting function staffed adequately?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.4. Is the finance and accounts staff adequately qualified and experienced?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.5. Is the project accounts and finance staff trained in ADB procedures?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	

Topic	Response	Remarks
3.6. What is the duration of the contract with the finance and accounts staff?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.7. Indicate key positions not contracted yet, and the estimated date of appointment.	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.8. Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.9. At what frequency are personnel transferred?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
3.10. What is training policy for the finance and accounting staff?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
4. Accounting Policies and Procedures		
4.1. Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes, MOF has a CBA. The object codes (i.e. item lists) are detailed as per MOF's FRR 2001. To meet ADB's requirement of recording project financial transactions, the output from the CBA system has to be extracted and compressed manually.	
4.2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Generally yes. Controls are in place according to FRR 2001.	
4.3. Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Generally yes. Based on various donors' report format requirements that MOF complies with. MOF's reporting format to RGoB is different than that to the donors.	
4.4. Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Generally yes. MOF strictly complies with established agreement.	
4.5. Are the General Ledger and subsidiary ledgers reconciled and in balance?	Generally yes. Established according to FRR 2001.	
4.6. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Generally yes. Established according to FRR 2001. Users such as internal auditor and ADB Mission members will have access to it when required.	

Topic	Response	Remarks
Segregation of Duties		
4.7. Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
4.8. Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
4.9. Are bank reconciliations prepared by someone other than those who make or approve payments?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
Budgeting System		
4.10. Do budgets include physical and financial targets?	Generally yes. Both aspects are covered in accordance with FRR 2001, specifically budgeting chapter.	
4.11. Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Budgets are prepared for all significant activities in sufficient detail through object codes generated by CBA. But performance indicators are still in the process of being set up over 3 phases. The first of 3 phases will be completed in August. Financing is still being sought for remaining 2 phases.	
4.12. Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes. On a quarterly basis for only the health and education sector (physical and financial aspects of projects are covered in these sectors). This was achieved through DANIDA financing.	
4.13. Are approvals for variations from the budget required in advance or after the fact?	In advance.	
4.14. Who is responsible for preparation and approval of budgets?	The policy and planning divisions of the various ministries are responsible for budget submission to MOF. Support is given by Finance Officers of respective ministry. Approval of budget for each ministry is undertaken by MOF.	

Topic	Response	Remarks
4.15. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	All PDs are required to come up with a work plan to prepare the budget, regardless of procedures in place. Responsibility of budget preparation lies with the IA/PD.	
4.16. Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In terms of yearly budget allocations by ministries, it is usually not realistic and is over-budgeted. However, in terms of overall project budget allocations, plans and budgets are realistic since there is an imperative to try and complete projects ahead of schedule.	
Payments		
4.17. Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
4.18. Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
4.19. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
Policies and Procedures		
4.20. What is the basis of accounting (e.g., cash, accrual)?	Cash.	
4.21. What accounting standards are followed?	Currently FRR 2001. The accounting standards are being revised/standardized under this program loan.	
4.22. Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes. Currently under FRR 2001.	
4.23. Is the accounting policy and procedure manual updated for the project activities?	Currently FRR 2001. The accounting standards are being revised/standardized under this program loan. With the update, it will be across the board (and not just the specific project)	

Topic	Response	Remarks
4.24. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, according to established policies and procedures under FRR 2001.	
4.25. Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, currently under FRR 2001.	
4.26. Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes, currently under FRR 2001.	
4.27. Are manuals distributed to appropriate personnel?	Yes. FRR 2001.	
Cash and Bank		
4.28. Indicate names and positions of authorized signatories in the bank accounts.	DG, DADM and Head of Loans Division, DADM for Imprest Account and Withdrawal Application. Director, DPA and a DPA Officer for GBF.	
4.29. Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes, according to FRR 2001.	
4.30. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes, according to FRR 2001.	
4.31. Are bank and cash reconciled on a monthly basis?	Yes, according to FRR 2001.	
4.32. Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes, according to FRR 2001.	
4.33. Are all receipts deposited on a timely basis?	Yes, according to FRR 2001.	
Safeguard over Assets		
4.34. Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Entry in stock register is done by MOF's AFD for MOF. Internal and external auditor inspect periodically.	
4.35. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes, same mechanism as 4.34.	
4.36. Are there periodic physical inventories of fixed assets and stocks?	Yes, same mechanism as 4.34.	
4.37. Are assets sufficiently covered by insurance policies?	Larger and/or more expensive assets are insured.	
Other Offices and Implementing Entities		
4.38. Are there any other regional offices or executing entities participating in implementation?	EA = MOF IA = RMA, RICB, and BOB PMU housed in RMA	

Topic	Response	Remarks
4.39. Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes, depending on provision of ADB's disbursement, procurement, and reporting guidelines to the PMU.	
4.40. Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes, in the case of this project because PMU is centralized at one IA.	
4.41. Are periodic reconciliations performed among the different offices/implementing agencies?	Generally yes, it is done monthly. Under this project/program, frequency of reconciliation is yet to be established.	
Other		
4.42. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Generally yes, for current projects. But not yet established for current program/project since it is in processing stage.	
5. Internal Audit		
5.1. Is there an internal audit department in the entity?	Yes. 1 staff in total.	
5.2. What are the qualifications and experience of audit department staff?	Staff possess a bachelors degree in commerce and Masters in National Accounts (USA). The auditing experience is 6 years at MOF. Not a qualified auditor through CPA.	
5.3. To whom does the internal auditor report?	Reports directly to FS and FM	
5.4. Will the internal audit department include the project in its work program?	No, because the project is not housed in MOF.	
5.5. Are actions taken on the internal audit findings?	All findings reported to FS and FM. Appropriate actions taken by FS and FM subject to seriousness of finding.	
6. External Audit		
6.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. The RAA.	
6.2. Are there any delays in audit of the entity? When are the audit reports issued?	Within 6 to 9 months after closure of FY, RAA is required to submit audited report.	
6.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes. In accordance with INTOSAI Auditing Standards and International Standards on Auditing issued by IFAC.	
6.4. Were there any major accountability issues brought out in the audit report of the past three years?	No.	

Topic	Response	Remarks
6.5. Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	For project accounts, RAA's report is submitted to donors only. Generally, the internal auditor's report is submitted to MOF management only.	
6.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	
6.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	RAA.	
6.8. Has the project prepared acceptable terms of reference for an annual project audit?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
7. Reporting and Monitoring		
7.1. Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes. Based on International Financial Reporting Standards (IFRS).	
7.2. Are financial statements prepared for the implementing unit?	N/A (IA and/or PMU issue which is answered in RMA FMAQ)	
7.3. What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Monthly. Yes.	
7.4. Does the reporting system need to be adapted to report on the project components?	No. Because any liability or asset of the project would be reflected in RMA's book of accounts.	
7.5. Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes, the reporting system will be designed that way. The financial reporting can easily be cross checked against physical completion given that the functions will be centralized within the PMU.	
7.6. Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes, these will be in accordance with the procedures set out in the project documents.	
7.7. Are financial management reports used by management?	Yes, they would be reviewed regularly by the project steering committee.	
7.8. Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes, they would be once the system is put in place by the Project FM team.	

Topic	Response	Remarks
7.9. Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Prepared by spreadsheets.	
8. Information Systems		
8.1. Is the financial management system computerized?	Generally, it is computerized since 2003 for standardizing CBA.	
8.2. Can the system produce the necessary project financial reports?	CBA cannot produce necessary project financial reports. It has to be extracted manually from financial item codes.	
8.3. Is the staff adequately trained to maintain the system?	Yes.	
8.4. Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes.	

ADB = Asian Development Bank, AFD = Administration and Finance Division, BOB = Bank of Bhutan, CBA = computerized budgeting and accounting system, DADM = Department of Aid and Debt Management, DANIDA = Danish International Development Agency, DG = Director General, DPA = Department of Public Accounts, EA = executing agency, FM = Finance Minister, FMA = Financial Management Assessment, FMAQ = Financial Management Assessment Questionnaire, FRR = Financial Rules and Regulations, FS = Finance Secretary, GBF = Government Budget Fund; IA = implementing agency, INTOSAI = International Organization of Supreme Audit Institution, MOF = Ministry of Finance, NGO = non-government organization, PD = Project Director, PIU = project implementing unit, PMU = Program and Project Management Unit, RAA = Royal Audit Authority, RGoB = Royal Government of Bhutan, RICB = Royal Insurance Corporation of Bhutan, RMA = Royal Monetary Authority, TA = technical assistance.

B. Completed Financial Management Assessment Questionnaire of Ministry of Trade and Industry

Topic	Response	Remarks
1. Implementing Agency		
1.1. What is the entity's legal status / registration?	MTI	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes. Various programs under UNDP the most recent is REDP and Capacity Building for RTIOs, Environment and urban sector development project of DANIDA, E-Business program under SNV/UNDP, and others.	
1.3. What are the statutory reporting requirements for the entity?	Monthly accounts are submitted to the MOF according to the Rules and Regulations under MOF.	
1.4. Is the governing body for the project independent?	Yes.	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes.	
2. Funds Flow Arrangements		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	MOF transfers the funds to the Department of Budget, which transfers them to MTI.	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government/Finance Ministry) to the entity satisfactory?	Yes.	
2.3. What have been the major problems in the past in receipt of funds by the entity?	None.	
2.4. In which bank will the Imprest Account be opened?	BOB Limited	
2.5. Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.6. Does the entity have/need a capacity to manage foreign exchange risks?	The foreign exchange risk will be managed by the Government.	
2.7. How are the counterpart funds accessed?	The counterpart funds are retained at GBF which is maintained by MOF's DPA at BOB. PMU must request DADM for access to the counterpart funds at GBF. The requisition forms submitted by PMU would require joint signatures. One signatory	

Topic	Response	Remarks
	would be the Secretary and the other signatory would be the Chief Financial Officer.	
2.8. How are payments made from the counterpart funds?	Submit bills and receive release of finance.	
2.9. If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	N/A	
2.10. Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	The beneficiaries (RMA, BOB, and RICB) will contribute in terms of office space (training halls. etc), existing staff, and associated equipment.	
3. Staffing		
3.1. What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	See attached organizational chart.	
3.2. Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	The Deputy Chief Financial Officer has a Degree in Financial Management from the Royal Institute of Management, Thimphu and 35 years of experience. The Budget Officer has also a Degree in Financial Management from the Royal Institute of Management, Thimphu and 15 years of experience.	
3.3. Is the project finance and accounting function staffed adequately?	Yes.	
3.4. Is the finance and accounts staff adequately qualified and experienced?	Yes.	
3.5. Is the project accounts and finance staff trained in ADB procedures?	No.	
3.6. What is the duration of the contract with the finance and accounts staff?	5 years but get usually extended.	
3.7. Indicate key positions not contracted yet, and the estimated date of appointment.	None.	
3.8. Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, under the Head or Project Director, Project Managers, Project Accountants for each specific project.	
3.9. At what frequency are personnel transferred?	Staff can be transferred every 5 years or more, however only when there is a substitute. In 2006 there have been only 3 transfers.	

Topic	Response	Remarks
3.10. What is training policy for the finance and accounting staff?	Staff can has in-house raining once or twice a year, particularly refresher course provide from the Institute of Management of Thimpu.	
4. Accounting Policies and Procedures		
4.1. Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes. Based on the BAS of MOF.	
4.2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes. According to MOF's Revised FRR 2001.	
4.3. Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes. According to MOF's Revised FRR 2001.	
4.4. Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes. According to MOF's Revised FRR 2001.	
4.5. Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes.	
4.6. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes, financial documents are retained beyond 20 years.	
Segregation of Duties		
4.7. Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes. The people authorized to execute different transactions are Head of Department, Finance Section, and Store Section.	
4.8. Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes. Ordering is done by Head of ADF. Receiving is done by the Store Division. Accounting is done by the Account Section and Payment by the Finance Section.	
4.9. Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, reconciliation is done by account section, whereas approval of payments is done by department heads (within their authorized financial delegation) or the Secretary.	
Budgeting System		
4.10. Do budgets include physical and financial targets?	Yes, based on budgets submitted by MTI's department heads.	

Topic	Response	Remarks
4.11. Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes, budgets are prepared for all significant activities in sufficient detail. Monitoring takes place on monthly basis by budget section.	
4.12. Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, monitoring is done on a monthly basis.	
4.13. Are approvals for variations from the budget required in advance or after the fact?	If anticipated before, variations require approval in advance. Approval for variations after the facts are done by MOF.	
4.14. Who is responsible for preparation and approval of budgets?	Budgets submitted by MTI's departments are compiled at the budget section and submitted to the Department of Budget (under MOF). Approval is undertaken by National Assembly.	
4.15. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	All departments are required to come up with a work plan to prepare the budget, regardless of procedures in place.	
4.16. Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In terms of yearly budget allocations by ministries, it is usually not realistic and is over-budgeted. However, in terms of overall project budget allocations, plans and budgets are realistic since there is an imperative to try and complete projects ahead of schedule.	
Payments		
4.17. Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes, in accordance with the FRR 2001, specifically the Procurement Manual.	
4.18. Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes, in accordance with FRR 2001.	
4.19. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes, authorization of changes to payroll can only be given by department heads (within financial delegation) or Secretary. Accountants are	

Topic	Response	Remarks
	responsible for the preparation of the payroll.	
Policies And Procedures		
4.20. What is the basis of accounting (e.g., cash, accrual)?	Cash.	
4.21. What accounting standards are followed?	Generally accepted accounting principles as laid out in the FRR 2001, specifically the Finance and Accounting Manual.	
4.22. Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes, currently under FRR 2001.	
4.23. Is the accounting policy and procedure manual updated for the project activities?	Currently FRR 2001.	
4.24. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, according to established policies and procedures under FRR 2001.	
4.25. Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, currently under FRR 2001, Finance and Accounting Manual.	
4.26. Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes, currently under FRR 2001 and the Civil Service Rules and Regulations.	
4.27. Are manuals distributed to appropriate personnel?	Yes. FRR 2001.	
Cash and Bank		
4.28. Indicate names and positions of authorized signatories in the bank accounts.	Mr. Sonam Leki, CFO, Head of Finance Section. Mr. Geombo Dorji, Head of AFD.	
4.29. Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes, according to FRR 2001.	
4.30. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes, according to FRR 2001.	
4.31. Are bank and cash reconciled on a monthly basis?	Yes, according to FRR 2001.	
4.32. Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes, according to FRR 2001 it is done by CFO.	
4.33. Are all receipts deposited on a timely basis?	Yes, according to FRR 2001.	
Safeguard over Assets		
4.34. Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Entry in stock register is done by MTI's Store Section.	

Topic	Response	Remarks
4.35. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes, done by Store Section.	
4.36. Are there periodic physical inventories of fixed assets and stocks?	Quarterly inspections by store officers. Internal and external auditors (RAA) inspect periodically.	
4.37. Are assets sufficiently covered by insurance policies?	Larger and/or more expensive assets are insured by RICB.	
Other Offices and Implementing Entities		
4.38. Are there any other regional offices or executing entities participating in implementation?	5 regional offices (RTIOs)	
4.39. Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes, depending on provision of ADB's disbursement, procurement, and reporting guidelines.	
4.40. Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes.	
4.41. Are periodic reconciliations performed among the different offices/implementing agencies?	Yes, on monthly basis.	
Other		
4.42. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Generally yes, employees are advised to report to department heads.	
5. Internal Audit		
5.1. Is there an internal audit department in the entity?	Yes. 2 staff in total.	
5.2. What are the qualifications and experience of audit department staff?	Both staff possesses a postgraduate in financial management and extensive auditing experience at MTI.	
5.3. To whom does the internal auditor report?	All findings must be reported to Secretariat.	
5.4. Will the internal audit department include the project in its work program?	Yes.	
5.5. Are actions taken on the internal audit findings?	Appropriate actions taken by Secretariat subject to seriousness of finding.	
6. External Audit		
6.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, in accordance with FRR 2001 by the RAA.	
6.2. Are there any delays in audit of the entity? When are the audit reports issued?	Within 6 to 9 months after closure of FY, RAA is required to submit audited report.	
6.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes. In accordance with INTOSAI Auditing Standards.	

Topic	Response	Remarks
6.4. Were there any major accountability issues brought out in the audit report of the past three years?	No.	
6.5. Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	For project accounts, RAA's report is submitted to donors only. Generally, the internal auditor's report is submitted to Secretariat only.	
6.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	
6.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	RAA	
6.8. Has the project prepared acceptable terms of reference for an annual project audit?	N/A	
7. Reporting and Monitoring		
7.1. Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, in accordance with FRR 2001.	
7.2. Are financial statements prepared for the implementing unit?	Yes, in accordance with FRR 2001.	
7.3. What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Monthly. Yes.	
7.4. Does the reporting system need to be adapted to report on the project components?	No. Because any liability or asset of the project would be reflected in RMA's book of accounts.	
7.5. Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes. The financial reporting can easily be cross checked against physical completion given that the functions will be centralized within the PMU.	
7.6. Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes, these will be in accordance with the procedures set out in the project documents.	
7.7. Are financial management reports used by management?	Yes, they would be reviewed regularly by the project steering committee.	
7.8. Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes, comparison between budgeted allocations and expenditures are done regularly.	

Topic	Response	Remarks
7.9. Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are generated automatically by the Budget and Accounting System in place. If need be, also by spreadsheets.	
8. Information Systems		
8.1. Is the financial management system computerized?	Computerized since 2002 for standardizing government budget and accounting system.	
8.2. Can the system produce the necessary project financial reports?	Yes.	
8.3. Is the staff adequately trained to maintain the system?	Yes, all 13 finance staff are trained to maintain the system.	
8.4. Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes, every account staff has its own user-ID that allows access to their responsibility.	

ADB = Asian Development Bank, ADF = Asian Development Fund, BOB = Bank of Bhutan, CFO = Chief Financial Officer, DADM = Department of Aid and Debt Management, DANIDA = Danish International Development Agency , DPA = Department of Public Accounts, FRR = Financial Rules and Regulations, GBF = Government Budget Fund, MOF = Ministry of Finance, MTI = Ministry of Trade and Industry, NGO = non-government organization, PMU = Program and Project Management Unit, RAA = Royal Audit Authority, REDP = Rural Enterprise Development Program, RICB = Royal Insurance Corporation of Bhutan, RMA = Royal Monetary Authority, RTIO = Regional Trade and Industry Office, SNV = Netherland Development Organization, UNDP = United Nations Development Program.

C. Completed Financial Management Assessment Questionnaire (BDFC)

Topic	Response	Remarks
1. Implementing Agency		
1.1. What is the entity's legal status / registration?	BDFC, registered as a company under the Companies Act (2000) and as a financial institution under the Financial Institutions Act (1992).	
1.2. Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes. Past projects were financed by ADB (specifically TA-3910 BHU: Institutional Development of the BDFC, UNCDF and IFAD. No current TA programs.	
1.3. What are the statutory reporting requirements for the entity?	RMA Prudential Guidelines for Financial Institutions (2002) cover provisions pertaining to reporting on capital and liquidity requirements, credit concentration and asset classification, etc. Companies Act (2000) requires AGM minutes, FS on annual basis. FS Reporting to Taxation Authority.	
1.4. Is the governing body for the project independent?	BoD is composed of representatives from the MOF, MTI, Ministry of Agriculture, as well as a representative from a <i>Dzongkag</i> and a <i>Gewog</i> .	
1.5. Is the organizational structure appropriate for the needs of the project?	Yes.	
2. Funds Flow Arrangements		
2.1. Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Please see separate chart provided in FMA report.	
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes, proposed funds flow arrangements are satisfactory. No problems in the past.	
2.3. What have been the major problems in the past in receipt of funds by the entity?	None.	
2.4. In which bank will the Imprest Account be opened?	At RMA.	
2.5. Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes. ADB TA 1022 and TA 1465.	
2.7. Does the entity have/need a capacity to manage foreign exchange risks?	The foreign exchange risk will be managed by the Government.	

Topic	Response	Remarks
2.8. How are the counterpart funds accessed?	The counterpart funds are retained at GBF which is maintained by MOF's DPA. BDFC must request DADM for access to the counterpart funds.	
2.9. How are payments made from the counterpart funds?	Payments are done based on project pipeline or based on reimbursement for loans disbursed. Please see answer 2.8.	
2.10. If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	N/A	
2.11. Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	BDFC will contribute in terms of office space, training facilities, existing staff, and associated equipment.	
3. Staffing		
3.1. What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	See chart in appendix	
3.2. Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	General Manager (GM) Finance & IT Division, Deputy Financial Officer, Compliance Officer, Accountants, Back office staff.	
3.3. Is the project finance and accounting function staffed adequately?	BDFC has 7 regular staff within its financing and accounting department. Two graduates will be employed in 2007—one as replacement and one additional back office staff.	
3.4. Is the finance and accounts staff adequately qualified and experienced?	Yes. See details in annex.	
3.5. Is the project accounts and finance staff trained in ADB procedures?	Training was provided to one Financial Officer who resigned with BDFC. Additional training in ADB procedures is thus needed as new staff will work on the ADB project.	
3.6. What is the duration of the contract with the finance and accounts staff?	Permanent contracts. Low staff turnover in the past years among finance and accounting staff.	
3.7. Indicate key positions not contracted yet, and the estimated date of appointment.	One back office staff to be recruited in 2007 due to increased workload.	

Topic	Response	Remarks
3.10. Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Job descriptions are available for the key positions. No financial management policy in place, Management Orders serve as reference.	
3.11. At what frequency are personnel transferred?	Very low staff turnover among finance and accounting staff. Hardly any transfers.	
3.12. What is training policy for the finance and accounting staff?	No training policy in place. No regular trainings in financial management/accounting.	
4. Accounting Policies and Procedures		
4.1. Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Accounting procedures are in accordance with the provisions laid out in the Procurement and Financial Management Manual of RGoB. BDFC's accounting system will be used for the ADB TA 4837.	
4.2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, internal control system in place that can identify who did the credit and differentiate between paying and receiving. Joint signatory system.	
4.3. Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes, in accordance with international standards.	
4.4. Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes. There is reconciliation at a monthly basis and at year end.	
4.5. Are the General Ledger and subsidiary ledgers reconciled and in balance?	Reconciliation is done on monthly basis.	
4.6. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Accounting and supporting documents are retained for 5 years according to the provisions laid out in the Companies Act (2000). Only 2 staff have access to file room.	
Segregation of Duties		
4.7. Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes.	
4.8. Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes. There is a procurement committee that meets as required and when the amount is exceeding Nu10,000.	

Topic	Response	Remarks
4.9. Are bank reconciliations prepared by someone other than those who make or approve payments?	At HO bank reconciliation is done by different staff, however, this is not possible at branch level.	
Budgeting System		
4.10. Do budgets include physical and financial targets?	Yes. Financial budgets are done centrally based on past trends assessment. For administrative and physical budgets there are done bottom-up from the requirements of the branches.	
4.11. Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Budgeting is done on yearly basis and includes all significant activities (major items, expenditures, cost of funds, assets and non performing loans) in sufficient detail. Key indicators, portfolio growth, target variance reports on quarterly basis. ALM committee reports to the Board on a quarterly basis.	
4.12. Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, target variance reports are prepared on quarterly basis. Any major variations must be taken to BDFC's Board for approval.	
4.13. Are approvals for variations from the budget required in advance or after the fact?	In advance.	
4.14. Who is responsible for preparation and approval of budgets?	Division budgets are prepared by GMs and Managing Director. Approval is done by Board.	
4.15. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	No written procedures are in place, but information is collected on yearly basis.	
4.16. Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes, it is realistic since the proposed budgets come directly from the divisions and are based on past performance and trends.	
Payments		
4.17. Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice	Yes, in compliance with the Procurement and Financial Management Manual of RGoB. Joint signature system.	

Topic	Response	Remarks
quantities with those indicated on the receiving reports? (iv)Checking the accuracy of calculations?		
4.18. Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes, checklist available for passing bills.	
4.19. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes, payroll is prepared by the accountant, and checked by Finance Officer.	
Policies And Procedures		
4.20. What is the basis of accounting (e.g., cash, accrual)?	Accrual.	
4.21. What accounting standards are followed?	BDFC's accounting procedures follow international accounting standards and are in accordance with the provisions outlined in the Companies Act (2000).	
4.22. Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Not so far, will be covered under ADB TA 4837.	
4.23. Is the accounting policy and procedure manual updated for the project activities?	N/A	
4.24. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Only BDFC's Board can exercise this.	
4.25. Are there written policies and procedures covering all routine financial management and related administrative activities?	Management Orders and Circulars serve as reference. The development of a Financial Management Manual will be covered under ADB TA 4837.	
4.26. Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	No internal policies, but direction is given by the Companies Act (2000), and RMA Prudential Regulations (2002).	
4.27. Are manuals distributed to appropriate personnel?	N/A	
Cash and Bank		
4.28. Indicate names and positions of authorized signatories in the bank accounts.	Managing Director, General Manager of Credit Operations, Deputy General Manager of Credit Operations.	
4.29. Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. Monthly reconciliation.	
4.30. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes. Minimum requirement on cash is given.	

Topic	Response	Remarks
4.31. Are bank and cash reconciled on a monthly basis?	Yes, in accordance with Management Orders and Circulars.	
4.32. Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes, in accordance with Management Orders and Circulars.	
4.33. Are all receipts deposited on a timely basis?	Yes, in accordance with Management Orders and Circulars.	
Safeguard over Assets		
4.34. Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Automated registration system by locations in place.	
4.35. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes. There is a physical verification by the internal auditor when he/she goes to the branches for normal auditing tasks. External auditors do random sample check and verify.	
4.36. Are there periodic physical inventories of fixed assets and stocks?	Yes.	
4.37. Are assets sufficiently covered by insurance policies?	Yes, larger or more expensive assets such as vehicles are insured.	
Other Offices and Implementing Entities		
4.38. Are there any other regional offices or executing entities participating in implementation?	No.	
4.39. Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	N/A	
4.40. Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	N/A	
4.41. Are periodic reconciliations performed among the different offices/implementing agencies?	N/A	
Other		
4.42. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Yes. Staff is required to report to Board.	
5. Internal Audit		
5.1. Is there an internal audit department in the entity?	Yes. 6 staff in total, of which 4 at HO and 2 assigned to Eastern and Central Regional Offices.	

Topic	Response	Remarks
5.2. What are the qualifications and experience of audit department staff?	There are managers since the 1990, auditor has 16 years of experience and was transferred from the central bank to the audit department in 2007.	
5.3. To whom does the internal auditor report?	Audit Committee and Board of Directors	
5.4. Will the internal audit department include the project in its work program?	Yes.	
5.5. Are actions taken on the internal audit findings?	Yes.	
6. External Audit		
6.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. On annual basis. This year by T.K. Ghose & Co. (Indian Chartered Accountants). Auditor needs to change every 3 years according to the Companies Act (2000). For 2007, Government will assign new auditor.	
6.2. Are there any delays in audit of the entity? When are the audit reports issued?	No delays. Audit reports are issued January/February.	
6.3. Is the audit of the entity conducted according to the International Standards on Auditing?	Yes. In accordance with International Standards on Auditing.	
6.4. Were there any major accountability issues brought out in the audit report of the past three years?	No.	
6.5. Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The RMA will identify a new auditor.	
6.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No. Monitoring and supervision was not documented enough.	
6.7. Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Yes to Supervision team of Central Bank, RMA and Revenue and Customs.	
6.8. Has the project prepared acceptable terms of reference for an annual project audit?	Yes.	
7. Reporting and Monitoring		
7.1. Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, financial statements are prepared on a monthly basis based on international accounting standards.	
7.2. Are financial statements prepared for the implementing unit?	Please see question 7.1	
7.3. What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Financial statements are prepared on a monthly basis, latest by the 15 th of the following month.	

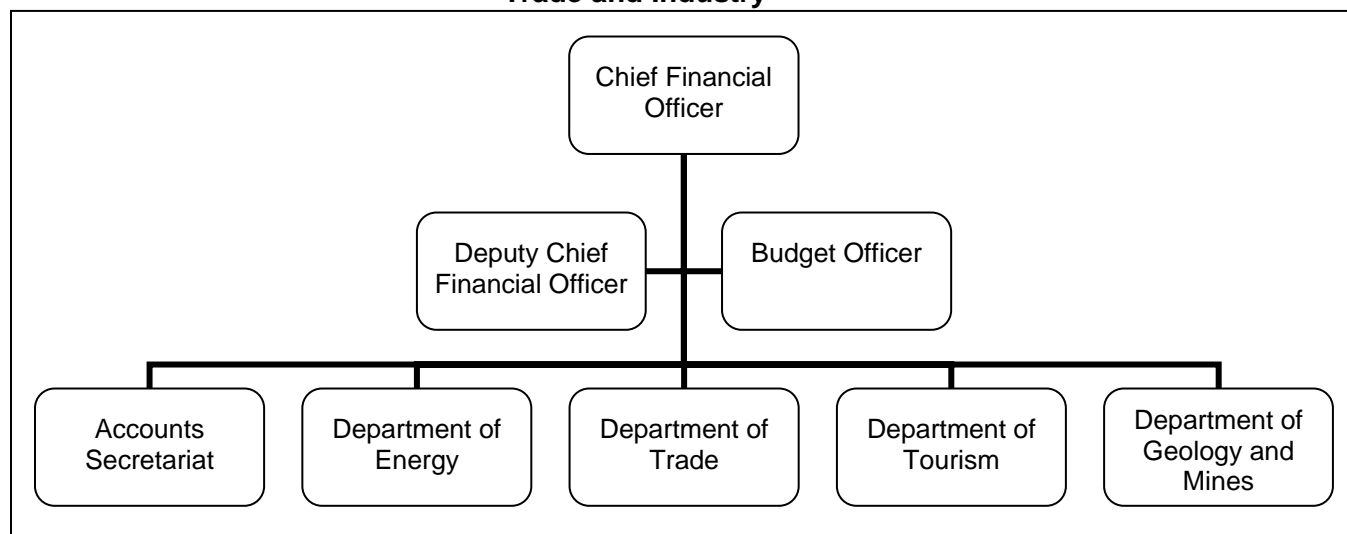
Topic	Response	Remarks
7.4. Does the reporting system need to be adapted to report on the project components?	No, every beneficiary can be traced.	
7.5. Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	There is a review system that keeps track of project progress.	
7.6. Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Financial management reports are available (MMIS reports).	
7.7. Are financial management reports used by management?	Yes.	
7.8. Do the financial reports compare actual expenditures with budgeted and programmed allocations?	BDFC is aiming to improve this.	
7.9. Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes, automatically generated by the new system.	
8. Information Systems		
8.1. Is the financial management system computerized?	Yes.	
8.2. Can the system produce the necessary project financial reports?	Yes.	
8.3. Is the staff adequately trained to maintain the system?	Yes.	
8.4. Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes.	

ADB = Asian Development Bank, AGM = Annual General Meeting, ALM = Asset Liability Management, BDFC = Bhutan Development Finance Corporation, DPA = Department of Public Accounts, FMA = financial management assessment, GBF = Government Budget Fund, IFAD = International Fund for Agricultural Development. IT = information technology, MIS = management information system, MOF = Ministry of Finance, MTI = Ministry of Trade and Industry, RGoB = Royal Government of Bhutan, RMA = Royal Monetary Authority, TA = technical assistance, UNCDF = United Nations Capital Development Fund.

III. ORGANIZATIONAL STRUCTURE OF ACCOUNTING DEPARTMENTS

A. The Organizational Structure of the Accounting Department of the Ministry of Trade and Industry

Figure SA C2: Organizational Structure of the Accounting Department of the Ministry of Trade and Industry



Source: ADB Mission and Ministry of Trade and Industry.

B. Job Title and Description

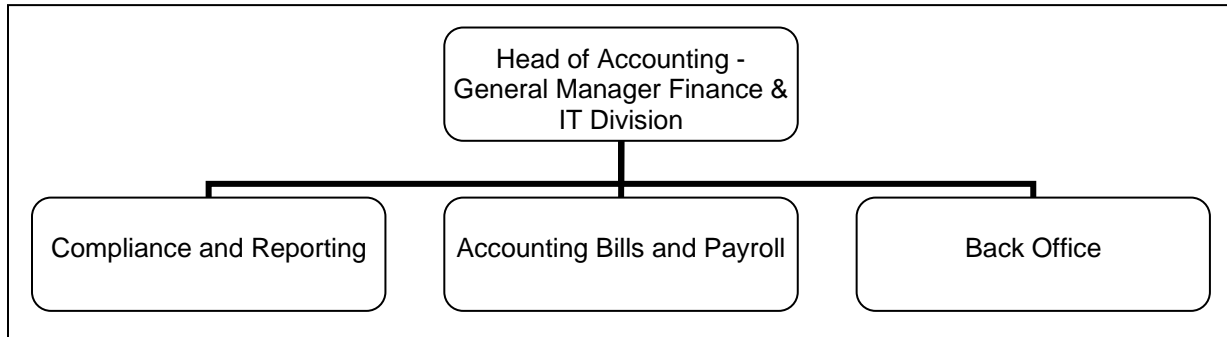
10. The job title and description, responsibilities, educational background and professional experience of the key accounting staff is given below.

Table SA C2: Job Title and Description

Title	Educational background	Experience	Responsibilities
Deputy Chief Financial Officer	Degree in Financial Management at the Royal Institute of Management, Thimphu	35 years	
Budget Officer	Degree in Financial Management at the Royal Institute of Management, Thimphu	15 years	Responsible for the budget of all 5 departments
Accounts Secretariat	Diploma Courses in Financial Management at the Royal Institute of Management, Thimphu	25 years	Responsible for Letter of Credit Accounts and Projects Accounts
Chief Accountant Department of Energy	Diploma Courses in Financial Management at the Royal Institute of Management, Thimphu	15 years	Responsible for Accounting of the Department of Energy
Chief Accountant Department of Trade	Diploma Courses in Financial Management at the Royal Institute of Management, Thimphu	13 years	Responsible for Accounting of the Department of Trade
Chief Accountant Department of Tourism	Diploma Courses in Financial Management at the Royal Institute of Management, Thimphu	25 years	Responsible for Accounting of the Department of Tourism
Chief Accountant Department of Geology and Mines	Diploma Courses in Financial Management at the Royal Institute of Management, Thimphu	12 years	Responsible for Accounting of Department of Geology and Mines

C. The Organizational Structure of the Accounting Department of BDFC

Figure SA C3: Organizational Structure of the Accounting Department of BDFC



IT = information technology.

Source: ADB Mission and BDFC management information.

D. Job Title and Description

Table SA C3: Job Title and Description

Title	Educational background	Experience	Main responsibilities
General Manager, Finance & IT Division	Certified Practising Accountant Program, CPA Australia, 385 Bourke Street, Melbourne, Victoria 3000, Australia. Bachelor of Business (Foundation course for CPA), University of South Australia, Adelaide, South Australia	9 years	Management of Finance and IT Division; establishing and maintaining the BDFC's financial internal control system by utilizing generally accepted accounting principles, adhering to tax laws and regulatory compliance to properly reflect the Financial Performance and Financial Position of BDFC; asset and liability management of BDFC; preparation of budget and review actual with the budget; and providing leadership.

BDFC = Bhutan Development Finance Corporation, IT = information technology.

Source: ADB Mission and BDFC management information.

TERMS OF REFERENCE FOR SUBPROJECTS 2 AND 3

I. SUBPROJECT 2: COST SHARING FACILITY

1. Long-term Staff for Assisting Management of the CSF and MSME division (2 national, 36 person-months each)

1. The two national long-term staff will have a university degree and understand private sector development issues. The staff will have experience working with international consultants, and proficiency in English and good communication skills are essential. A strong private sector background, including relevant working experiences and great understandings of the needs and requirements essential for appropriate project appraisals, is a must for managing the CSF. The staff may also provide inputs and assistance, as necessary and as requested by the Government, relating to the implementation of the Government's MSME development policy and MSME SDP.

2. One long-term staff (Marketing and Project Analyst) will be responsible for the marketing and public relation of the CSF and also sharing the responsibility of processing applications. He or she will undertake the following tasks.

- (i) With CSF Manager, develop overall promotion strategy for the program.
- (ii) Analyze potential market for CSF and suggest marketing solutions for different market segments.
- (iii) Supervise the development of promotional materials.
- (iv) Contract with material suppliers, media etc.
- (v) Approve marketing expenditures.
- (vi) Liaise with provisional offices to organize and co-ordinate local marketing efforts.
- (vii) Training of BPS/RTIO personnel in the provinces to do initial marketing and create awareness of the CSF.
- (viii) Liaise with other stakeholders including business organizations to create awareness of and seek their cooperation in promoting the CSF.
- (ix) Seek speaking opportunities and attend business exhibitions, events, conferences etc.
- (x) Read and analyze CSF business proposals, forwarded by Accountant.
- (xi) Evaluate content and financial projections of the CSF proposals.
- (xii) Check the accuracy of the information provided.
- (xiii) Question and confirm the information with the principal MSME applicants and BDS providers.
- (xiv) Appraise the risks and assumptions in the proposal.
- (xv) Estimate the potential impact of the proposal to the applicant and the wider economy.
- (xvi) Prepare a concise summary of the proposal.
- (xvii) Where necessary, interview the principal applicant, and BDS provider and judge the capacity of both parties to successfully implement the project.
- (xviii) Suggest amendments to the proposals (where applicable).
- (xix) Attend appraisal panel meetings, and make recommendations for decisions.
- (xx) Attend internal case meetings.

3. One long-term staff (Accounting and Financial Control Analyst) will be responsible for the financial screening of project applications, financial control, and accounting. This function is

essential to track and maintain accounting records, and to scrutinize and verify all claims. He or she will undertake the following tasks.

- (i) Maintain financial records for the program as a whole.
- (ii) Provide guidance to grant applicants and BDS providers to develop proposals.
- (iii) Confirm the financial status of the MSMEs and BDS providers.
- (iv) Ensure that the financial resources are available and sufficient to fund the life of the project.
- (v) Screen applications in terms of basic criteria prior to submission to the analysts for evaluation.
- (vi) Check the accuracy of the information provided.
- (vii) Suggest amendments to proposals to increase the possibility of acceptance.
- (viii) Question and confirm the information with the principal MSME applicants and BDS providers.
- (ix) Make recommendations to disburse grant monies.
- (x) Prepare the contract agreements and arrange the disbursement of grants.
- (xi) Liaise with analysts and provide additional information when requested.
- (xii) Attend case meetings.
- (xiii) Maintain contact with applicants.
- (xiv) Monitor progress of projects up to completion and milestone activity in case of phased payments for large grants.

II. SUBPROJECT 3

4. Subproject 3 has four components: (i) micro, small, and medium-sized enterprises (MSME) development policy, strategy and incentive framework, and management of cost-sharing facility (CSF); (ii) capacity building for introduction of regulatory impact assessment (RIA); (iii) establishment of a central registry for secured transactions; and (iv) planning and organizing for the establishment of product standards and capacity building for regulating and implementing agencies. For each component, one consulting firm will be engaged in accordance with the quality and cost-based selection method.

A. Component 1: MSME Development Policy, Strategy and Incentive Framework, and Management of CSF

- 1. **MSME Policy and Strategy Expert, Team Leader** (international, 14 person-months, intermittent)

5. The policy specialist will have a degree in business or economics or equivalent degree in related fields and extensive working knowledge and background in (i) MSME development experience in policies, strategies, and institutional mechanisms; (ii) substantial experience in dealing with MSMEs in developing countries, especially small economies in Asia; and (iii) good understanding of the history and development of the Bhutanese MSME sector, including knowledge of the country's legal and regulatory framework under which MSMEs operate, including promotion policies, the Government's role, and the state of the support infrastructure. The tasks and responsibilities will include the following.

- (i) Develop a policy framework, in consultation with the Private Sector Development Committee and other stakeholders in the Government and the MSME sector, that will help define the role of Government, its long-term vision and objectives, and the scope and type of Government support and/or incentives that are to be

- provided based on an established set of criteria that have proven effective in such cases; assist the MSME division in conducting a review of existing Government support for the sector and its rationalization.
- (ii) Conduct a competitiveness study, in collaboration with the business development services (BDS) specialist, incorporating available studies that may have already been undertaken, and explore other suitable products that may be strategically undertaken based on Bhutan's natural resources and anticipated demand in various markets.
 - (iii) Based on the results of the competitiveness study, in consultation with the Government, define a list of suitable products for strategic development. Conduct a supply-chain and value-added analyses of these products after checking which products in the list are already covered by existing studies and confirm if such studies are appropriate.
 - (iv) Based on the supply-chain and value-added analyses, determine the weak links and the resource and investment requirements to correct the deficiencies in the supply chain and for pursuing value-adding opportunities.
 - (v) Based on above studies, develop a long-term strategy for the Government to prioritize and help develop strategic MSME products and sectors, including establishment of public-private partnerships, where warranted.
 - (vi) Recommend suitable incentives that may be provided based on international best practice to support competitiveness of strategic products and sectors.
 - (vii) Formulate MSME white papers on MSME policies, strategies, and programs for stakeholder consultations.
 - (viii) Hold workshops and other dissemination events to inform stakeholders and raise public awareness of the MSME development framework and reform actions for enhancing MSME and private sector development.
 - (ix) Based on in-depth consultation with the MSME division and other relevant government agencies and the private sector, detail work programs for the agencies and departments at concerned ministries, e.g. Ministry of Trade and Industry (MTI) and Ministry of Agriculture, to implement the development policy and strategic framework and promote MSME development.
 - (x) In close coordination with the international BDS expert, assist MTI in planning and undertaking actions recommended by the MSME development policy or white papers for promoting cluster and supply chain development.
 - (xi) Assist in implementing the MSME Sector Development Program (MSME SDP) by regularly reviewing the work programs of concerned government agencies and make recommendations, as needed.
 - (xii) Assist the MSME division in developing a monitoring and evaluation framework for ongoing MSME support programs and regulations governing the sector, as well as propose future support measures. In this context, assist the MSME division to organize discussions with the private sector on MSME support programs and help incorporate stakeholders' feedback and results of systematic sector analysis into policy discussions and formulation of MSME support programs.
 - (xiii) In consultation with the MSME division and the National Statistics Bureau, draft a plan for collecting information on the MSME sector.
 - (xiv) Based on consultation with stakeholders, assist the MSME division and concerned government agencies to further simplify and accelerate business formalization.

- (xv) Assist Asian Development Bank (ADB) missions with related activities, as well as conduct discussions and workshops with the relevant stakeholders for effective program implementation.
- (xvi) Work closely with the international BDS and the CSF specialists to complete the above tasks to ensure the needs of enterprises will be addressed by the appropriate policy actions.

2. Business Development Services Specialist (international, 10 person-months, intermittent)

6. The specialist will have a master's degree in business administration or related degree in economics or related fields, and an extensive working knowledge in the field of BDS and designing relevant databases. The specialist will be able to demonstrate a thorough understanding of the history and development of the Bhutanese MSME sector and the development stage of the country's BDS sector. The tasks and responsibilities related to BDS development include consultancy, training, preparing reports, and the following activities.

- (i) Assist the MSME policy specialist to carry out an inventory of available studies on, and in conducting, the competitiveness, supply-chain and value-added analyses.
- (ii) Assist the MSME division in the implementation and evaluation of a comprehensive BDS supply and demand inventory and the dissemination of the results.
- (iii) Develop standard BDS products to be marketed under the CSF, based on the study results and discussions with CSF, the MSME division, and the MSMEs.
- (iv) Conduct awareness workshops to encourage companies or groups of companies in the food, wood, building materials, or tourism sectors to participate in cluster and supply-chain program activities.
- (v) Monitor and evaluate BDS operations, including the preparation of a benefit impact analyses.
- (vi) Create a BDS website with support of the national information technology (IT) specialist to post information of, among others, business formalization process. In addition, based on this information, prepare a brochure detailing the process of business formalization with time and costs involved for public disclosure.
- (vii) Review current interventions of cooperative systems, and analyze, design, and implement appropriate cooperative structures for microfinancing to improve access to finance for micro and community-based organizations, particularly in rural and remote areas. Review the current legal and regulatory framework for a well functioning cooperative system, as necessary.
- (viii) Assist the MSME policy specialist in procurement activities relating to cluster and supply-chain development.
- (ix) Assist the MSME policy specialist in the elaboration and review of work plans for the implementation of the MSME SDP at MTI.

3. Cost-Sharing Facility and Matching Grant Specialist (international, 12 person-months, intermittent)

7. The specialist will have a master's degree in business administration or related degree in economics or related fields and extensive working knowledge in the field of establishing and operating a CSF, including marketing and evaluation of cost sharing and matching grant schemes, and designing relevant databases. The specialist will be able to demonstrate a

thorough understanding of the history and development of the Bhutanese MSME sector and the development stage of the country's BDS sector. The tasks and responsibilities related to the establishment and operations of a CSF include the following.

- (i) Set up operating structure, systems, procedures, and processes to be followed in implementing the CSF, including development of operational policy and manuals.
- (ii) Assist in the recruitment of the CSF unit manager and other CSF staff.
- (iii) Coach the CSF unit manager implementing CSF policies and standard operating procedures including strict monitoring and evaluation.
- (iv) Prepare checklist of requirements for CSF operations and criteria for accepting or rejecting proposals.
- (v) Enhance the capacity of the appraisal panel of the CSF in classifying and approving or rejecting project applications.
- (vi) Assist the CSF unit manager in the selection of a first group of BDS providers eligible for providing services under the scheme.
- (vii) Conduct staff training including the training of the Business Export Promotion Center staff and the staff of preselected BDS providers to be able to market the CSF to all parts of Bhutan.
- (viii) Enhance capacity of the Business Export Promotion Center staff and staff of preselected BDS providers to draft high quality CSF applications in cooperation with the BDS product development specialist.
- (ix) Establish a basic environmental management system to screen the environmental impacts of supported projects, which will comply with the Government's and ADB's *Environment Policy* (2002), or adopt a similar system as Appendix 7, if appropriate.

4. International Short-Term Expert and/or Resources Persons Pool (total 7 person-months)

8. Based on the findings of the MSME policy, competitiveness study, supply-chain and/or value-added analyses, and the Government's preferred areas for support under the policy and strategic framework to be established, short-term expertise on specific products and/or industries may be needed in the following areas: (i) participatory local economic development; (ii) development of specific standard BDS product design; (iii) direct advice to companies or groups of companies in the food, wood, or tourism sectors, as identified in the competitive, cluster, or supply-chain studies; (iv) cluster and supply-chain development; (v) IT design for management information system; and (vi) procurement.

5. MSME Development Expert (national, 25 person-months, intermittent)

9. The national MSME development expert will have a university degree and understand private sector development issues. The expert will have experience working with international consultants, and proficiency in English and good communication skills are essential. The national MSME development expert will provide inputs relating to MSME development issues in Bhutan, especially to the implementation of the Government's MSME development policy and MSME SDP. The national coordinator will undertake the following tasks.

- (i) Under the guidance of the international MSME policy specialist and BDS specialist, collect and analyze required information and data and make these available in an organized, readable form, including translation into English, as necessary.

- (ii) Assist in implementation and conducting training programs designed by the international MSME policy specialist and BDS specialist, and gradually taking over the task of conducting the training programs from the international specialists.
- (iii) Assist in implementation of the MSME SDP program, especially relating to formulation of MSME development strategy and support of CSF management. This may include necessary assistance to the MSME division at MTI to implement and undertake the recommendations and measures proposed by the consultants and Government.
- (iv) Arrange and organize meetings, discussions and stakeholder workshops, and assist the international MSME policy specialist in preparing reports and meeting materials.

6. Business Development IT Specialist (national, 9 person-months)

10. The national business development IT expert will have experience in designing websites and databases in the framework of business development services provision. The national expert will be proficient in English, and will assume the following tasks (field work).

- (i) Assist the international consultant in developing databases and websites, including selecting and negotiating with website providers. The national expert will ensure that websites produced under the program have required databases and can be expanded to include all the required information on MSMEs operating in Bhutan.
- (ii) Maintain and further develop all websites and databases and networks developed under the program.
- (iii) Provide training to MSME division and other relevant MTI staff for sustainable maintenance of all websites and databases produced under the program, as necessary.

B. Component 2: Capacity Building for Introduction of Regulatory Impact Assessment

1. Regulatory Impact Assessment Specialist, Team Leader (international, 9 person-months, intermittent)

11. The specialist will be a practicing business regulator with a legal background and with practical and extensive working knowledge of conducting RIAs, providing relevant training, and the establishment of RIA units. The international RIA specialist will be able to demonstrate a thorough understanding of the development stage of the country's legal and regulatory system under which the MSME operates. Tasks and responsibilities include consultancy, training, preparing reports, and the following activities.

- (i) Review the constraints of existing legal review and lawmaking procedures and processes.
- (ii) Recommend an appropriate system, process, and procedures for conducting adequate stakeholder consultation for legal and/or regulatory reviews and drafting of laws and regulations.
- (iii) Prepare a manual of operations, indicating the procedures for conducting an RIA to guide RIA staff.

- (iv) Assist MTI in identifying suitable candidates for the RIA and in preparing the terms of reference and eligibility criteria for RIA staff.
- (v) Assist the MSME division to establish an RIA working group to carry out RIA pilots.
- (vi) Develop and implement training modules and on-the-job training measures for RIA staff.
- (vii) Organize overseas training courses and seminars on the principles, procedures, and methods of RIA for relevant stakeholders to attend and also arrange relevant discussions and meetings with experienced policy officials in other countries to obtain valuable input on the functional and operational side of an RIA unit, including logistical arrangements.
- (viii) Review the two draft business laws (i.e., the Bhutan Enterprises Registration Act and the Industries and Investment Act) for piloting RIAs, in close consultation with the RIA working group, MSME division, and relevant stakeholders.
- (ix) Conduct consultation and stakeholder workshops to prepare the RIA.
- (x) Assist the Government in piloting RIA on the two above-mentioned acts and prepare RIA reports.
- (xi) Recommend necessary changes on the two laws reviewed by the RIA pilot.
- (xii) In close consultation with the RIA working group, develop concept, feasibility, and plan (including budget) of institutionalizing RIA, and advocate institutionalization of an RIA unit.
- (xiii) Recommend suitable training programs for capacity building of an RIA unit.
- (xiv) Oversee and advise the overall proposed project work relevant to RIA, and prepare reports satisfactory to counterparts and ADB.
- (xv) Assist the Government in implementing the components relevant to RIA and enhancing the legal and regulatory structure under the MSME SDP.

2. Legal Specialist (national, 9 person-months, intermittent)

12. The national legal specialist will have a university degree in law and demonstrate a thorough understanding of the development stage of the country's legal and regulatory system under which the MSMEs operate, and other relevant business laws for the MSME sector. The national legal specialist will be proficient in English, and will undertake the following tasks.

- (i) Under the guidance of the international legal specialist, collect and analyze required legal documents, relevant information and data, and make these available in an organized, readable form. Translate into English as necessary.
- (ii) Assist in implementation of the RIA and relevant training programs designed by the international RIA expert, including provision of on-the-job training and arrangement of overseas training courses and discussions and meetings with foreign policy officials, and gradually implement training programs designed by the international legal specialist.
- (iii) Arrange and organize meetings, discussions, and stakeholder workshops, and assist the international RIA specialist in preparing reports and meeting materials.

C. Component 3: Establishment of a Central Registry for Secured Transactions

1. Secured Transactions System Expert, Team Leader (international, 5 person-months)

13. The secured transactions expert must have extensive international experience in the economic and legal analyses of secured transactions systems. Specifically, the expert will have

(i) developing-country experience with problems in the framework for secured transactions and how they relate to access to credit; (ii) in-depth knowledge of the evolution of a secured transactions system; (iii) a thorough understanding of relevant IT systems required for establishing and operating a secured transactions filing archive; and (iv) a legal background and practical experience in secured transactions law and other commercial laws and regulations. The expert will also have a good command of developing a central registry, including necessary software and hardware for data consolidation, IT system, and relevant legal and regulatory framework. The expert will have at least a degree in law or equivalent, and be a legal practitioner in the field of secured transactions, or related areas. The major tasks include the following.

- (i) Review existing public registries including, but not limited to, the Registry of Charges under the Companies Act, the Road Service and Transport Authority, and the City Corporation, and identify areas in which they can be used or integrated into a framework for secured transactions.
- (ii) Consult with stakeholders in assessing the impediments in establishing an effective secured transactions regime and identify policy issues in creating, prioritizing, publicizing, and enforcing secured interests, and make related recommendations for the implementation phase.
- (iii) Assess all points of linkage between the law and technical options for the central registry, including which legal drafting options present technical problems and which technical options require changes in the law.
- (iv) Develop a time-bound action plan for a central registry for secured transactions, according to international practice and taking into consideration aspects of data integrity, confidentiality, and security. The plan should include (a) registry design, including an appropriate design for IT security backup systems on-site and off-site; (b) an ownership structure; (c) an investment plan with equipment, software, and budgetary requirements; and (d) a staffing plan.
- (v) Prepare a request for proposal for setting up the registry.
- (vi) Assess if the central registry should raise fees sufficient to cover its costs or also generate revenue for the supervising agency.
- (vii) Design and conduct consensus-building workshops for local government officials, legal and banking practitioners, and other stakeholders.
- (viii) Collaborate closely with the project team implementing the Credit Information Bureau within RMA to assess all points of linkage and to avoid duplication of systems.
- (ix) Prepare the detailed design for the registration system, including drafting of operating procedures, operating manuals, forms, and user guides.
- (x) Identify suitable software and hardware to create a database of registered property, including moveable and immovable assets, and including necessary network technology and equipment to link different registries or authorities for data collection and consolidation.
- (xi) Assist the Government in preparing the request for financial proposals to procure appropriate software and hardware for setting up the infrastructure of the central registry.
- (xii) Train counterpart staff to maintain the database and systems.
- (xiii) Provide extensive training for local government officials, legal, and banking practitioners in implementing and applying the secured transactions framework.

2. Legal Expert (international, 3 person-months)

14. The international legal expert will have an advanced law degree and practical and/or legislative experience with commercial laws and regulations. Specifically, the expert will have (i) extensive knowledge of the issues relevant to an effectively functioning secured transactions framework, (ii) extensive experience in drafting reports on how problems in the framework for secured transactions limit access to credit in developing countries, (iii) experience in preparing draft laws on secured transactions and drafting administrative and technical regulations for secured transactions systems, and (iv) managerial experience in legal reform and establishment of registries and filing systems in developing countries. The international legal expert will undertake the following tasks.

- (i) Make a preliminary review of the existing legal and regulatory framework for secured transactions and indicate the extent to which existing laws and regulations are consistent with an effective and cost-efficient secured transactions framework and system.
- (ii) Provide recommendations related to proposed amendments and/or new legislation that might be required to expand the framework for secured transactions to encompass movable property.
- (iii) In coordination with the team leader and/or secured transactions expert, devise the required legal and regulatory framework, including drafting laws, rules, and regulations to address the problems identified by the secured transactions expert.
- (iv) Design and conduct consensus-building workshops for local government officials, legal and banking practitioners, as well as other stakeholders, and make presentations on international approaches relevant to the problems of Bhutan.
- (v) If necessary, draft and issue necessary legal amendments and implementing regulations for an efficient legal secured transactions framework and to prepare comprehensive explanatory note. The explanatory note will have a glossary that defines the key legal, economic, financial, and technical terms related to secured transactions systems.

3. Legal Expert (national, 5 person-months)

15. The legal expert will be a lawyer with expertise in commercial law and regulations and be proficient in English. The expert will also have a thorough understanding of Bhutan's registration systems for immovable assets. It is desirable that the expert is familiar with IT and network systems currently used in Bhutan. The major tasks include the following.

- (i) Assist the team leader in preparing the diagnostic review of the secured transactions system. Duties include (a) collecting and compiling laws, regulations, policies, and other information on security measures, provisions on registering, and enforcement of secured rights in Bhutan; and (b) providing input into policy and development implications.
- (ii) Assist the international legal expert in drafting and issuing necessary legal amendments, and implementing regulations for an efficient legal secured transactions framework in Bhutan.
- (iii) Assist in formulating the medium-term plan for developing the central registry to facilitate secured transactions.
- (iv) Assist in consensus-building workshops.

D. Component 4: Planning and Organizing for the Establishment of Product Standards and Capacity Building for Regulating and Implementing Agencies

1. Standards, Metrology, Testing, and Quality Specialist, Team Leader
(international, 6 person-months)

16. The international consultant must have extensive experience in the area of standards, quality, and conformity assessment and have a solid understanding of the World Trade Organization (WTO) system in the evolving global economy. Special requirements include (i) thorough knowledge of international trade rules and the WTO Sanitary and Phytosanitary Standards agreement; (ii) thorough knowledge of international practices regarding the organizational structure of national standards authorities; (iii) experience in capacity building in the areas of the WTO Technical Barrier to Trade and Sanitary and Phytosanitary Standards agreements; (iv) experience in food regulations at the international (World Health Organization food standards of Codex Alimentarius) and European (European Commission practices of the Directorate General for Health Consumer Affairs) levels; (v) experience in food testing, food inspection and implementation of hazard analysis and critical control points, good manufacturing practice, and good hygiene practice; and (vi) experience in managing projects and dealing with the local administration in an Asian country is an advantage. Tasks and responsibilities include consultancy and preparing reports on the following activities.

- (i) Conduct in-depth consultation with the Standards and Quality Control Authority (SQCA) and other relevant stakeholders for producing a restructured organization plan for the National Standards Bureau and a roadmap for the transition from SQCA to its successor National Standards Bureau (established under the Standards Act).
- (ii) Produce a list of prioritized actions for the first 3 years of operation of the National Standards Bureau.
- (iii) Map the role of all institutions involved in the Bhutan standards, metrology, testing, and quality (SMTQ) system and recommend how to improve efficiency and division of tasks.
- (iv) Review the existing structure of laboratories and elaborate an investment plan, taking into account outsourcing possibilities to neighboring countries.
- (v) Assist the Bhutan Agricultural and Food Regulatory Authority (BAFRA) with the production of a list of 3 years of prioritized actions, and estimate additional staff requirements and qualifications.
- (vi) Recommend solutions to overcome BAFRA capacity constraints.
- (vii) Provide in-house training and plan overseas training programs for SQCA, BAFRA, and other stakeholders to obtain practical knowledge and skills relating to standards and quality control.

2. Legal Specialist (international, 2 person-months)

17. The legal expert will have over 10 years of experience in the area of international practices related to SMTQ and have a solid understanding of the WTO system and the evolving global economy. Special requirements include (i) extensive international knowledge of legislation related to WTO's Technical Barrier to Trade and Sanitary and Phytosanitary Standards agreements; (ii) proven experience in reviewing existing legislation related to SMTQ, including metrology and product requirements; and (iii) experience in drafting legal texts. Tasks and responsibilities include consultancy and preparing reports on the following activities.

- (i) Review the legal framework related to the establishment of an SMTQ system in Bhutan.
- (ii) Identify gaps based on comparison with international practice.
- (iii) Discuss the gaps in consultation with all relevant stakeholders and provide a commonly approved action plan for remedy action.
- (iv) Assist the Government in revising or redrafting existing laws, such as the draft Standards Act, or drafting necessary rules and guidelines on the request of the Government.

3. Standards Expert (national, 8 person-months)

18. The national standards expert will have a university degree, a thorough understanding of the history and development of the Bhutanese standards, and knowledge of sector products, e.g., agriculture, manufacturing, services, and tourism. The national expert will have experience working with international organizations, and must be proficient in English. The expert will work closely with the international SMTQ specialist and the international legal specialist. The national expert will undertake the following tasks.

- (i) Under the guidance of the international specialists, collect and analyze information and data relating to standards of products and WTO requirements, and make these available in an organized and readable form. Translate into English as necessary.
- (ii) Arrange and organize trainings and stakeholder meetings, and assist in implementing discussions.

EXCLUSION LIST

A. Exclusion List for Prohibited Investment Activities

1. The following are not qualified for financing:
 - (i) production or activities involving harmful or exploitative forms of forced labor⁴ or child labor;⁵
 - (ii) production of or trade in any product or activity deemed illegal under host country laws or regulations;
 - (iii) production of or trade in any product or activity that contravenes any international conventions and agreements to which the host country is a party, and which have the force of law in the host country;
 - (iv) production of or trade in weapons and munitions, including paramilitary materials;
 - (v) production of or trade in alcoholic beverages (excluding beer and wine);⁶
 - (vi) production of or trade in tobacco (footnote 3);
 - (vii) gambling, casinos, and equivalent enterprises (footnote 3);
 - (viii) trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species (CITES) of Wild Fauna and Flora;⁷
 - (ix) production of or trade in radioactive materials, including nuclear reactors and components thereof;⁸
 - (x) production of or trade in or use of unbonded asbestos fibers;⁹
 - (xi) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest;
 - (xii) production, commercial-scale use, trade, storage, or transport of products containing polychlorinated biphenyls;¹⁰ and hazardous chemicals;¹¹
 - (xiii) production of or trade in pharmaceuticals,¹² pesticides or herbicides,¹³ or ozone-depleting substances¹⁴ subject to international phase outs or bans;
 - (xiv) transboundary trade in waste or waste products,¹⁵ except for nonhazardous waste destined for recycling;
 - (xv) marine and costal fishing practices, such as large-scale pelagic drift-net fishing and fine-mesh net fishing, harmful to unwanted vulnerable and protected species in large numbers and damaging to the marine biodiversity and habitats; and
 - (xvi) production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples.

⁴ Forced labor means all work or service not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁵ Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of the International Labor Organization Convention No. 138 "Minimum Age Convention" (available: <http://www.ilo.org>).

⁶ This does not apply if the activity concerned is ancillary to the primary operations of a sponsor's project or subproject.

⁷ A list of CITES wildlife products is available from <http://www.cites.org>.

⁸ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where the Asian Development Bank considers the radioactive source to be trivial and/or adequately shielded.

⁹ This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

¹⁰ A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

¹¹ A list of hazardous chemicals is available from <http://www.pic.int>.

¹² A list of pharmaceutical products subject to phase outs or bans is available from <http://www.who.int>.

¹³ A list of pesticides and herbicides subject to phase outs or bans is available from <http://www.pic.int>.

¹⁴ A list of the chemical compounds that react with and deplete stratospheric ozone, resulting in the widely publicized holes in the ozone layer, is listed in the Montreal Protocol, together with target reduction and phase-out dates. Available: <http://www.unep.org/ozone/montreal.shtml>.

¹⁵ As defined by the Basel Convention. Available: <http://www.basel.int>.