



## Progress Report on Tranche Release

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### Bhutan: South Asia Subregional Economic Cooperation Trade Facilitation Program (Second Tranche)

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 21 November 2014)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.016
\$1.00	=	Nu61.92

## ABBREVIATIONS

ADB	–	Asian Development Bank
CMM	–	customs management module
DRC	–	Department of Revenue and Customs
ICT	–	information and communication technology
LPI	–	Logistics Performance Index
NSW	–	national single window
NTFC	–	National Trade Facilitation Committee
RAMIS	–	Revenue Administration Management Information System
RIA	–	regulatory impact assessment
RKC	–	Revised Kyoto Convention
SAFE	–	Framework of Standards to Secure and Facilitate Global Trade
SASEC	–	South Asia Subregional Economic Cooperation
SDR	–	special drawing right
STFP	–	SASEC Trade Facilitation Program
STFSF	–	SASEC Trade Facilitation Strategic Framework
TA	–	technical assistance
TFA	–	Trade Facilitation Agreement
WCO	–	World Customs Organization
WTO	–	World Trade Organization

## NOTES

- (i) The fiscal year (FY) of the Government of Bhutan and its agencies ends on 30 June, e.g., FY2014 ends on 30 June 2014.
- (ii) In this report, "\$" refers to US dollars.

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## **CONTENTS**

	<b>Page</b>
I. INTRODUCTION	1
II. RECENT DEVELOPMENTS IN TRADE FACILITATION IN SOUTH ASIA	2
A. Global and Regional Developments	2
B. Trade and Trade Facilitation Performance	3
III. STATUS OF PROGRAM IMPLEMENTATION	5
IV. TECHNICAL ASSISTANCE GRANTS	8
V. PROGRAM ASSURANCES AND MONITORING FRAMEWORK	9
VI. ASSESSMENT	9
VII. THE PRESIDENT'S DECISION	10
 APPENDIXES	
1. Policy Matrix (Bhutan)	11
2. Bhutan: Key Economic Indicators	13
3. Status of Second Tranche Policy Actions (Bhutan)	14
4. Progress under the Design and Monitoring Framework (Bhutan)	16
5. Status of Program Assurances and Conditions (Bhutan)	18



## I. INTRODUCTION

1. On 29 November 2012, the Asian Development Bank (ADB) approved in an amount equivalent to \$47,700,000 policy-based loans and grants for the South Asia Subregional Economic Cooperation (SASEC) Trade Facilitation Program (STFP) to Bangladesh, Bhutan, and Nepal.<sup>1</sup> The STFP was made effective in Bangladesh on 19 April 2013 (SDR13,579,000 loan), in Bhutan on 26 March 2013 (SDR5,412,000 loan and \$3,330,000 grant), and in Nepal on 10 April 2013 (\$15,000,000 grant). The program was designed to be released in two tranches. The first tranche was released on 3 May 2013 for Bangladesh (SDR7,113,000 loan); on 26 March 2013 for Bhutan (SDR2,057,000 loan and \$3,330,000 grant); and on 10 May 2013 for Nepal (\$8,000,000 grant), reflecting full compliance with the policy conditions stipulated for each of the three countries.<sup>2</sup> The policy conditions for Bhutan are listed in Appendix 1. Release of the second tranche is scheduled by 31 December 2014, subject to full compliance by the Government of Bangladesh (SDR6,466,000 loan), the Government of Bhutan (SDR3,355,000 loan), and the Government of Nepal (\$7,000,000 grant), with respective policy conditions. Since the first tranche release in May 2013, four review missions were conducted in Bhutan from May 2013 to October 2014 to support and review STFP implementation.

2. South Asia remains one of the least integrated regions in the world, with low intraregional trade and a challenging environment for foreign direct investment.<sup>3</sup> The cost of subregional trade is high, exacerbated by long processing times for import and export transactions, as a result of poor trade-related infrastructure and procedures. Physical remoteness from ports and access to global trading hubs is an additional challenge for landlocked Bhutan and Nepal. Non-tariff-related constraints in the subregion—including the lack of infrastructure to handle containerized cargo, high need for transshipment at the border, reliance on physical inspection of cargo in the absence of nonintrusive methods, and lack of cross-border transit agreements—contribute to the high number of documents required for trading (especially customs clearance) and lengthy wait times. Limited automation of customs procedures requires traders to provide multiple copies of documents and seek approvals from many different border agencies, further reducing effectiveness of trade. Government agencies are in the early stages of developing transparent and accountable information mechanisms; government coordination of border agencies remains weak.

3. Against this backdrop and in line with SASEC goals, the STFP objectives are to (i) develop modern and effective customs administrations and management systems to reduce time-intensive procedures and high levels of inspection; (ii) streamline and render transparent trade processes and procedures, through increased automation, moving to a national single window system (NSW); and (iii) provide better information services for private sector traders and investors, including women entrepreneurs, through the development of national trade facilitation committees and trade information portals. The impact will be increased trade, including intraregional trade, of SASEC countries by reducing or removing nontariff barriers, specifically institutional, administrative, and technical barriers to trade. The outcome will be more efficient,

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<sup>1</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Grants: South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.

<sup>2</sup> For the policy-based loan to Bangladesh, the first tranche included three policy conditions and the second tranche seven; for the policy-based loan and grant to Bhutan, the first tranche included three policy conditions and the second tranche four; and for the policy-based grant to Nepal, the first tranche included three policy conditions and the second tranche five.

<sup>3</sup> World Bank. 2006. *South Asia: Growth and Regional Integration*. Chapter 9, Cutting Costs and Improved Business Facilitation in South Asia: Estimating the Benefits of Reform. Report 37858-SAS. Poverty Reduction and Economic Management Sector Unit, South Asia Region. Washington, D.C.

transparent, secure, and service-oriented processing of cross-border trade of SASEC countries. The program is fully consistent with ADB's South Asia Regional Cooperation Strategy, 2011–2015, which cites the need to boost cross-border trade as its second sector-specific objective.<sup>4</sup> The strategy acknowledges the crucial need to improve logistics performance in support of emerging global supply chains, encompassing the performance of customs authorities, trade-related infrastructure, inland transit, and logistics services.

## II. RECENT DEVELOPMENTS IN TRADE FACILITATION IN SOUTH ASIA

### A. Global and Regional Developments

4. **World Trade Organization Trade Facilitation Agreement.** In December 2013, members of the World Trade Organization (WTO) concluded negotiations on the Trade Facilitation Agreement (TFA) at the Bali Ministerial Conference, as part of the wider Bali Package.<sup>5</sup> The TFA contains provisions for faster, more efficient customs procedures through effective cooperation between customs and other authorities on trade facilitation and customs compliance issues, as well as provisions for technical assistance (TA) and capacity building.

5. **South Asia Subregional Economic Cooperation Facilitation Strategic Framework.** Building on their gradual momentum to improve trade facilitation, in March 2014 SASEC members endorsed the SASEC Trade Facilitation Strategic Framework, 2014–2018 (STFSF). The STFSF supports the mission of the SASEC transport and trade facilitation strategy “to promote the prosperity of the subregion by facilitating the efficient movement of trade across the borders.” Its goal is to increase intraregional trade by increasing trade facilitation efficiency and reducing time requirements and costs to trade. The overall strategy is to improve border clearance practices and processes to international standards, including through automation.

6. The STFSF focuses on five priority areas: (i) customs modernization and harmonization, (ii) standards and conformity assessment strengthening, (iii) cross-border facilities improvement, (iv) through-transport facilitation, and (v) institution and capacity building. The strategic thrusts to be pursued for each of these areas are given in Table 1.

7. The STFSF embeds the STFP components—development of modern customs administrations, streamlined and transparent regulations and procedures, and improved services and information for traders and investors—and builds on them through complementary initiatives. Although the STFP is directed primarily to the needs of the smaller SASEC countries, the STFSF also addresses challenges faced by India in its continuing efforts to upgrade and refine its trade facilitation systems. It utilizes India's experience as a resource for knowledge sharing with other SASEC countries through the modality of south–south cooperation.

8. **SASEC Customs Subgroup.** The SASEC Customs Subgroup was established in March 2013 to promote subregional trade facilitation initiatives. The subgroup aims to take concerted actions on customs reforms and modernization, strengthen interagency cooperation, and enhance partnerships with the private sector. It also serves as the regional forum for addressing issues of common interest relevant to customs cooperation. At the second meeting of the SASEC Customs Subgroup in Kathmandu, Nepal, in May 2014 the SASEC countries

<sup>4</sup> ADB. 2011. *South Asia: Regional Cooperation Strategy, 2011–2015*. Manila.

<sup>5</sup> The Bali Package comprises 10 separate decisions by the ninth WTO Ministerial Conference covering (i) trade facilitation; (ii) agriculture, in particular, food security; and (iii) least-developed country issues.

broadly endorsed the 2014–2015 work plan to translate the customs-related provisions of the STFSF into concrete and meaningful results through national and subregional initiatives.

**Table 1: Strategic Thrusts for Priority Areas of the South Asia Subregional Economic Cooperation Trade Facilitation Strategic Framework**

<b>Priority Area 1: Customs modernization and harmonization</b>	
Strategic thrust 1	Simplify and expedite border formalities to facilitate the movement for goods, vehicles, and people
Strategic thrust 2	Increase the application of information and communication technology processing
Strategic thrust 3	Develop a national single window system to link all border agencies with the trading community
<b>Priority Area 2: Standards and conformity assessment strengthening</b>	
Strategic thrust 4	Identify sanitary- and phytosanitary-sensitive commodities and strengthen national conformity assessment boards
<b>Priority Area 3: Cross-border facility improvement</b>	
Strategic thrust 5	Establish logistics facilities and services at major trade ports to facilitate trade
<b>Priority Area 4: Through-transport facilitation</b>	
Strategic thrust 6	Develop and pilot bilateral transport facilitation arrangements for through transport
<b>Priority Area 5: Institution and capacity building</b>	
Strategic thrust 7	Enhance cooperation and coordination mechanisms among stakeholders in the trade facilitation environment

9. **Joint India–Bhutan project on an electronic cargo tracking system.** In June 2014, Bhutan and India agreed on the preparation of a feasibility study on the pilot implementation of an electronic cargo tracking system along the Kolkata–Phuentsholing corridor, with possible extension to Thimphu. The study is intended to demonstrate the use of ICT to simplify the transit process of Bhutan cargo into India, with a trial run conducted during September 2014.

## **B. Trade and Trade Facilitation Performance**

10. **Trade performance.** While Bhutan's exports declined by 3.9% in 2013, this represented an improvement over export performance in 2012 (Table 2). The country's import bill declined as a result of administrative measures to curtail imports of vehicles and construction materials.<sup>6</sup> India remains Bhutan's largest trading partner, primarily for the export of hydropower, and accounts for more than 80% of its trade on average. Export growth is expected to improve in 2014 due to construction of hydropower projects geared for power export to India. Key economic indicators for Bhutan are included in Appendix 2.

11. **Trade cost.** The cost of trading in Bhutan remains high but shows relative improvements. Based on the *Doing Business* indicators, Bhutan's rank in the cost to trade category rose by two points in 2014, and 0.23 percentage points in terms of distance to frontier (Table 3).<sup>7,8</sup>

<sup>6</sup> ADB. 2014. *Asian Development Outlook 2014*. Manila.

<sup>7</sup> The World Bank *Doing Business* indicators measure the ease of doing business by ranking economies from 1 to 189. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operation. The index averages the country's percentile rankings on 10 topics, including the cost of trading across borders. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

<sup>8</sup> The distance to frontier measure shows the distance of each economy to the "frontier." The frontier represents the highest performance observed on each of the indicators across all economies measured in *Doing Business* since the inclusion of the indicator. An economy's distance to frontier is reflected on a scale from 0–100, where 0 represents the lowest performance and 100 the frontier: e.g., a score of 75 in 2013 means an economy was 25 percentage points away from the frontier—constructed from the best performances across all economies and time. A score of 80 in 2014 indicates that the economy is improving. The distance to frontier measure complements the annual ease of doing business ranking, which compares economies with one another at a point in time.

Compared with the South Asia region, however, the cost to trade with Bhutan is higher: for exports, by 1.3 times; and for imports, 0.84 times. Inland transport and handling comprise 60% of the cost to export and import (Table 4).

**Table 2: Bhutan Merchandise Trade Growth, 2010–2014**  
(%)

Year	Exports	Imports
2010	3.0	36.1
2011	26.8	41.7
2012	(7.3)	(10.0)
2013	(3.9)	(6.5)
2014 (estimate)	7.8	3.5

( ) = negative.

Source: Asian Development Bank. 2014. *Asian Development Outlook 2014*. Manila.

**Table 3: Bhutan Trade Cost, 2012–2014**

Indicators	2012	2013	2014	South Asia 2014
Rank in trading across borders category	...	174	172	...
Distance to frontier (percentage points)	34.71	36.63	36.86	...
Documents to export (number)	9	9	9	8
Time to export (days)	38	38	38	33
Cost to export (\$ per container)	2,230	2,230	2,230	1,787
Documents to import (number)	12	12	12	10
Time to import (days)	38	38	38	34
Cost to import (\$ per container)	2,505	2,330	2,330	1,968

... = data not available.

Source: World Bank. *Doing Business* online database: [www.doingbusiness.org](http://www.doingbusiness.org)

12. **Logistics performance.** Bhutan's logistics performance has not improved over the past 2 years. The high cost of inland transport and handling is reflected in the World Bank's Logistics Performance Index (LPI), which shows Bhutan's 2014 score falling by 0.23 index points, placing the country under the classification of "logistics unfriendly."<sup>9</sup> In 2010 and 2012, Bhutan was classified more favorably under "partial performance of logistics providers." Only the logistics competence indicator registered a slight improvement of 0.06 index points in 2014 compared with 2012. In 2014 Bhutan scored less favorably than all other countries in South Asia for all LPI indicators (Table 5).

<sup>9</sup> The LPI overall score reflects perceptions of a country's logistics based on six core dimensions: (i) efficiency of the customs clearance process, (ii) quality of trade- and transport-related infrastructure, (iii) ease of arranging competitively priced shipments, (iv) quality of logistics services, (v) ability to track and trace consignments, and (vi) frequency with which shipments reach the consignee within the scheduled time. LPI data are derived from surveys of academic and international institutions and private companies and individuals engaged in international logistics. Respondents evaluate the six core dimensions on a scale of 1 (worst) to 5 (best). The scores for the six areas are averaged across all respondents and aggregated to a single score using principal components analysis. The distribution of LPI scores is broken down into four categories: (i) logistics unfriendly (score < 2.35), (ii) partial performers (score 2.35–< 2.85), (iii) consistent performers (score 2.85–< 3.35), and (iv) logistics friendly (score > 3.35). Scores corresponding to the four categories are reflected in World Bank. 2012. *LPI 2012 Report*. Figure 1.1. Washington, DC; and [data.worldbank.org/indicator/LP.LPI.OVRL.XQ](http://data.worldbank.org/indicator/LP.LPI.OVRL.XQ)



**Table 4: Bhutan Export and Import Procedures, 2014**

Item	Export Procedures		Import Procedures	
	Duration (days)	Cost (\$)	Duration (days)	Cost (\$)
Documents preparation	16	350	17	250
Customs clearance and technical control	3	180	4	380
Ports and terminal handling	6	350	6	350
Inland transportation and handling	13	1,350	11	1,350
<b>Total</b>	<b>38</b>	<b>2,230</b>	<b>38</b>	<b>2,330</b>

Source: World Bank. *Doing Business* online database: [www.doingbusiness.org](http://www.doingbusiness.org)

**Table 5: Bhutan Logistics Performance Index, 2010, 2012, and 2014**

Item	Overall Index	Customs Clearance	Infra-structure Quality	Inter-national Shipments	Logistics Competence	Tracking and Tracing	Timeliness
<b>2014</b>							
Index	2.29	2.09	2.18	2.38	2.48	2.28	2.28
Ranking	143	140	132	131	111	140	158
<b>2012</b>							
Index	2.52	2.29	2.29	2.61	2.42	2.56	2.90
Ranking	107	109	117	102	111	101	111
<b>2010</b>							
Index	2.38	2.14	1.83	2.44	2.24	2.54	2.99
Ranking	128	118	141	120	127	105	122
<b>South Asia (2014)</b>	2.61	2.47	2.34	2.70	2.66	2.58	2.87

Source: World Bank. Logistics Performance Index online database: [www.lpi.worldbank.org](http://www.lpi.worldbank.org)

### III. STATUS OF PROGRAM IMPLEMENTATION

13. The government has exerted significant efforts to fulfill the second tranche release conditions, which require compliance with four policy actions under three key areas of trade facilitation. Target achievements comprise (i) modern and effective customs administration and management; (ii) streamlined and transparent trade processes and procedures; and (iii) improved services and information for private sector traders and investors, including women entrepreneurs. The achievement status of second tranche conditions and progress under the design and monitoring framework are in Appendixes 3 and 4. The detailed compliance status of the second tranche policy actions follows (paras. 14-21).

#### 1. Modern and Effective Customs Administration and Management

14. **The government will have submitted to the World Customs Organization Bhutan's instrument of accession to the Revised Kyoto Convention:** (tranche 2, action 1: complied with). The Minister for Foreign Affairs signed Bhutan's Instrument of Accession to the RKC on 21 August 2014; it was then submitted to the secretary general of the World Customs Organization (WCO) on 15 September 2014 (on that date Bhutan became the 96th contracting party to the RKC). On 17 September 2014, the Ministry of Finance's Department of Revenue and Customs (DRC) submitted a copy of its Instrument of Accession to the RKC, signed by the minister for foreign affairs, and certified by the DRC director. The RKC is an international standard promoting trade facilitation and effective controls through application of efficient trade procedures. The governing principles of the RKC include (i) transparency and predictability, (ii) standardization and simplification of goods declaration and supporting documents, (iii) simplified

procedures for authorized persons, (iv) maximum use of information technology, (v) minimum necessary customs control to ensure compliance, (vi) use of risk management and audit-based controls, (vii) coordinated interventions with border agencies, and (viii) partnership with trade. Bhutan has 3 years to implement the standards and 5 years to implement the transitional standards contained in the RKC's general annex.

15. Progress has already been made in ensuring compliance. During 9–12 June 2014, DRC, in conjunction with ADB and WCO experts, conducted a workshop on RKC implementation. The workshop participants prepared action plans for implementation of the business partnership concept and the authorized persons program, in line with RKC provisions. An intensive program of awareness raising and capacity building was prepared for DRC to implement from the fourth quarter of 2014 to the third quarter of 2015, engaging the private and public sectors.

16. **Based on the findings of the gap analysis, the beneficiary will have finalized a regulatory impact assessment report on the proposed amendments to the Bhutan's laws, rules, and regulations, which are required to ensure Bhutan's compliance with the General Annex of the Revised Kyoto Convention:** (tranche 2, action 2: complied with). On 17 September 2014, DRC submitted a certified copy of the Regulatory Impact Assessment (RIA) Report on the Draft Amendments to the Sales Tax, Customs and Excise Act of the Kingdom of Bhutan, 2000 (Customs Act).<sup>10</sup> The gap analysis referred to in the tranche condition was conducted under tranche 1 of the STFP in late 2012. DRC and ADB-financed international customs experts conducted a review in late 2013 and identified the need to enhance and tighten the focus of the gap analysis on customs. The gap analysis had not considered the structure of the Sales Tax, Customs and Excise Act 2000 of Bhutan. The Preamble, General Preliminary, and General Provisions sections of the act are common to all three taxes (sales, customs, and excise), while other sections of the report apply only to the stated individual tax (sales, customs, or excise). However, RKC provisions apply only to customs process and procedure. Given this, and based on the enhanced gap analysis, a draft amended Customs Act—including Rules, Orders and Regulations thereto—was prepared for the following sections: General Preliminary, Part II – Customs, and General Provisions. The enhanced gap analysis was also used to prepare draft amendments to the Rule, Orders and Regulations of the Customs Act. The draft amendments aimed to (i) render the Customs Act compliant with the RKC; (ii) introduce international best practices; and (iii) help reduce the cost and time of trading, thereby boosting economic activity.

17. The RIA was developed based on the draft amended Customs Act. The proposed amendments and the introduction of the international best practices promoted by the RKC will result in a range of impacts, both in terms of costs and benefits, and in qualitative outcomes. The revision of the current Customs Act has different potential impacts on the economy of Bhutan, public administration, private sector, and consumers in general. These impacts are not only limited to economic and financial terms, but include good governance arrangements; the public administration and changes in the administrative culture; and social issues, such as poverty. The RIA report considers and assesses the impact of each of the key proposed amendments, and includes a draft regulatory forward plan as required by the government's RIA guidelines. It provides a structured road map and a set of recommendations on next steps to progress toward full implementation of the changes to the Customs Act for compliance with the RKC's general annex. The overall recommendation of the RIA report is that the government should endorse the amendments to the Customs Act, to bring customs regulations up to

<sup>10</sup> DRC; certified copy of the Regulatory Impact Assessment (RIA) Report on the Draft Amendments to the Sales Tax, Customs and Excise Act of the Kingdom of Bhutan, 2000 (Customs Act); Reference No. DRC/SASEC-TF/PAT 2-06.

international standards. DRC has made significant progress since finalizing the RIA report: DRC fully intends to submit the amended Customs Act to Cabinet for consideration during the December 2014 session of Parliament (National Assembly and National Council).

## 2. Streamlined and Transparent Trade Processes and Procedures

18. **The Department of Revenue and Customs will have piloted the Customs Management System Component of Revenue Administration Management Information System in accordance with its approved Action Plan:** (tranche 2, action 3: complied with). Bhutan is working to increase intraregional trade through increased efficiencies in trade facilitation processes and procedures, especially in reducing the time and costs associated with trade. One of the most fundamental efficiencies in modern border clearance practices is the effective use of automation: operationalizing upgraded ICT systems significantly reduces the number of required documents and other cumbersome procedures at the border, thereby cutting time requirements and costs for traders. Of critical note is that automated systems also contribute significantly to transparency and predictability in customs procedures and cross-border transactions. Bhutan has adopted a phased strategic upgrading of its current stand-alone Bhutan Automated Customs System, which serves as a transaction database for the new web-based RAMIS, which includes the customs management system component.<sup>11</sup>

19. The technical developers used a user acceptance test to pilot the customs management system component during 25 August–2 September 2014. The piloting of the customs management module (CMM) was done in accordance with the approved action plan and covered five customs processes on a trial-run initiation basis: import license, liaison and transit office, customs manifest, warehousing, and point of entry. The piloting aimed to (i) test, identify, and communicate all possible gaps to the developers; (ii) ensure that the system works in the business environment; and (iii) ensure that the design meets business requirements. The system was found to cover basic customs processes, but not policy issues and complex transactions.<sup>12</sup> It needs improvements in (i) alignment of data elements and fields with the United Nations Layout Key and WCO model, (ii) formatting and simplification of each process stage, and (iii) management information system report and process output forms. In line with the specifications of the approved action plan (developed as a policy condition under tranche 1 of the STFP), and allowing for necessary modifications during the piloting phase to accommodate evolving technical aspects, the user acceptance test was found to have successfully provided an online application and approval process, electronic documentation with manual submission option, a centralized and integrated process and information flow, a dynamic configurable option, and an online revenue payment option. Observations on the pilot implementation outcome are included in the Pilot Implementation Report on CMM submitted by DRC on 3 September 2014.<sup>13</sup>

<sup>11</sup> The developers and users of the nonrevenue customs module used the terminology of “the customs management system component” and the CMM interchangeably. The customs management system component comprises the technical system requirement specifications developed for input into the RAMIS. The RAMIS architecture comprises three modules: income tax, sales tax, and nonrevenue customs. The term CMM refers to the last module—nonrevenue customs—to which this second tranche condition applies.

<sup>12</sup> Such as fiscal incentives, temporary import from a third country, exemptions, part shipment of third country goods, re-import from a third country, temporary imports from India, part shipment of imports from India goods, re-import from India, post parcel, air cargo and passenger terminal clearance, excise duty refund, and fast-track registration.

<sup>13</sup> DRC; Pilot Implementation Report on CMM; File No. DRC/STFP/PA3-T2.

### 3. Improved Services and Information for Private Sector Traders and Investors, including Women Entrepreneurs

20. **The Department of Revenue and Customs, in coordination with the Trade Facilitation Committee, will have piloted the RAMIS-based automation of the application and approval process of trade-related transactions at Bhutan's border agencies:** (tranche 2, action 4: complied with). Trade is a cross-cutting process involving many different public and private sector entities; coordination of all stakeholders is essential to successfully implement trade-related reform. Bhutan's National Trade Facilitation Committee (NTFC) was established by executive order in February 2013 in response to the third policy action of the first tranche release of the STFP. It aims to (i) engage the core trade facilitation stakeholders to identify and address legal and regulatory obstacles and bottlenecks in the import and export process, and (ii) ensure proper coordination and smooth implementation of the cross-sectoral STFP.<sup>14</sup> In addition, the NTFC is the primary mechanism through which interagency coordination will move to a NSW in Bhutan. The NTFC has met four times since its inception under the first STFP tranche and is discussing the strategic imperative for NSW systems.<sup>15</sup>

21. DRC presented the Pilot Implementation Report on CMM, which includes the successful testing of online application and approval processes for trade-related transactions, to the fourth NTFC meeting on 5 September 2014. The pilot testing was conducted at both DRC Thimphu headquarters and its main Regional Office in Phuentsholing, the primary Bhutan-India border crossing point. The piloted online application and approval process was noted in the report as one of the significant benefits of RAMIS, compared to the currently used Bhutan Automated Customs System, which records transactions by manual input, but does not allow for any data transfer or dynamic interface. All of the NTFC members endorsed the report. On 5 September 2014, the secretary of finance (and NTFC chair) indicated in the letter certification that the NTFC has endorsed the piloting phase of As-Is Customs Functionalities under the CMM of RAMIS.<sup>16</sup>

## IV. TECHNICAL ASSISTANCE GRANTS

22. Three ADB TA grants have supported implementation of policy actions under the second tranche.<sup>17</sup> Subproject 28 on capacity building for SASEC trade facilitation, of the TA for the Development Partnership Program for South Asia, complements the STFP by improving trade capacity, and regulations and procedures toward a more efficient trading environment in SASEC. Subproject 27 supported regional workshops, which informed SASEC officials of the features and mechanisms of efficient and modern customs and logistics processes, and help prepare for Bhutan's accession to the RKC and its ultimate development of an NSW.<sup>18</sup> Meanwhile, TA for Trade Facilitation in South Asia, financed by the Japan Fund for Poverty Reduction, will

<sup>14</sup> The NTFC has eight members: the chair (secretary of the Ministry of Finance); five directors (from DRC; the Bhutan Standards Bureau; and the ministries of economic affairs, agriculture and forests, and home and cultural affairs); one deputy governor (from the Royal Monetary Authority); and one secretary general (from the Bhutan Chamber of Commerce and Industries). DRC is the lead agency.

<sup>15</sup> The NTFC was convened in October 2013, January 2014, July 2014, and September 2014.

<sup>16</sup> Secretary of Finance (NTFC Chairman); certification of NTFC endorsement of the Pilot Implementation Report on CMM; File No. NTFC-4/STFP/PA4-T2.

<sup>17</sup> ADB. 2006. *Technical Assistance for the Development Partnership Program for South Asia*. Manila (TA 6337-REG); ADB. 2013. *Technical Assistance for Trade Facilitation in South Asia*. Manila (TA 8435-REG); and ADB. 2013. *Technical Assistance for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program (Bhutan)*. Manila (TA 8437-BHU).

<sup>18</sup> Bhutan customs officials participated in the Regional Workshop on SAFE Framework and Authorized Economic Operator Program (Singapore, 27–31 May 2013), and the Regional Workshop on Time Release Study (Kashiwa, Japan, 4–8 March 2013). Both were co-organized by ADB and WCO.

continue to reinforce gains from the second tranche policy actions by supporting enhanced cooperation and better interface for SASEC customs agencies,<sup>19</sup> and contributing to streamlined and transparent trade processes and procedures.<sup>20</sup> The TA to Bhutan for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program, financed by the Japan Fund for Poverty Reduction, directly supports RKC accession, including legislative reform, enhancing capacity in customs automation, and NTFC strengthening.

## **V. PROGRAM ASSURANCES AND MONITORING FRAMEWORK**

23. Appendix 5 shows that the Government of Bhutan has complied with all assurances. The Ministry of Finance's Department of Public Accounts, as the executing agency, and DRC, as the implementing agency, have been responsible for overall administration. The program activities related to the second tranche release were monitored by (i) four review missions in May 2013, January 2014, June 2014, and September 2014; (ii) the SASEC Transport and Trade Facilitation Working Group; (iii) steering committee meetings; (iv) Bhutan's National Trade Facilitation Committee; and (v) aide memoires.

## **VI. ASSESSMENT**

24. The Government of Bhutan has fully complied with all four policy actions set out in the STFP more than 1 year before the program completion date, indicating the government's strong commitment to improve the trade facilitation environment in Bhutan by moving at a steadily accelerating pace toward a modern, more effective, and transparent customs administration. Successful implementation of customs reform is dependent on sustained political commitment, which is evident in DRC's overall strategic approach to implementing its trade facilitation agenda.

25. The four stipulated policy actions under the STFP second tranche have set Bhutan on a robust course of comprehensive trade facilitation reform. RKC accession has put in motion a phased series of customs-based reform that requires updating and alignment of the Bhutan Customs Act with international best practice, implementation of an automated customs management system, and operationalization of the NTFC. These reform measures capture the legal, institutional, and technical components of effective customs modernization; successful implementation will depend on continued commitment from the Government of Bhutan.

26. Accession to the RKC is a critical milestone achievement in Bhutan's trade facilitation reform agenda, and comprehensive steps have been initiated since the accession to improve the efficiency and effectiveness of customs procedures, promote international trade in a safer trading environment, and ultimately positively impact economic competitiveness. As the global trading arena becomes more competitive, such modernization of standards and procedures will foster a supportive environment for increased trade in Bhutan. Implementing the provisions of the RKC breaks down barriers to international trade and growth by streamlining processes, making trade patterns more predictable, and developing automated systems that set the country on a clear path toward NSW development. Operationalization of the RKC provisions is an accepted catalyst for faster release of goods, reduced trade costs, and increased revenues.

27. Bhutan has prepared draft amendments to the Customs Act to ensure compliance with RKC provisions; the amendments are currently under preparation for parliamentary approval

<sup>19</sup> Through support for the ADB-WCO Customs Valuation Program (Male, Maldives, October 2014), and the third meeting of the SASEC Customs Subgroup (Goa, India, March 2015).

<sup>20</sup> Through support for the SASEC Trade Facilitation and Transport Working Group (Kathmandu, Nepal, November 2014), and SASEC Trade Facilitation Week: Sanitary and Phytosanitary (Bangkok, Thailand, December 2014).

and will provide the updated legal underpinning for ongoing and future trade facilitation reform.<sup>21</sup> The amended Customs Act will contribute in a tangible form—reflecting international good practice—to Bhutan’s ability to implement reform that secures the international supply chain, facilitates trade, and ensures correct revenue collection. The extensive consultative process, while finalizing the Customs Act amendments, is ongoing during the final quarter of 2014 and inclusive of all other government agencies affected by the amendment process, together with the full spectrum of private sector participants that will experience change (including clearing agents, freight forwarders, and the Bhutan Chamber of Commerce and Industry).

28. Concerted efforts to bring RAMIS initiative online have created a robust electronic platform for the three principal customs components (income tax, sales tax, and nonrevenue customs). Implementation of RAMIS is fully in line with RKC provisions requiring customs to apply ICT systems to support customs operations—strong ICT development is shown to improve efficiencies in trade processes and procedures, and reduce time and cost of trade at borders. The impact of this policy action reaches far beyond merely the customs administration of Bhutan, as the RAMIS provides the working foundation for a future NSW system for Bhutan. With customs spearheading the development of automation and the vision of a single window system, RAMIS is well placed to coordinate and interface with the many other government agencies involved in trade processes behind and at the border.

29. Of equal importance to the technical deployment of RAMIS is the strengthening of institutional structures that are supportive of the interagency collaborative approach necessary to implement the provisions of the RKC and a future NSW. Bringing together the crucial agencies involved in trade facilitation, Bhutan’s NTFC has met four times in just over 1 year and has become a successful forum for interagency information exchange and sharing. DRC is the NTFC lead agency, with the Project Management Unit acting as NTFC secretariat. The NTFC has been regularly updated on RAMIS, and has endorsed its piloting phase, expressing keen interest as to how automation processes can be broadened to include other agencies.

30. The Government of Bhutan is highly committed to trade facilitation reform and has made very significant efforts to set this agenda in place and on course. To ensure the lasting outcome of these reforms, a follow-up program is recommended to operationalize the measures laid down in the STFP. A follow-on program will be formulated (i) in line with the provisions of the RKC and Bhutan’s amended Customs Act, (ii) according to national strategic priorities in the areas of trade facilitation, and (iii) in coordination and deeper collaboration between the various interagency entities that are moving Bhutan’s automated customs systems closer to an NSW.

## **VII. THE PRESIDENT’S DECISION**

31. In view of the significant progress made in implementing the overall program and full compliance with four policy actions for release of the second tranche, the President is satisfied with the overall implementation of the SASEC Trade Facilitation Program (Bhutan) and that the necessary actions for the release of the second tranche have now been fulfilled. On the basis of the approval of the Asian Development Bank (ADB) Board of Directors for the provision of a loan to Bhutan for the SASEC Trade Facilitation Program, the President will authorize the release of the second tranche in currency equivalent to SDR3,355,000. The authorization shall be effective not less than 10 working days after the circulation of this progress report to ADB’s Board of Directors.

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<sup>21</sup> Given the government’s strong commitment, and ongoing sensitization and consultative processes with all relevant stakeholders on the proposed amendments to the Customs Act, the final approval by the National Assembly and National Council is anticipated in June 2015.

## POLICY MATRIX (BHUTAN)

**Objective:** The program seeks to increase trade, including intraregional trade, of South Asia Subregional Economic Cooperation (SASEC) countries by making import and export processes more efficient, transparent, secure, and service-oriented.

Objectives	First Tranche Policy Actions (Quarter 1 2012)	Second Tranche Policy Actions (18 months after first tranche release)
1. Modern and effective customs administration and management	(1) Department of Revenue and Customs (DRC) will have finalized an Action Plan for the purposes of Bhutan's accession to the Revised Kyoto Convention (RKC). The Action Plan will include (i) a gap analysis to identify the gaps between national legislation and the requirements of RKC (gap analysis); (ii) an analysis of the process required for Bhutan to prepare for accession to and implementation of RKC including the administrative and infrastructure enhancements required; (iii) the expected benefits to Bhutan of acceding to and implementing RKC; and (iv) a time-bound implementation plan, including budgetary requirements, for accession to and implementation of RKC.  Document required: Certified copy of the Action Plan finalized and approved by DRC	(1) The government will have submitted to the World Customs Organization Bhutan's instrument of accession to the RKC.  Document required: Certified copy of Bhutan's instrument of accession to RKC
		(2) Based on the findings of the gap analysis, the Beneficiary will have finalized a regulatory impact assessment report on the proposed amendments to the Bhutan's laws, rules, and regulations, which are required to ensure Bhutan's compliance with the General Annex of the RKC.  Document required: Certified copy of Regulatory Impact Assessment Report finalized and approved by the government
2. Streamlined and transparent trade processes and procedures	(2) DRC will have finalized the system requirement specifications document for the Customs Management System Component (CMSC) of the Revenue Administration Management Information System (RAMIS) and will have finalized a time-bound Action Plan to implement CMSC at Bhutan's land and air borders.  Document required: Certified copy of the system requirement specifications document and Action Plan finalized and approved by DRC	(3) DRC will have piloted the CMSC of RAMIS in accordance with its approved Action Plan.  Document required: Certified copy of an implementation report finalized and approved by DRC on the piloting of RAMIS

<b>Objectives</b>	<b>First Tranche Policy Actions (Quarter 1 2012)</b>	<b>Second Tranche Policy Actions (18 months after first tranche release)</b>
3. Improved services and information for private sector traders and investors, including women entrepreneurs	<p>(3) The government will have issued an executive order for the establishment of Trade Facilitation Committee with designation of the roles and responsibilities of the committee, which will include representation from Bhutan Standards Bureau (BSB), Ministry of Finance (MOF), Ministry of Economic Affairs (MOEA), Ministry of Agriculture and Forests (MOAF), Ministry of Home and Cultural Affairs (MOHCA), and private sector entities.</p> <p>Document required: Certified copy of the executive order issued by the government establishing the Trade Facilitation Committee</p>	<p>(4) DRC, in coordination with the Trade Facilitation Committee, will have piloted the RAMIS-based automation of the application and approval process of trade-related transactions at Bhutan's border agencies.</p> <p>Document required: Certified copy of an implementation report finalized and approved by DRC and the Trade Facilitation Committee on the piloting of the automated application approval process</p>

Note: Certification means confirmation by the Department of Revenue and Customs.

Source: ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Grants: South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.



**BHUTAN: KEY ECONOMIC INDICATORS**

Item	Fiscal Year				
	2010	2011	2012	2013	2014 <sup>a</sup>
<b>A. Income and Growth</b>					
1. GDP per capita (\$, current prices)	2,058	2,450	2,516	2,507	2,613
2. GDP growth (% , constant prices)	9.3	9.7	6.4	3.5	6.0
a. Agriculture	1.7	1.6	2.3	2.6	1.8
b. Industry	8.0	8.0	5.4	5.1	9.2
c. Services	12.7	12.7	6.6	1.2	3.9
<b>B. Saving and Investment (% of GDP, current prices)</b>					
1. Gross domestic investment	54.4	64.9	67.8	57.2	...
2. Gross domestic saving	31.0	36.1	41.2	34.1	...
<b>C. Money and Inflation (annual % change)</b>					
1. Consumer price index	4.8	8.6	10.2	8.8	9.6
2. Liquidity (M2)	30.1	21.2	(1.0)	18.6	6.6
<b>D. Government Finance (% of GDP)</b>					
1. Revenue and grants	46.4	35.8	35.8	30.4	28.5
2. Expenditure and onlending	44.7	37.9	37.0	34.6	32.5
3. Overall fiscal surplus (deficit)	1.6	(2.1)	(1.1)	(4.2)	(4.0)
<b>E. Balance of Payments</b>					
1. Merchandise trade balance (% of GDP)	(18.8)	(26.5)	(21.8)	(19.3)	(18.5)
2. Current account balance (% of GDP)	(22.2)	(30.0)	(21.7)	(24.7)	(24.8)
3. Merchandise export (\$) growth (annual % change)	3.0	26.8	(7.3)	(3.9)	(1.8)
4. Merchandise import (\$) growth (annual % change)	36.1	41.7	(10.0)	(6.5)	(0.6)
<b>F. External Payments Indicators</b>					
1. Gross official reserves (including gold, \$ million) (in months of current year's imports of goods)	11.5	8.5	8.0	11.6	11.4
2. External debt service (% of exports of goods and services)	30.7	51.7	127.1	213.8	28.0
3. External debt (% of GDP)	61.0	74.3	73.6	87.4	90.4
<b>G. Memorandum Items</b>					
1. GDP (current prices, Nu million)	66,815.5	78,670.3	91,133.7	100,832.7	116,283.4
2. Exchange rate (Nu/\$, average)	46.7	45.3	50.3	54.9	59.7
3. Population ('000)	695.8	708.3	720.7	733.0	745.2

... = data not available, ( ) = negative, <sup>e</sup> = estimate, GDP = gross domestic product, Nu = ngultrum.

<sup>a</sup> Estimate.

Note: The fiscal year ends on 30 June.

Sources: Asian Development Bank. 2014. *Basic Statistics 2014*. Manila; National Statistics Bureau of Bhutan. 2014. *Statistical Yearbook of Bhutan 2013*; Royal Monetary Authority of Bhutan, Research and Statistics Department. 2014. *Monthly Statistical Bulletin*. April 2014; Royal Monetary Authority of Bhutan. 2014. *2012/13 Royal Monetary Authority Annual Report*. Thimphu.

### STATUS OF SECOND TRANCHE POLICY ACTIONS (BHUTAN)

**Objective:** To increase trade, including intraregional trade, of South Asia Subregional Economic Cooperation (SASEC) countries by bringing about more efficient, transparent, secure, and service-oriented processing of cross-border trade of SASEC countries.

Objectives	Second Tranche Policy Actions (18 months after first tranche release)	Achievement Status
1. Modern and effective customs administration and management	<p>1a. The government will have submitted to the World Customs Organization Bhutan's instrument of accession to the Revised Kyoto Convention (RKC).</p> <p>Document required: Certified copy of Bhutan's instrument of accession to RKC</p>	<p><b>Complied with.</b></p> <p>The Ministry of Foreign Affairs deposited the Kingdom of Bhutan's Instrument of Accession to the RKC with the World Customs Organization on 21 August 2014, and formally acceded to the RKC on 15 September 2014.</p>
	<p>1b. Based on the findings of the gap analysis, the Beneficiary will have finalized a regulatory impact assessment report on the proposed amendments to the Bhutan's laws, rules, and regulations, which are required to ensure Bhutan's compliance with the General Annex of the RKC.</p> <p>Document required: Certified copy of Regulatory Impact Assessment Report finalized and approved by the government</p>	<p><b>Complied with.</b></p> <p>On 17 September 2014, the Department of Revenue and Customs (DRC) approved and certified the regulatory impact assessment report on the amended Customs Laws (General Preliminary, Part II, and General Provision of the Sales Tax, Customs and Excise Act, 2000 as amended in 2012).</p>
2. Streamlined and transparent trade processes and procedures	<p>DRC will have piloted the Customs Management System Component of the Revenue Administration Management Information System (RAMIS) in accordance with its approved Action Plan.</p> <p>Document required: Certified copy of an implementation report finalized and approved by DRC on the piloting of RAMIS</p>	<p><b>Complied with.</b></p> <p>DRC presented the report on piloting of the Customs Management Module (CMM) of the RAMIS to DRC management on 3 September 2014. DRC management approved and certified the completed piloting phase of "as-is" customs functionalities under the CMM with letter No. DRC/STFP/PA3-T2 and report No. STFP-PA3-T2-0.2 on 3 September 2014.</p>

<p>3. Improved services and information for private sector traders and investors, including women entrepreneurs</p>	<p>DRC, in coordination with the Trade Facilitation Committee, will have piloted the RAMIS-based automation of the application and approval process of trade-related transactions at Bhutan's border agencies.</p> <p>Document required: Certified copy of an implementation report finalized and approved by DRC and the Trade Facilitation Committee on the piloting of the automated application approval process</p>	<p><b>Complied with.</b></p> <p>DRC presented the report on piloting of the CMM of the RAMIS to the Fourth Meeting of the National Trade Facilitation Committee (NTFC) of Bhutan on 5 September 2014. The NTFC endorsed the piloting phase of "as-is" customs functionalities under the CMM with letter No. NTFC-4/STFP/PA4-T2 and report No. STFP-PA4-T1-0.1 on 3 September 2014.</p>
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Note: Certification is defined as confirmation by the Department of Revenue and Customs.

Source: ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Grants: South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.

### PROGRESS UNDER THE DESIGN AND MONITORING FRAMEWORK (BHUTAN)

Design Summary	Performance Targets and Indicators with Baselines	Progress as of September 2014
<b>Impact</b> Increased trade, including intraregional trade, of SASEC countries	Intraregional trade increases to 7.5% by 2018 (2011 baseline: 6%)	Intraregional trade of SASEC countries increased by 12% in 2013 from the 2011 baseline value of trade.
	Customs revenues in the subregion increase by at least 10% by 2018 (baseline: XXX)	TBD
<b>Outcome</b> More efficient, transparent, secure, and service-oriented processing of cross-border trade of SASEC countries	Border transits in Bhutan for freight traffic improve by 15% by 2015 (baseline: results of 2013 time release study)	<p>The Business Process Analysis Report, published in June 2014, provides results of the study of time and cost of trade through Bhutan's main trade corridor border-crossing point (Phuentsholing) as an initial step in collecting baseline data for the detailed steps of export and import.</p> <p>Bhutan is participating in the ongoing SASEC TTFMM initiative, supported by ADB and the United Nations Economic and Social Commission for Asia and the Pacific. TTFMM involves combining the methodologies on business process analysis, time release study, and time–cost distance methodology. With support from ADB technical assistance, the time-release study component is planned to be conducted in early 2015.</p>
	Minimum of 20% of shipments “green channeled” or not physically inspected by 2018 in Bhutan (baseline: 100% inspection)	<p>To date, all cargo remains subject to physical inspection. Under its trade facilitation National Strategic Framework and Action Plan 2014–2016, DRC is targeting compliance-based control with risk management as a priority component of the RKC requirements for implementation, starting in 2015. DRC anticipates engaging expert customs advice through ADB-financed technical assistance to support the strategic process. Training courses are scheduled for the second quarter of 2015, in collaboration with India's CBEC and NACEN.</p> <p>As part of initial steps to develop a national risk management program, DRC personnel attended WCO training on the SAFE Framework of Standards in Singapore, 27–31 May 2013; and the X-Ray Image Reading and Analysis Workshop in Bangkok, Thailand, 3–7 June 2013.</p>
<b>Outputs</b> 1. Modern and effective Customs administration and/or management	Accession of Bhutan to the Revised Kyoto Convention by 2015	Bhutan formally acceded to the RKC on 15 September 2014.

Design Summary	Performance Targets and Indicators with Baselines	Progress as of September 2014
	Web-based customs management system launched in Bhutan by 2015 (baseline: none)	As of September 2014, RAMIS development is approaching the final stages of user acceptance. The RAMIS customs management module is expected to be operating in the first quarter of 2015.  In preparation for necessary skills upgrading, DRC information technology personnel attended a 2-week tailor-made training program on graphics and web development, held in Paro, Bhutan, 26 August–7 September 2013.
2. Streamlined and transparent trade processes and procedures	Combined 10 to 12 documents required for exports and imports in Bhutan by 2015 (2012 baseline: total of 20 documents for export and import)	<i>Doing Business 2015</i> shows the combined number of documents for exports and imports remained constant during 2012–2015, at 20 documents.
	Pilot national single windows established in Bhutan by 2015	Bhutan is currently focusing on completing and launching RAMIS project operations: three modules of income tax, sales tax, and nonrevenue customs. It will then take concrete steps to develop a national single window. The RAMIS is being built with a view to interface seamlessly with electronic platforms of government agencies involved in trade facilitation, both behind and at the border. The ongoing work of the NTFC is strengthening essential interagency cooperation and collaboration during this process.
3. Improved services and information for private sector traders and investors, including women entrepreneurs	Trade and market access information portals operational in Bhutan, with links to sites of special interest to women entrepreneurs, by end 2015 (baseline: none)	Bhutan's NTFC is functioning smoothly and has met four times since inception in March 2013. Through the NTFC, pertinent information on trade facilitation activities and opportunities is being shared with other government agencies and relevant stakeholders in the private sector. During October 2014, DRC conducted a series of sensitization workshops (in the capital Thimphu and in four regional locations) on the RKC and the amended Customs Act, and the implications for public and private sectors. A proposal to update and develop the DOT web portal has been submitted to the NTFC for funding through the ADB JFPR technical assistance. DRC and DOT intend to collaborate on this initiative during 2015.

ADB = Asian Development Bank, CBEC = Central Board of Excise & Customs, DOT = Department of Trade, DRC = Department of Revenue and Customs, JFPR = Japan Fund for Poverty Reduction, NACEN = National Academy of Customs Excise & Narcotics, NTFC = National Trade Facilitation Committee, RAMIS = Revenue Administration Management Information System, RKC = Revised Kyoto Convention, SASEC = South Asia Subregional Economic Cooperation, TBD = to be determined, TTFMM = transport and trade facilitation measurement and monitoring, WCO = World Customs Organization.

Source: ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Grants: South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.

### STATUS OF PROGRAM ASSURANCES AND CONDITIONS (BHUTAN)

Item	Source	Achievement
<b>Covenants</b> Section 4.02. (b) The Beneficiary shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	FA, Article IV, Particular Covenants	<b>Complied with.</b> MOF's DPA, as the executing agency, and DRC, as the implementing agency, have shown full support and cooperation with ADB missions and other inquiries through provision of relevant documentation as requested by ADB.
Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations and Section 6.04 of the Grant Regulations, the Beneficiary shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	FA, Article IV, Particular Covenants	<b>Complied with.</b> DPA and DRC have provided ADB with reports, status, and situation updates and other information relating to the program.
Section 4.03. (b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations and Section 6.04 of the Grant Regulations, the Beneficiary shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	FA, Article IV, Particular Covenants	<b>Complied with.</b> Through updates by the chair to the NTFC of Bhutan, reports on progress in achieving the STFP policy action conditions have been fully shared on a quarterly basis with ADB in October 2013, January 2014, May 2014, and September 2014.
<b>Implementation Arrangements</b> 1. Within 60 days of the Effective Date, the Beneficiary shall have established at DRC the PMU which shall be responsible for implementing the policy actions and other activities for the Program in coordination with MOF, DRC, MOEA, and MOAF.	FA, Schedule 4, Program Implementation and Other Matters	<b>Complied with.</b> A PMU was established in DRC on 1 January 2013. Two DRC staff are attached to the PMU (one deputy collector and one joint collector). A program coordinator, financed by the Bhutan technical assistance (funded by the JFPR) supports the PMU.
2. Within 60 days of the Effective Date, the Beneficiary shall have established the Program Steering Committee which shall be responsible for coordinating and monitoring the implementation of reforms under the Program.	FA, Schedule 4, Program Implementation and Other Matters	<b>Complied with.</b> In lieu of a program steering committee, and to avoid duplication of scarce human resources, the NTFC was established under Office Order DPA/ADB-3p/2013/666 dated 18 February 2013. The NTFC members are secretary, MOF (chair); director, Department of Trade, MOEA; executive director, BAFRA, Ministry of Agriculture and Forests; director, Department of Immigration,

Item	Source	Achievement
		<p>Ministry of Home and Cultural Affairs; director general, National Statistics Bureau; deputy governor, Royal Monetary Authority; secretary general, Bhutan Chamber of Commerce and Industries; and director, Department of Revenue and Customs.</p> <p>The PMU within DRC is the official secretariat to the NTFC.</p>
<p>3. The Beneficiary shall ensure that the Program Steering Committee meets at least semi-annually and, if needed, on an ad hoc basis to (a) monitor the progress of the Program; (b) provide guidance and direction to the MOF, DRC, MOEA and MOAF and other relevant ministries for Program implementation; and (c) recommend adjustments or supplementary measures to facilitate and ensure timely implementation of the Program. ADB shall be invited to attend all meetings of the Program Steering Committee as an observer.</p>	<p>FA, Schedule 4, Program Implementation and Other Matters</p>	<p><b>Complied with.</b></p> <p>The NTFC was mandated to meet on a quarterly basis with the objective of ensuring proper coordination and smooth implementation of the STFP. ADB has been invited to all STFP meetings and has attended one meeting as observer. Nevertheless, NTFC has shared all meeting minutes with ADB.</p>
<p><b>Policy Actions, Continuity of Reforms, and Dialogue</b></p> <p>4. The Beneficiary shall ensure that (a) all policy actions adopted under the Program, as set out in the Policy Letter and Policy Matrix, continue to be in effect for the duration of the Program and subsequently; (b) the reforms specified in the Policy Letter and Policy Matrix continue to be implemented in a phased and timely manner in accordance with the approved plans and orders issued pursuant to the Policy Matrix; and (c) all of its obligations as stipulated in this Financing Agreement are carried out in a timely and efficient manner.</p>	<p>FA, Schedule 4, Program Implementation and Other Matters</p>	<p><b>Complied with.</b></p> <p>The recipient met all three first tranche conditions within the scheduled time, and the tranche was released as scheduled. For the second tranche, the recipient has fully complied with all four tranche release policy conditions. It has also met all other obligations in a timely and efficient manner.</p>
<p>5. The Beneficiary shall keep ADB informed of policy discussions with other multilateral or bilateral aid agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Beneficiary shall take into account ADB's views before finalizing and implementing any such proposals.</p>	<p>FA, Schedule 4, Program Implementation and Other Matters</p>	<p><b>Complied with.</b></p> <p>To date, no policy discussions have been held with implications for STFP implementation. As and when such implications arise, the beneficiary will inform ADB.</p>
<p><b>Budgetary Support and Use of Counterpart Funds</b></p> <p>6. The Beneficiary shall ensure that sufficient funding is allocated in its annual</p>	<p>FA, Schedule 4, Program Implementation</p>	<p><b>Complied with.</b></p> <p>To ensure adequate provision of training to the users from DRC of the new RAMIS</p>

Item	Source	Achievement
national budgets to ensure the efficient and timely implementation of RAMIS.	and Other Matters	system, budgetary allocation of Ngultrum 5 million has been committed by the Government of Bhutan.
<b>Governance and Anticorruption</b> 9. The Beneficiary shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	FA, Schedule 4, Program Implementation and Other Matters	<b>Complied with.</b> The project is being implemented in a transparent manner and the recipient extends all cooperation to ADB for satisfactory program implementation.
<b>Monitoring and Review</b> 11. ADB shall undertake periodic review missions to (a) confirm progress and fulfillment of policy actions for tranche release; (b) confirm release of adequate funds from the Beneficiary for Program-specific activities; (c) monitor continued applicability of the assumptions that might impact Program success, as well as specified risks and their mitigating measures; and (d) advise on actions to maintain effective implementation within the Program period.	FA, Schedule 4, Program Implementation and Other Matters	<b>Complied with.</b> Four review missions were conducted following the release of the first tranche in April 2013: May 2013, January 2014, July 2014, and October 2014. DRC shared information requested by ADB and showed commitment to achieving the program goals in a timely manner.

ADB = Asian Development Bank, BAFRA = Bhutan Agriculture and Food Regulatory Authority, DPA = Department of Public Accounts, DRC = Department of Revenue and Customs, FA = financing agreement, JFPR = Japan Fund for Poverty Reduction, MOAF = Ministry of Agriculture and Forests, MOEA = Ministry of Economic Affairs, MOF = Ministry of Finance, NTFC = National Trade Facilitation Committee, PMU = project management unit, RAMIS = Revenue Administration Management Information System, STFP = South Asia Subregional Economic Cooperation Trade Facilitation Program.

Source: ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Grants: South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.