



Technical Assistance Report

Project Number: 41147
May 2008

Kingdom of Bhutan: Strengthening of the Credit Information Bureau

CURRENCY EQUIVALENTS

(as of 13 May 2008)

Currency Unit	–	ngultrum (Nu)
Nu1.00	=	\$0.0239
\$1.00	=	Nu41.89

ABBREVIATIONS

ADB	–	Asian Development Bank
CIB	–	credit information bureau
D&B	–	Dun and Bradstreet
FI	–	financial institution
FSDP	–	Financial Sector Development Program
IT	–	information technology
MIS	–	management information system
RMA	–	Royal Monetary Authority
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Finance
Subsector	–	Banking systems
Themes	–	Governance, private sector development, capacity development
Subthemes	–	Financial and economic governance; private sector investment; client relations, network, and partnership development

NOTES

- (i) The fiscal year of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 30 June 2008.
- (ii) In this report, "\$" refers to US dollars.

Vice President	L. Jin, Operations 1
Director General	K. Senga, South Asia Department (SARD)
Director	A. Sharma, Governance, Finance, and Trade Division, SARD
Team leader	C. H. Hu, Economist (Financial Sector), SARD

I. INTRODUCTION

1. During the Country Programming Mission in June 2007, the Government of Bhutan requested the Asian Development Bank (ADB) for technical assistance (TA)¹ to boost its efforts, begun under the Bhutan Financial Sector Development Program (FSDP),² to establish and operate a credit information bureau (CIB). The request was in line with the Government's objective of developing the country's financial sector to promote private sector investment and development. The TA was later included in the Bhutan Country Operations Business Plan 2008–2010.³ ADB conducted a fact-finding mission in February 2008 and reached agreement with the Government on the overall TA objective, outputs, financing plan, and implementation arrangements. The design and monitoring framework is in Appendix 1.

II. ISSUES

2. The financial sector is becoming increasingly important as Bhutan moves away from subsistence farming and toward a market economy. The private sector, the engine of economic growth, requires an investment environment and suitable financial services that are conducive to meeting the needs of diverse entrepreneurs. However, a lack of timely and reliable borrower information is contributing to the buildup of nonperforming loans and the subsequent adoption of very stringent collateral requirements, making credit virtually inaccessible to the private sector. Private investment must be supported by a sound, stable, and well-functioning financial system; hence, the health and development of the financial sector depends on a reliable credit information system with a database of borrowers for storing, retrieving, and sharing credit information among lending institutions and even across borders. A CIB with such a system and adequate staffing in place will improve credit risk assessment and the efficiency of lending and investment.

3. The FSDP foresaw the need to establish a CIB for credit information sharing and financial sector development, and set forth relevant policy actions to achieve this objective. The establishment of the CIB was to be achieved in three stages, as follows: (i) setting up a CIB unit at the Royal Monetary Authority (RMA) to develop a road map, conduct a feasibility study, and select software for the CIB system; (ii) establishing the CIB and drafting and issuing the legal, regulatory, and institutional framework needed to collect and circulate credit data; and (iii) making the CIB operational. The FSDP also provided for the participation of an international legal expert (2 person-months) to see to it that an adequate legal and regulatory framework for secure credit information disclosure and sharing was in place.⁴

4. A study tour to neighboring countries, including India, Sri Lanka, and Thailand, was organized by the Government in 2004 to review the credit information systems and institutional setup in the region and select a suitable CIB model for Bhutan. From its findings, the Government decided to purchase the credit information software that Dun and Bradstreet (D&B) had designed and delivered with considerable success for CIB systems in South Asia and elsewhere. In 2006, the Government also hired D&B to study the feasibility of establishing a CIB in Bhutan. The feasibility study recommended the establishment of a CIB first as a division of

¹ The TA first appeared in the business opportunities section of ADB's website on 14 March 2008.

² ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant for the Financial Sector Development Program*. Manila (Loans 2279/2280-BHU approved on 7 December).

³ ADB. 2007. *Bhutan: Country Operations Business Plan 2008–2010*. Manila.

⁴ A total of \$98,000 has been set aside for the legal advisory services and also for the acquisition of Web servers.

RMA, which would share its costs with five financial institutions (FIs)⁵ for financial sustainability. Then, once an adequate legal framework was installed,⁶ the CIB would become fully functional, and the FIs could avail themselves of its products and services. Eventually the CIB would become an independent entity.⁷ The feasibility study also recommended a suitable management and ownership structure for the CIB, and an appropriate technological and physical platform, including software and hardware, given the CIB's assessed needs, system requirements, and global and regional trends in credit information development. The goal, as the study pointed out, was to facilitate financial transactions through more informed credit decisions, and to give individuals and companies easier access to credit at reasonable cost.

5. The feasibility study identified two essential areas where additional TA was needed. One was the procurement of a complete technology solution for the technological infrastructure, customized to suit the information technology (IT) environment in Bhutan and the special needs of the CIB, that would support and link the CIB with all FIs in a network for data transmission, storage, and retrieval. This requirement was beyond the original scope of the FSDP. The other essential area identified in the feasibility study was the building of FI and CIB staff capacity to implement the IT system and to manage day-to-day operations while maintaining high operating standards. Therefore, at the request of the Government, a TA is now proposed to provide the additional support needed to set up the CIB.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

6. The TA is expected to bring about a more efficient and sound banking system in Bhutan by improving credit decisions, lending practices, and borrowers' access to credit. The TA should also help mitigate risk, lower the costs of financial transactions for FIs, and increase the efficiency of the financial sector overall, consistent with the FSDP objective.

7. The outcome will be enhanced access to transparent and reliable credit information and, hence, better-quality credit decisions and bank lending practices.

B. Methodology and Key Activities

8. The TA will adopt two methodologies. First, it will ensure the procurement of adequate technological infrastructure for a well-functioning credit information system. Second, it will provide relevant training to strengthen the capacity of CIB staff and, where necessary, concerned staff in FIs in the techniques and day-to-day procedures that must be performed to maintain high operating standards.

9. There will be two key activities. The first is the procurement and installation of the credit information software from D&B and appropriate technological and physical infrastructure (including software, hardware, and technology solution) to set up the data center. The system and infrastructure provider chosen will be responsible for (i) getting to know the data center requirements; (ii) analyzing these requirements; (iii) procuring and implementing the system software (for instance Windows, Linux, Oracle); (iv) designing, procuring, and implementing the

⁵ The five financial institutions are the Bank of Bhutan, the Bhutan National Bank, the Bhutan Development Finance Corporation, the Royal Insurance Corporation of Bhutan, and the National Pension and Provident Fund.

⁶ The legal framework will be prepared under the Financial Sector Development Program (see para. 3).

⁷ Given the assumptions and the projected revenues and costs, it will be at least 3 years (from the time of establishment) before the CIB can become financially independent, according to the feasibility study.

various data-center components (network, servers, uninterruptible power supply [UPS], and others); (v) conducting user-acceptance testing of the finalized infrastructure and system; and (vi) providing relevant technical training for both CIB staff and the FI officers concerned, to ensure the smooth operation of the customized system.

10. The second key activity of the TA is the capacity building of CIB staff for the proper operation and management of the CIB system. The training will emphasize practical experience and lessons learned from other well-established CIBs to heighten CIB sustainability, and will also look forward to the CIB's eventual independence from RMA and to private sector participation. Therefore, the capacity-building measures will involve three types of training: (i) a 2-week secondment program and training in other well-established CIBs, such as those of India and Sri Lanka, to obtain on-the-job training and operational experience; (ii) structured training courses in identified training institutes, in database, network, and data quality management, to enhance IT administration skills; and (iii) relevant training, including overseas secondment, in management information systems (MIS) procedures, document formats and contents, user and product management, and business strategy, among others, to ensure the efficient functioning of the CIB system. The trainees will be selected on the basis of their qualifications and responsibilities, and must be committed to staying on in their present positions or work for at least 2 years after the training.

C. Cost and Financing

11. The total cost of the TA is estimated at \$430,000 equivalent. ADB will finance \$350,000 equivalent with a grant from its TA funding program. The Government will finance the remaining \$80,000, which will cover (i) the hiring of D&B to provide technical advice on the acquired technological and physical infrastructure and ensure system compatibility with D&B's CIB software; and (ii) the provision of counterpart staff and office accommodation. Appendix 2 gives the detailed cost estimates and financing plan.

D. Implementation Arrangements

12. The Ministry of Finance will be the Executing Agency and RMA will be the Implementing Agency. To oversee the design, procurement, and implementation of the whole CIB system, including the managerial structure and technological solutions, a CIB unit has been formed at RMA as the first of three stages of CIB establishment planned under the FSDP. Further, to ensure compliance of all government procurement with ADB's policies and procedures, a separate procurement committee, co-chaired by the deputy managing director of RMA and the director of the program/project management unit of the FSDP, has also been formed.

13. Two procurement methods will be followed under the TA. Direct contracting (single-source selection) will be used in procuring the D&B software for the collection of credit information data. Direct contracting is deemed appropriate for this purpose for the following reasons: (i) D&B's software is considered most appropriate for Bhutan, and most of the country's neighbors in South Asia, such as India and Sri Lanka, use the same credit software and are satisfied with the outcome;⁸ (ii) D&B has very relevant and exceptional project

⁸ After the study tour in 2004, the adoption of a CIB model similar to those in India and Sri Lanka, which have a similar development background, was recommended.

experience in establishing CIBs and in providing technical advice all over the world, including South Asia;⁹ and (iii) the software is proprietary and obtainable from only one source.

14. International competitive bidding through a single-stage, two-envelope procedure will be used in procuring the customized technological, network, and physical infrastructure to support the D&B software. As the feasibility study suggested,¹⁰ a turnkey contract will be drawn up for the supply of the following: a local area network; a data center; required hardware and software (including third-party software such as Windows, Linux, and Oracle); technology solutions for secure connectivity; required consultancy for the installation, implementation, and testing of the complete IT platform; and technical support and training. The bids will be evaluated on the basis of performance. All goods and services under the TA will be procured according to ADB's *Procurement Guidelines* (February 2007, as amended from time to time). All equipment and software procured under the TA will be transferred to the Government after the TA.

15. Regarding the required capacity-building measures, the 2-week secondment program and structured training courses in data management will be provided directly by the identified CIBs and training institutes in India and Sri Lanka, which have the most relevant expertise and experience with the particular CIB model chosen by the Government of Bhutan. On the other hand, the relevant MIS and advanced management training (including overseas secondment programs) to enhance CIB management and sustainability will require highly specialized expertise and depth of experience. Single-source selection will therefore be used in hiring an international CIB management specialist through D&B to provide intermittent assistance for a total of 0.75 person-month—first, in setting up and providing relevant training for the required MIS, and then in designing and planning the advanced management training and overseas secondment programs. This same specialist will also assist in implementing the secondment programs and in ensuring the conduct of the advanced management training in the identified CIBs. Single-source selection is warranted in this instance because (i) the task represents a natural continuation of the advisory work of D&B, which has had exceptional experience in setting up the business models for CIBs in the South Asian region; and (ii) such a small and short-term assignment does not justify the preparation and evaluation of a competitive proposal. The consultant will be recruited according to ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time) and a lump-sum contract will be prepared for the assignment. Detailed terms of reference are in Appendix 3.

16. The reporting requirements for the procurement of equipment and technological infrastructure will be built into the contract on the basis of the provider's proposed installation plan. Because the term of assignment of the CIB management specialist will be short, a draft final report with the required output indicated in Appendix 3 will be submitted to the Government and ADB for comments 1 week before the completion of the TA, and the final version of the report incorporating the comments will be submitted at the end of the TA. Tripartite meetings will be held to discuss the progress and attend to issues that arise during the TA implementation. The TA will be implemented from June 2008 to July 2009.

⁹ D&B has abundant project experience in deploying CIB platforms in the South Asian region including Bangladesh, India, Nepal, Pakistan, and Sri Lanka.

¹⁰ The feasibility study (2006) also includes recommendations on the initial management and ownership, staff recruitment, core businesses, marketing strategy, potential data sources, and technology requirements (such as system architecture, local area network and communication requirements, data extracting and submitting system, disaster recovery, etc.) The request for proposals will be designed based on the technical specifications as indicated in the feasibility study (2006).

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$350,000 on a grant basis to the Government of Bhutan for Strengthening of the Credit Information Bureau, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact A more efficient and sound banking system and, therefore, improved financial sector development</p>	<p>Reduced interest rate spread^a from current 7% in 2007</p> <p>Increased total credits to the private sector by all FIs as a percentage of total GDP (e.g., increased from 28.3% in June 2007)^b</p>	<p>RMA annual reports and other financial statistics</p> <p>ADB documents, such as Bhutan country partnership strategy papers, country assistance program evaluation reports, and project completion reports</p> <p>ADB mission reports</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Strong commitment of the Government and relevant stakeholders to the further development of the banking sector
<p>Outcome Improved access to reliable credit information and, therefore, improved quality of credit decisions and lending practices</p>	<p>Record of increased use of credit reports produced by the CIB</p> <p>Increased access to financing, measured by the ratio of credits to the private sector over total GDP (e.g., the private credit ratio of all FIs increased from 28.3% in June 2007)^b</p> <p>Reduced NPL ratios as a percentage of gross loans and advances (e.g., NPL ratios of all banks and nonbanks decreased from 7.65% and 26.29%, respectively, in 2007)^c</p>	<p>RMA annual reports</p> <p>Annual reports of FIs</p> <p>TA progress reports</p> <p>Reports of ADB review missions</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Use of CIB by FIs to improve credit risk assessment <p>Risk</p> <ul style="list-style-type: none"> • Misuse of CIB information
<p>Outputs 1. A well-functioning CIB system with an adequate system and supporting infrastructure linking the CIB with all FIs in a network</p>	<p>A CIB unit established at RMA with adequate staffing</p> <p>A CIB system with adequate software, hardware, and supporting technological infrastructure linking the CIB with all FIs in a network</p>	<p>RMA annual reports and public notifications of procurement</p> <p>TA progress reports</p> <p>Reports of ADB review missions and tripartite meetings</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Sufficient staffing and support from the Government to procure the CIB system and to duly implement the TA • Ability of the trained CIB staff to use their new skills and knowledge to efficiently manage the CIB system • Good coordination and implementation

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
			support among involved agencies and all the participating FIs
2. Well-trained CIB staff and personnel	<p>Training courses and overseas secondment programs held for CIB staff and the CIB core committee</p> <p>Back-to-office reports and a business plan and strategy for the further development of the CIB, including a draft strategy for its future privatization</p>	<p>Feedback and findings from trainees in the form of back-to-office reports and recommendations for further development of the CIB</p> <p>TA progress reports</p> <p>RMA annual reports</p> <p>Reports of ADB review missions</p>	<p>Risks</p> <ul style="list-style-type: none"> • Delayed or unsatisfactory procurement of the CIB infrastructure and supporting system due to unsatisfactory design, lack of coordination, or unforeseen reasons • Loss or lack of CIB staff qualified to manage and operate the CIB system
<p>Activities with Milestones</p> <p>Activity 1: Establishing a well-functioning CIB system</p> <p>1.1. Procure the CIB software from D&B (July 2008).</p> <p>1.2. Procure the CIB technology and physical infrastructure to support and link the CIB at RMA with all FIs in a network, including acceptance testing and basic training in the configuration, design, and operation of the system (December 2008).</p> <p>Activity 2: Strengthening the capacity of CIB staff</p> <p>2.1. Undertake a 2-week secondment program and training in other well-established CIBs, such as those of India and Sri Lanka, to obtain on-the-job training and operational experience (January 2009).</p> <p>2.2. Attend structured training courses in management of database, network, and data quality to enhance IT-related administration skills (March 2009).</p> <p>2.3. Undertake MIS and advanced management training, including overseas secondment programs, in MIS procedures, documents formats and contents, user and product management, and business strategy, among others, to improve CIB efficiency and sustainability (May 2009).</p>			<p>Inputs</p> <ul style="list-style-type: none"> • ADB (\$350,000) • Government (\$80,000)

ADB = Asian Development Bank, CIB = credit information bureau, D&B = Dun and Bradstreet, FI = financial institution, GDP = gross domestic product, IT = information technology, MIS = management information system, NPL = nonperforming loan, RMA = Royal Monetary Authority, TA = technical assistance.

^a Difference between lending rates to the private sector, such as manufacturing or services industries, and short-term deposit rates (up to 1-year time deposit rates).

^b Including nonbank FIs such as the Bhutan Development Finance Corporation. Data are from the RMA Annual Report 2006/07 (published in January 2008).

^c Data are from Royal Monetary Authority. 2008. Review of the Bhutanese Financial Sector Performance (September 2006–2007), Available: <http://www.rma.org.bt/EXTERNALWEB/>

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultant (lump-sum contract)	
a. Remuneration (0.75 person-month)	13
b. Travel, accommodation, reports, and other out-of-pocket expenses	7
2. Equipment	
a. Credit Information Bureau Software	90
b. Technological and Physical Infrastructure and Solution ^b (including system software, hardware, and training)	180
3. Training Programs ^c	43
4. Contingencies	17
Subtotal (A)	350
B. Counterpart Financing	
1. Consultancy and Technical Advice on the Procurement of the Technological and Physical Infrastructure	60
2. Office Accommodation and Equipment ^d	10
3. Local Counterpart Staff	5
4. Contingencies	5
Subtotal (B)	80
Total	430

^a Financed by the Asian Development Bank's technical assistance funding program.

^b The total cost estimate for the equipment, excluding the servers (around \$39,000), which will be supported under ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Kingdom of Bhutan for the Financial Sector Development Program*. Manila (Loans 2279/2280-BHU approved on 7 December).

^c Includes (i) 2-week secondment program, (ii) structured training courses, and (iii) travel expenses and training fees for required short-term overseas training courses and study tours under the advanced management training.

^d Includes office space and local phone facility for the consultants.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. **Credit Information Bureau (CIB) Management Specialist (international, 0.75 person-month, intermittent).** The CIB management specialist should have relevant experience in providing high-level training courses in the related areas of CIB management and demonstrated good understanding of credit information systems, practices, procedures, and policy frameworks in CIB development and management. Relevant country experience, especially in South Asia or other relevant developed countries, is desirable.
2. The specific responsibilities of this specialist will be as follows:
 - (i) Setting up a suitable management information system and conducting relevant training and familiarization workshops to establish ownership and ensure the efficient operations of the CIB. This task covers the drafting of the relevant policy guidelines; the delegation of authority and the pinpointing of responsibility; the design of information processing and flow of information, including reporting procedures and document types, formats, and contents; and other measures that will enable the gathering, storage, and retrieval of qualified with due regard for confidentiality, access and user-friendliness, security, and backup. The training and familiarization workshops will be held for staff of the CIB and other financial institutions.
 - (ii) Assisting the Government in identifying a good CIB or training institute to design and deliver week-long advanced management training in developing strategic directions for the future development of the CIB. The training should cover such topics as the development of credit rating systems, credit scoring (particularly relevant for small and medium-sized enterprises), other business areas that a CIB may cover, and a strategy for privatizing the CIB to ensure its sustainability. The course design should be sufficiently detailed to meet the specific requirements of the Bhutan CIB, while also taking into account the background of the trainees (e.g., CIB management and core committee) and the existing CIB policy and legal framework.
 - (iii) Assisting the Government in designing a secondment program(s) or study tour(s), or both, which will allow the CIB management and core committee to obtain practical exposure and knowledge in high-level CIB management, policy formulation and implementation, and administration, to strengthen CIB operations. The task also includes recommending a suitable CIB(s) in other countries for the secondment program as well as arranging the secondment program, and assisting the CIB management and core committee in preparing the issues paper that would guide the participants during visits to other CIBs.
 - (iv) Assisting the CIB management and core committee in preparing a report detailing the findings of the advanced CIB management training, and a draft business plan for the operation of the CIB over the medium term and its eventual privatization.