

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The major multilateral agencies that support Bhutan in developing the finance sector are the Asian Development Bank (ADB), the International Monetary Fund (IMF), and the World Bank Group (including the International Finance Corporation). ADB, a long-term partner in Bhutan's finance sector development efforts, has supported the government in implementing key reforms to deepen financial market development and strengthen financial supervision. As the development landscape has evolved, incremental and more sophisticated reforms are required to ensure the sustainability of reforms initiated under previous programs, such as the first and second Strengthening Economic Management programs.¹ The continued support from ADB and other development partners is especially important for a small country such as Bhutan, which faces capacity constraints in implementing complex and wider policy interventions.

2. ADB provides development assistance in improving financial stability, supporting anti-money laundering/combating the financing of terrorism, developing finance sector regulations and supervision in line with international norms, supporting capital market development, and providing capacity building. Other development partners, such as the World Bank, are partners in financial market strengthening and have supported the development of a payment and settlement system, regulation and supervision, and the strengthening of the sharing of information from the Credit Information Bureau of Bhutan with financial institutions. The IMF focuses on providing policy advice and capacity building in the areas of monetary and exchange rate policy operations, and the strengthening of finance sector supervision and development. The Alliance for Financial Inclusion also supports the Royal Monetary Authority (RMA) in financial literacy programs and capacity building (table).

Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
Finance Sector			
ADB	Supporting Implementation of the Strengthening Economic Management Program II (TA)	2015–2017	0.61
	Strengthening Economic Management Program	2013–2014	35.00
	Strengthening Economic Management Program II	2015–2017	36.07
	Financial Market Development Program, Subprogram I	2019–2020	30.05
	COVID-19 Active Response and Expenditure and Support Program	2020	20.00
IMF	Drafting of Risk Management Guidelines	2019	
	Development of Corporate Governance Regulations	2018	
WB	Catastrophe Deferred Drawdown Option	2020	14.80
	COVID-19 Emergency Response and Health Systems Preparedness Project	2020	5.00
	Development Policy Credit	2020	40.00
	Second Programmatic Strengthening Fiscal Management and Private Sector Employment Opportunities Development Policy Credit	2019–2020	30.00
	First Programmatic Strengthening Fiscal Management and Private Sector Employment Opportunities Development Policy Credit	2018–2019	30.00
	Second Programmatic Fiscal Sustainability and Investment Climate Development Policy Credit	2016–2017	24.00
	First Programmatic Fiscal Sustainability and Investment Climate Development Policy Credit	2014–2015	20.00

¹ ADB. 2015. [Completion Report: Strengthening Economic Management Program in Bhutan](#). Manila; and ADB. 2018. [Completion Report: Strengthening Economic Management Program II in Bhutan](#). Manila.

	Support in Development of Financial Sector Development Action Plan	2016	0.28
Nonbank Financial System Developed			
ADB	Feasibility Study for Bhutan Housing Finance Entity (TA)	2017–2018	0.35
	Capital Market Development (TA)	2012–2014	1.25
IMF	Offsite Supervision—Developing Reporting Template and CAMELS Framework for Insurance Sector (TA)	2019	
	Development of Rules and Regulations for Insurance and Reinsurance Companies	2018	
WB	Insurance Regulatory and Supervision Framework (TA)	2018	0.14
	Amendments to the Movable and Immovable Property Act (TA)	2018	0.35
UNDP	Biodiversity Finance Initiative Bhutan	2016–2020	0.77
Stability and Integrity of the Financial System Strengthened			
ADB	Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Control (regional TA)	2016–2019	1.00
IFC	Improve Corporate Governance for Druk Holding and Investments, Financial Institutions, and Listed Companies (TA)	2017–2019	0.10
	Risk Management Capacity Building for Bhutan National Bank (TA)	2012–2018	0.16
IMF	Policy Advice on Developing New Monetary Policy and Liquidity Management (TA)	2019	
	Development of Risk-Based Supervision Framework (TA)	2019	
WB	Development of National Strategy for Payment and Settlement System (TA)	2019	0.02
	Review of Priority Lending Policy (for cottage and small industries)	2019	0.03
Financial Inclusion Strengthened			
ADB	Advancing Economic Opportunities for Women and Girls (JFPR grant project)	2011–2014	2.50
	Decentralized Coordination and Partnerships for Gender Equality Results (TA)	2016–2019	1.50
AFI	Development of Enablers to Enhance Financial Inclusion (TA)	2019–2020	0.10
SBFIC	Banking for Youth	2018–2019	0.03

ADB = Asian Development Bank; AFI = Alliance for Financial Inclusion; CAMELS = capital adequacy, asset quality, reinsurance, adequacy of claims and actuarial, management soundness, earnings and profitability, liquidity, and sensitivity to market risk; COVID-19 = coronavirus disease; IFC = International Finance Corporation; IMF = International Monetary Fund; JFPR = Japan Fund for Poverty Reduction; SBFIC = Savings Banks Foundation for International Cooperation; TA = technical assistance; UNDP = United Nations Development Programme; WB = World Bank.

Sources: ADB; Government of Bhutan; IMF; Royal Monetary Authority; and World Bank.

B. Institutional Arrangements and Processes for Development Coordination

3. The government and the United Nations organize high-level roundtable meetings, which are held twice during each five-year plan period to coordinate development support from multilateral and bilateral development partners, including ADB. The Gross National Happiness Commission, responsible for formulating and monitoring the five-year plans, leads the government's coordination of development activities among all United Nations agencies and bilateral agencies. While Bhutan does not have a formal donor and development partner coordination mechanism focusing specifically on finance sector reforms, the Ministry of Finance (MOF) leads the government's coordination of development activities among multilateral agencies, including ADB, the IMF, and the World Bank. The MOF regularly includes all three agencies to discuss critical reforms in overall economic management and macroeconomic stability, including public debt management, public finance reforms, and finance sector reforms. For example, the MOF organized coordination meetings to discuss the introduction of a goods and services tax among the three agencies during 2017–2018. Both ADB and the World Bank also participated as full members of the IMF Article IV Consultation team in July 2018.

4. Since 2017, the RMA has organized a biennial forum called the Bhutan Economic Forum

for Innovative Transformation to provide a platform for coordination between development partners and the government, focusing on financial inclusion solutions. The 2017 forum brought together key actors from the public and private sectors to foster dialogue on improving access to finance, especially for rural micro, small, and medium-sized enterprises. The deliberation from the 2017 forum helped the RMA finalize the National Financial Inclusion Strategy, 2018–2023 and the National Financial Literacy Strategy, 2018–2023. The findings from the 2019 forum have helped the RMA formulate an action plan to implement these strategies.

C. Achievements and Issues

5. As a long-term partner in Bhutan's finance sector development, ADB has helped establish the RMA, the Royal Securities Exchange of Bhutan, and the Credit Information Bureau. It has helped the government undertake key reforms in building a strong regulatory framework and providing capacity building in risk-based supervision. Close coordination and bilateral consultations between ADB and the World Bank, and the ongoing dialogue (i) among ADB, the IMF, and the World Bank; and (ii) between the government and the IMF during the IMF's annual Article IV consultations, have allowed the building of natural synergies and complementarities across finance sector projects in Bhutan. Areas of potential duplication and overlap have been eliminated, leading to complementary assistance and greater synergies through joint missions and regular consultations whenever possible. Development partners' in-country presence (such as ADB's Bhutan Resident Mission, the World Bank's Bhutan office, and IMF resident advisors) has improved development coordination. However, while the government is committed to development activities, Bhutan faces constraints in implementing complex and wider policy interventions. Therefore, incremental, rather than rapid, reforms are required to deal with the government's insufficient human resources capacity. By undertaking gradual reforms and staying engaged in the long term, ADB can ensure that reform actions are sustainable after program closure.

D. Coordination on COVID-19

6. ADB provided assistance to Bhutan amounting to \$20 million under ADB's Coronavirus Disease (COVID-19) Active Response Expenditure and Support Program. The World Bank provided support totaling \$54.8 million under the Catastrophe Deferred Drawdown Option and Development Policy Credit. While providing COVID-19 support, ADB, the World Bank and the government were in active discussions on modalities and funding to ensure a smooth flow of assistance during the pandemic.

E. Summary and Recommendations

7. ADB will continue to support financial market development in Bhutan that is relevant to the government's development policy thrust. ADB will also continue closely coordinating with other development partners and international agencies, including the IMF and the World Bank. The following lessons from past engagements will be incorporated in the program design to improve efficiency in its implementation as well as government and development partner coordination: (i) regular policy dialogue to ensure the government's commitment to politically sensitive reforms; (ii) incremental, rather than rapid, reforms to deal with the government's insufficient human resources capacity; (iii) close coordination with key development partners, particularly the IMF, the World Bank, and United Nations agencies; and (iv) close alignment between the attached technical assistance and the program to ensure that planned reforms are implemented efficiently and effectively, and that they help ensure strong government commitment to policy reforms and accelerated implementation.