



## Bhutan: Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program

Project Name	Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program	
Project Number	47025-001	
Country	Bhutan	
Project Status	Active	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	<b>TA 8437-BHU: Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program</b> Japan Fund for Poverty Reduction <span style="float: right;">US\$ 1.50 million</span>	
Strategic Agendas	Inclusive economic growth Regional integration	
Drivers of Change	Governance and capacity development Partnerships	
Sector / Subsector	<b>Industry and trade</b> - Industry and trade sector development	
Gender Equity and Mainstreaming		
Description	<p>The TA will help strengthen the technical and institutional capacity of Bhutan's Customs, by better aligning procedures and practices with internationally accepted standards.</p> <p>The TA has three main components: (i) supporting Bhutan's accession to the Revised Kyoto Convention (RKC); (ii) enhancing the capacity of customs automation; and (iii) establishing a functional national trade facilitation body.</p> <p>(i) Supporting Bhutan's accession to the RKC. The TA will assist in preparing the necessary legal, administrative, and technical documents necessary for Bhutan's accession to the RKC. It will conduct a regulatory impact assessment on the proposed amendments to Bhutan's laws, rules, and regulations, which are required to ensure Bhutan's compliance with the General Annex of the RKC. The TA will promote understanding and awareness of key stakeholders in Bhutan of the RKC, its benefits, and implications. In collaboration with the World Customs Organization (WCO), the TA will conduct technical training on the General Annex of the RKC for relevant customs officials. Initially, the TA will involve customs but in the course of implementation, other government agencies may be involved.</p> <p>(ii) Enhancing Capacity of Customs Automation. The TA will support system upgrades to the Regulatory Audit Management Information System (RAMIS). The implementation of customs facilitation measures will be brought in line with the RKC through provision of technical expertise, and limited software and hardware assistance. The TA will carry out a comprehensive training needs assessment for customs automation, and based on this assessment, conduct training for relevant customs officials at headquarters and at key border checkpoints.</p> <p>(iii) Establishing a Functional National Trade Facilitation Body. As part of the ADB-financed SASEC Trade Facilitation Program, the Royal Government of Bhutan issued an executive order to establish the National Trade Facilitation Committee (NTFC) of Bhutan in February 2013. The role of the NTFC will be to ensure proper coordination and smooth implementation of the cross-sectoral SASEC Trade Facilitation Program. The NTFC has eight members: the Chair (Secretary of the Ministry of Finance); five Directors (from ministries of Economic Affairs, Agriculture and Forest, Home and Cultural Affairs, and the Department of Revenue and Customs [DRC]); one Deputy Governor (Royal Monetary Authority); and one Secretary General (Bhutan Chamber of Commerce and Industries). The TA will provide strategic and technical advice to the Royal Government of Bhutan in support of effective operations of the NTFC. It will support meetings of the NTFC, and provide capacity to and support the operations of the NTFC Secretariat. The TA will conduct a study to identify possibilities to render the operations of the NTFC self-sustaining.</p>	

Project Rationale and Linkage to Country/Regional Strategy

The International Finance Corporation/World Bank's 2013 Doing Business report ranks Bhutan 172 out of 185 countries in its trading across borders category, largely due to infrastructure bottlenecks. In addition, Bhutan's trade competitiveness and market opportunities are hampered by (i) regulatory constraints, (ii) complicated trade procedures and formalities, (iii) absence of fully automated customs system, and (iv) weak coordination among domestic agencies. These barriers contribute to an estimated 38 days required to both import and export a standard container, at a cost of \$2,230 (export) and \$2,330 (import), placing Bhutan below the South Asia regional average in each component, and negatively impacting the country's trade potential.

(i) Regulatory Constraints.

Bhutan's regulatory framework for cross-border trade is complex. A lack of comprehensive import and export regulations has led to a current legal framework consisting of subsidiary legislation, such as notifications and regulations issued by various agencies. This creates overlap and complicates the legal context for trade. Further, most of Bhutan's customs practices are not aligned with international standards as outlined in the RKC. Although Bhutan became a member of the WCO in 2002, the country has not yet signed the RKC. Many regulatory documents do not conform to international standards such as the United Nations Layout Key, and the United Nations Trade Data Elements Directories: data elements on Bhutan's forms are neither coded nor do they use international codes.

(ii) Complex Trade Procedures and Formalities.

Several trade restrictions remain in place, affecting mostly imports, including import/export license by road from third countries, registration, and prior import/export approvals. These procedures require more documents and increase the time and cost of trading, making the current trade environment restrictive. For example, exporting oranges from Bhutan to Bangladesh requires 16 documents, takes 15 days, and costs \$1,852 per truck.

(iii) Lack of Fully Automated Customs Management System.

Bhutan customs procedures are not generally considered a major barrier to the business climate. Although only 3.3% of manufacturing businesses view customs as a major constraint, Bhutan customs could still do better to facilitate trade. Bhutan is currently applying the Bhutan Automated Customs System (BACS) to provide trade statistics and process declarations. This only allows for semi-automated clearance, however, and does not provide real-time linkages between regional offices. BACS is also slow and unstable: in particular, updating of information in the system is not easy and requires additional manual processing. There is no risk management system linked to the BACS. Recently, the DRC included a customs functionality in RAMIS which is being developed and implemented with ADB's support.

(iv) Weak Coordination of Government Agencies Involved in Trade.

Currently, 11 domestic agencies are involved in entry/exit clearance of goods, including customs, quarantine, health, agriculture, forestry, environment, economic affairs, narcotics control agency, immigration, army border control, and information and communication. Not all of these agencies are present at border crossings and stations. There is no integrated clearance workflow and limited sharing of data or information among different agencies. Although working relationships are good, the absence of collaboration and sharing of information adds to the time for traders and the burden for customs. In addition, there is no forum that (i) could serve as an institution to promote trade facilitation, and (ii) where public and private entities engaged in international trade can discuss problems and jointly seek solutions.

ADB's strategy is to support improvements in trade facilitation through a combination of interventions at the policy and institutional level, as well as in developing the physical infrastructure that enables trade. The SASEC Trade Facilitation Program loan/grant for Bhutan (\$11.67 million) was approved on 29 November 2012 to provide assistance in reducing policy, institutional, and technical constraints to trade facilitation. The Program loan aims to (i) establish a modern and effective customs management system through accession to, and alignment with the RKC and the Framework of Standards to Secure and Facilitate Global Trade (SAFE); (ii) streamline and increase transparency of trade processes and procedures through support to the implementation of a National Single Window; and (iii) improve services and information for traders through the establishment of trade portals and trade facilitation committees. The funds from the Program loan will be released in two tranches and are anchored on Bhutan's compliance to agreed tranche conditions. The first tranche release was approved in May 2013 and the second tranche will follow 18 months after the first tranche release. The proposed TA will provide needed assistance to Bhutan in fulfilling the conditions set in the loan agreement, and at the same time support the overall SASEC trade facilitation sector.

Impact	Reduction in time and cost for Bhutan's trade
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**Project Outcome**

Description of Outcome	Better alignment of Bhutan customs procedures and practices with internationally accepted standards
Progress Toward Outcome	Bhutan acceded to the Revised Kyoto Convention in September 2014, and is committed to implementing necessary measures to bring regulatory frameworks and procedures into line with the General Annex of the Convention. The amended Customs Act, associated Rules and Regulations, and Regulatory Impact Assessment, drafted with assistance from the TA, will be discussed in the National Assembly summer session 2016, for subsequent approval by the National Council in the winter session, January 2017.

**Implementation Progress**

Description of Project Outputs	<ol style="list-style-type: none"> <li>1. Bhutan accedes to the Revised Kyoto Convention (RKC)</li> <li>2. Enhanced capacity of customs automation</li> <li>3. A functional national trade facilitation body</li> </ol>
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Status of Implementation  
Progress (Outputs,  
Activities, and Issues)

- 1.1. Bhutan acceded to the Revised Kyoto Convention 15 September 2014, as the ninety-eighth contracting party. The technical assistance is supporting implementation of the General Annex of the RKC. Training was delivered on implementation of specific modules of the RKC delivered 9-13 June 2014 in Thimphu, Bhutan for the Department of Revenue and Customs (DRC), together with external stakeholders for sensitization purposes. Further, a nation-wide series of RKC awareness-raising workshops and consultations with all stakeholders was successfully conducted by the Department of Revenue and Customs during October and November 2014.
- 1.2. A Regulatory Impact Assessment Report (based upon amendments made to Bhutan's Customs Act and Rule) has been certified by the Department of Revenue and Customs.
- 1.3. Comprehensive consultations with public and private sector stakeholders have been held on the proposed amended Customs Act and Rule (October 2014).
- 1.4. An international Customs modernization expert is being financed through the TA to support DRC in drafting and finalizing the Rules and regulations during June-Oct 2015.
- 1.5. A Consultation Workshop on the Rules and Regulations will be held (September 2015) to familiarize all affected at-border and behind-the-border agencies and departments.
- 1.6. To support implementation of the provisions of the RKC, DRC conducted a National Experts Workshop on Customs Valuation in Paro, Bhutan (June 2015), focusing on development of Customs valuation Standard Operating Procedures manual. The Workshop was guided by expertise from the WCO/ROCB A/P, and funded by the TA.
- 1.7. A second consultation workshop was conducted on the final draft Rules and Regulations in December 2015, where the consultant presented the completed Rules and Regulations documentation.
- 1.8. An international Customs modernization expert is being financed through the TA to support identified DRC core units in drafting and finalizing strategies and action plans for (i) risk management, (ii) post-clearance audit, and (iii) compliance programs.
- 1.9. An international Customs modernization expert is being financed through the TA to support DRC in updating and optimizing existing Customs forms to comply with UN Layout Key and WCO Data Model.
- 1.10. Bhutan's National Council ratified the new Customs Bill in June 2016, and sent the Bill to the National Assembly for final ratification in December 2016, and promulgation in early 2017. The TA supported formulation and consultative process for the new Customs Bill, and continues to finalize the associated Rules and Regulations.
- 1.11. TA has supported a National Workshop on WCO Harmonized System Classification of Goods (August 2016).
- 1.12. Bhutan's National Assembly ratified the Customs Act in December 2016, and requested a joint sitting of upper and lower parliamentary houses before promulgation. The joint sitting will happen in June 2017.
- 1.13. DRC approved final TA-funded consultant deliverables of optimized trade-related documentation (including Customs forms that comply with the UN Layout Key and WCO Data Model), and RKC-compliant strategies for risk management, PCA, and compliance programs.
- 2.1. User Acceptance Testing of the Customs module within RAMIS continued through the final quarter of 2014, and necessary adjustments made.
- 2.2. Schedule of roll out of all Customs sub-modules of RAMIS for 2015 has been agreed.
- 2.3. RAMIS technical developer has conducted week-long user acceptance test and training of trainers on use of priority 1 module (25 May-01 June 2015), focusing on sub-components of import India and export, for 32 participants from DRC, in Thimphu, Bhutan. Onward training to 262 Customs officers will follow from this training in June 2015.
- 2.4. RAMIS developer conducted a 10-day user acceptance test and training of trainers on use of priority 2 module (17-26 August), focusing on third-country import, and export (including post parcel, courier, passenger terminal, air cargo, and others) for 34 participants from DRC, in Thimphu, Bhutan. Onward training to 262 Customs officers in six strategic locations around Bhutan followed on from this training during September 2015.
- 2.5. The third and final user acceptance testing and end user training is envisaged for June 2016, following stakeholders meeting in February 2016, in Thimphu.
- 2.6. The TA supported two international Customs/IT consultants to work closely with DRC in conducting a gap analysis on the functional- and system requirement specifications of the RAMIS Customs modules currently under development, to ensure compliance with the needs of DRC and the provisions of the RKC. The Final Report on the Gap Analysis was presented and well-received by DRC in August 2016.
- 3.1. Support rendered to Bhutan's National Trade Facilitation Committee (NTFC) in strategic planning, and logistical convening of first five General Meetings of the Committee (January, May, September, and October 2014, and May 2015).
- 3.2. The TA is financing capacity-building activities for the NTFC, including development of a trade information portal, hosted by Bhutan's Department of Trade, and coordinated through the NTFC.
- 3.3. Bhutan's NTFC was expanded in August 2015, by Executive Order of the Ministry of Finance, to become the National Trade Facilitation and Transport Committee (NTTFC), to accommodate the requirement for a National Transport Facilitation Committee, under the provisions of the recently signed Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement.
- 3.4. The NTTFC Secretariat established its first Working Group committee and conducted an orientation for the Working group in September 2015, where agreement was reached on the Working Groups work plan.
- 3.5. The TA supported a National Workshop on the Single Window, Coordinated Border Management and WCO Data Model, with technical expertise from WCO in November 2015. The workshop was held in Paro, Bhutan and a total of 24 participants joined from relevant NTTFC agencies. A special day-long session was held for the Committee Members of the NTTFC, to focus on strategic visioning and planning of a single electronic window system for Bhutan.
- 3.6. Under the auspices of the NTTFC, the Department of Trade (DoT) is conducting a feasibility study for development of an effective and dynamic trade information portal (TIP) in Bhutan. A team of international and national consultants were fielded in January-February 2016 to work with the NTTFC Secretariat, DoT, DRC and other relevant border agencies and develop options and scenarios for a TIP, supported by the TA. The final report and recommendations is currently under consideration by DoT and other relevant agencies of the NTTFC.
- 3.7. The TA supported the drafting of a Strategic Framework and Action Plan for the NTTFC 2016-2017, conducted by national Customs expert in Bhutan.
- 3.8. The Feasibility Report on a Bhutan Trade Information Portal (produced by JFPR TA-funded international expert) was presented to and well-received by the NTTFC in June 2016.

## Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

### Stakeholder Communication, Participation, and Consultation

During Project Design The SASEC Transport and Trade Facilitation Working Group (TFTWG) met in Kolkata, India in March 2012 and in Thimphu, Bhutan in November 2012, where continued support from ADB was requested for the implementation of priority trade facilitation measures in SASEC countries. In particular, the DRC of Bhutan requested ADB to provide specific technical support to strengthen the capacity of Bhutan's Customs in trade facilitation. In November 2012, an ADB mission to Thimphu, Bhutan met with the Ministry of Finance (Department of Public Accounts [DPA]) and the DRC to further discuss TA requirements. The SASEC Trade Facilitation Week held in Bangkok, Thailand in March 2013, together with an ADB mission to Thimphu, Bhutan in April 2013 that met with DRC and DPA, identified specific customs components for inclusion in the TA. All consulted parties agreed on the expected impacts and outcomes of the TA with strong support for the TA design and implementation.

During Project Implementation

## Business Opportunities

Consulting Services A total of 147 person-months of consultancy services will be engaged for this TA including 86 person-months of national consultancy. Consultant firms and individuals will be engaged in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time).

## Responsible Staff

Responsible ADB Officer	McKenzie, Rosalind Y.
Responsible ADB Department	South Asia Department
Responsible ADB Division	Regional Cooperation and Operations Coordination Div, SARD
Executing Agencies	<i>Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines</i>

## Timetable

Concept Clearance	16 May 2013
Fact Finding	-
MRM	-
Approval	20 Aug 2013
Last Review Mission	-
Last PDS Update	27 Feb 2017

## TA 8437-BHU

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
20 Aug 2013	11 Sep 2013	11 Sep 2013	31 Jul 2015	31 Dec 2017	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
0.00	1,500,000.00	150,000.00	0.00	0.00	0.00	1,650,000.00	20 Aug 2013	903,694.80

Project Page	<a href="https://www.adb.org/projects/47025-001/main">https://www.adb.org/projects/47025-001/main</a>
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