



Technical Assistance Report

Project Number: 41152
December 2007

Kingdom of Bhutan: Strengthening Public Financial Management

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 29 November 2007)

Currency Unit	=	ngultrum (Nu)
1.00	=	\$0.02513
\$1.00	=	Nu39.7925

ABBREVIATIONS

ADB	–	Asian Development Bank
BAS	–	budget and accounting system
DNB	–	Department of National Budget
DPA	–	Department of Public Accounts
FRR	–	financial rule and regulation
FY	–	fiscal year
FYP	–	five-year plan
HR	–	human resources
IT	–	information technology
MOF	–	Ministry of Finance
PFA	–	Public Finance Act
RAA	–	Royal Audit Authority
RIM	–	Royal Institute of Management
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsectors	–	National government administration, economic management, public finance and expenditure management
Themes	–	Sustainable economic growth, governance, and capacity development
Subthemes	–	Promoting macroeconomic stability, public governance, and institutional development

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

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Director General	K. Senga, South Asia Department (SARD)
Director	A. Sharma, Governance, Finance and Trade Division, SARD
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I. INTRODUCTION

1. The Government has been making steady progress in improving the country's public financial management system to support Bhutan's economic and social development. In 2006, the Office of the Auditor General was established, and the Audit Act was approved. This act established the Royal Audit Authority (RAA) under the Auditor General, which is responsible for promoting the efficient use of public resources. Further, the 2007 draft constitution mandates that RAA audit all government department accounts as well as the country's revenues, advances, and reserves. Under the June 2007 Public Finance Act (PFA), the Government is committed to various fiscal objectives, including sustainable and transparent fiscal management and a sound budgeting and accounting system. The approval of the constitution, scheduled for 2008, is expected to lead to additional public finance improvements including a fiscal transfer framework from central to subnational administrations, particularly the *dzongkhag* (district) level.

2. Vision 2020¹ aims to ensure the country's future independence, sovereignty, and security through good governance and rapid economic growth. To support Vision 2020's implementation, the Government adopted the Ninth Five-Year Plan (FYP) for fiscal year (FY) 2002–2007, which advocates the adoption of various rules and regulations to encourage economic growth. The draft Tenth FYP is under preparation and is expected to provide continuity in support of Vision 2020.

3. The Asian Development Bank's (ADB's) *Country Strategy and Program (2006–2010) for Bhutan*² includes two strategic thrusts: (i) lending assistance focusing on transport, power, urban development, and private sector development; and (ii) nonlending assistance for capacity building for sustainable development, including enhancing debt and public resource management capacity. Strengthening RAA has also been mentioned as a key area of required capacity development.

4. At the request of the Ministry of Finance (MOF) and RAA, two missions were fielded in August and November 2007, and the technical assistance (TA) paper was prepared based on their findings.³ The TA is consistent with the country strategy and program and Vision 2020. This TA is also included in the *Bhutan Country Operations Business Plan 2007–2009* as a cluster TA.⁴ The design and monitoring framework is included in Appendix 1.

II. ISSUES

5. The Government's immediate challenge is developing procedures to implement the PFA, as financial rules and regulations (FRRs) are deemed too complex to execute. MOF plans to review FRRs and to simplify and segregate them into manuals. MOF will then prioritize capacity development in the various FRRs, particularly at the line ministry and district levels, to support implementation. Work has already started with respect to one of the seven FRRs on finance and accounting under an ADB-supported regional TA.⁵

¹ Royal Government of Bhutan. 1999. *Bhutan 2020: A Vision for Peace, Prosperity and Happiness*. Available: <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN005249.pdf>.

² ADB. 2005. *Country Strategy and Program (2006–2010): Kingdom of Bhutan*. Manila.

³ The TA first appeared in *ADB Business Opportunities* on 23 November 2007.

⁴ ADB. 2006. *Country Operations Business Plan (2007–2009): Kingdom of Bhutan*. Manila.

⁵ See Project 1 (Bhutan: Support for Anticorruption and Good Governance at Local Level) under ADB. 2006. *Proposed Technical Assistance for the Development Partnership Program for South Asia (Financed by the Australia-ADB South Asia Development Partnership Facility)*. Manila (TA 6337-REG approved on 18 August).

6. Fiscal programming is another challenge facing MOF due to the development budget's growing size, lumpy investments and borrowings, and resulting revenues, which stem in part from accommodating in the budget large infrastructure projects. In addition, a major share of the development budget is from large, irregular, and lumpy donor funds, which—given project implementation capacity constraints—add uncertainty to budget implementation and disbursements. Fiscal programming thus requires formulating budgets within a medium- to long-term framework to accommodate sudden spikes in capital spending and debt build-up that drive unpredictable investment requirements. In particular, expenditure management must control expansion in outlays and revenues once large infrastructure projects are commissioned. In response, the Government presented the FY2007 budget based on a medium-term fiscal framework and has begun to work towards a multi-year rolling framework with World Bank support.

7. As part of its obligations under PFA, MOF requires improved expenditure management, including closer monitoring of flow of funds.⁶ At present, funds reporting to the Department of Public Accounts (DPA) following disbursement of current expenditure may take up to 45 days after the end of the quarter. This is particularly the case for spending at the *dzongkhag* level. In addition to capacity constraints, reasons for these delays include deficiencies in the budget and accounting system (BAS), frequent system breakdowns, and inconsistencies between BAS reports and auditor requirements—which leads to the continuing use of manual bookkeeping. DPA is seeking assistance to enhance the BAS to enable funds disbursement and real-time reporting. A possible solution is to connect the BAS to a telephone line dial-up system, enabling DPA to access data at the *dzongkhag* and eventually *gewog* (local) levels. This would allow experts to assist local officers in troubleshooting, which will reduce delays in fund reporting.

8. Another important reform initiative under DPA consideration is treasury account consolidation. To date, the Treasury operates around 1,000 bank accounts for expenditure financing, which are linked to five consolidated funds. While netting of accounts occurs daily, there are potential fiscal savings in the identification of and quick access to liquid funds available in various accounts.

9. More generally, there is potential for increasing fiscal savings from developing improved cash management operations at DPA and building on the annual public sector borrowing requirement. The Capital Market National Task Force was created in FY2006 to develop a framework to identify the demand for domestic borrowings through treasury bills. This will assist not only in developing a cash management framework for the Treasury as part of its fiscal policy but also in gauging excess liquidity in the market, which supports the Royal Monetary Authority's monetary policy framework. The recent increase in the pricing of treasury bills, in reaction to the rapid decline of Indian rupee reserves, underscores the importance of moving toward a market-based treasury bills system.

10. Capacity constraints exist across various areas at subnational levels, including financial management and accountancy. While financial officers hold an undergraduate degree in financial management or accountancy, financial clerks are usually high school graduates with limited financial management skills. Capacity development therefore requires a two-tier strategy, including (i) specialized and advanced training for financial officers through partnerships with reputable training institutes, and (ii) core training in auditing and accounting for financial clerks at the Royal Institute of Management.

⁶ ADB. 2000. *Technical Assistance to the Kingdom of Bhutan for Public Sector Resource Management*. Manila (TA 3513-BHU approved on 6 October) provided initial support in the setting up of the BAS.

11. Finally, the August 2007 draft constitution requires developing a system of fiscal transfers from the Government to *dzongkhags*. Under the proposed system, approximately 20% of total revenue and grants are proposed to be assigned to the *dzongkhags* from the central budget for district- and local-level spending. The transfers are to be assigned under various development schemes of which the block grants will constitute approximately 30% of total transfers. The Planning Commission has identified a revenue-sharing formula for this block grant scheme with defined weights for (i) population, (ii) food security, (iii) environment, and (iv) geography. Monitoring the use of resources will be based on achieving targets including (i) increase in income, (ii) poverty reduction, and (iii) health. The scheme's implementation and management will require capacity development to enable local administrations to use resources. Developing operational links between the Planning Commission, Department of National Budget (DNB), DPA, RAA, and subnational administrations—and with systems such as public procurement management—will be critical for integration under the BAS.

12. A key element of the Government's evolving role is RAA's expanded role. The new constitution envisages RAA to be independent from the Royal Civil Service Commission, affording it greater autonomy. Further, RAA will also be separated from the mainstream budgetary channels and receive direct support from Parliament. The country's FYP outlay has increased significantly over the last few plan periods. In this regard, RAA's strategic thrust has been to align itself to its stakeholders' needs, including (i) parliamentary public account committees, (ii) line ministries, (iii) financial institutions, and (iv) civil society. Stakeholders expect RAA to provide (i) annual audit reports, (ii) agency audit reports, (iii) expert opinions, (iv) audit certificates, and (v) advisory services.

13. RAA's mandate has been expanded to include the following:

- (i) environmental auditing, including that in relation to waste, water, and biological diversity;
- (ii) information technology (IT) auditing to assess information and cybernetic systems with regard to efficiency and economy;
- (iii) performance auditing, as an independent assessment and objective examination of organizations' financial and operational performance; and
- (iv) financial auditing to determine if financial statements are prepared in accordance with identified frameworks.

14. As part of its expanded role, RAA will evolve from conducting transaction audits to performance audits. In a performance audit, RAA must now engage in reporting and advising Parliament on managing public resources. RAA's advice will be integral to formulating policies and creating rules and regulations pertaining to public resources. RAA has already received TA support from the United Nations Development Program in which 35 officers were trained in performance audits. Yet also under its expanded mandate, RAA is expected to increase the number of state-owned enterprises under its purview to beyond the current estimate of 200. RAA is also expected to independently evaluate statutory audits of state-owned firms that are currently undergoing statutory audits by foreign accounting firms.

15. RAA has identified its human resources (HR) as a weak link and has developed an HR strategy to improve its capacity to functionalize this new operating modality. RAA is looking to ADB to assist in further enhancing its HR capabilities as well as to upgrade and deploy auditing

software. Functional elements, such as software support, will also be integrated in training programs. Further, RAA has requested assistance in developing and implementing a public information and disclosure program on its evolving role.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

16. The TA will support the Government's initiative to strengthen the institutional capacity of public financial institutions thereby, improving their ability to fulfill their statutory mandates. The impact of the TA is enhancement of budget, treasury, and audit management to support fiscal sustainability and financial management reporting as enumerated under the PFA and the Audit Act. The goal of the TA is to improve effectiveness of budget, treasury, and audit operations to support macroeconomic stability, which contributes to sustainable growth and poverty reduction.

B. Methodology and Key Activities

17. The TA will have three components: (i) strengthening fiscal management, (ii) strengthening Treasury management, and (iii) strengthening RAA. The TA will consist of three parts. Part 1 will conduct a detailed needs assessment of the TA's various subcomponents by working closely with stakeholders and building on work undertaken by the Government. Part 2 will design a road map to support the subcomponents' operational and training activities and build on the needs assessment's findings. Part 3 will cover the road map's effective implementation including delivery of solutions such as training and equipment installation. The TA supports the Government's efforts to build public financial management architecture based on (i) the national budget as the Government's primary public policy instrument, (ii) developing systems to monitor public flow of funds, (iii) developing checks and balances through audits of public funds, and (iv) supporting a transparency and accountability framework.

18. The following components and subcomponents are to be supported under the TA:

- (i) component 1: fiscal management
 - (a) subcomponent 1: revising rules and regulations on budget management
 - (b) subcomponent 2: developing a multi-year rolling budget framework
 - (c) subcomponent 3: developing an intergovernmental fiscal transfer framework
- (ii) component 2: Treasury management
 - (a) subcomponent 4: consolidation of Treasury accounts
 - (b) subcomponent 5: strengthening financial management accounting and reporting
 - (c) subcomponent 6: developing cash management operations
- (iii) component 3: RAA capacity building
 - (a) subcomponent 7: curriculum development for expanded RAA mandate including performance, environment, IT, and financial audits
 - (b) subcomponent 8: acquiring and implementing IT systems and auditing software for improving operational efficiencies within RAA and for improving in-house training

- (c) subcomponent 9: developing a sustainable RAA training and outreach program

C. Cost and Financing

19. The total cost of the TA is estimated at \$860,000, of which \$750,000 will be financed on a grant basis by ADB's TA funding program. The Government will provide \$110,000 equivalent in local currency cost through counterpart staff, office facilities, and administrative support. The detailed cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

20. MOF will serve as the Executing Agency. A senior MOF official will be appointed project director, the appointment of whom will be acceptable to ADB. MOF will be the Implementing Agency responsible for components 1 (through DNB) and 2 (through DPA). RAA will be the Implementing Agency for component 3. A steering committee, chaired by the deputy secretary of finance, will be established with representatives of RAA, DPA, DNB, Royal Institute of Management, Royal Monetary Authority, and Planning Commission; key chief financial officers; deputy chief financial officers of key line ministries; and *dzongkhag* representatives. The committee may invite other parties to attend its meetings when required. It will meet at least once every quarter, and will be mandated to (i) monitor and guide TA implementation, (ii) resolve issues that might arise, and (iii) review consultants' reports. ADB will attend the committee meetings when possible.

21. Consulting services required under the TA include 11 person-months of international and 46 person-months of national consultants, of which 40 person-months have been identified. Six person-months will be used for short-term expertise on an as-needed basis, and international and national consultants will be mobilized intermittently over a 2-year period. A consulting firm will be selected using the quality- and cost-based selection method, and based on a simplified technical proposal. The consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). Outline terms of reference for consultants and proposed scheduling are in Appendix 3.

22. Equipment will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). At the end of the TA, all equipment will be retained by user agencies. Procurement of network connections and software will be prioritized under the TA, and residual funds will be used for procurement of computers and printers.

23. A training needs assessment will be undertaken at the beginning of the TA to improve the budget process, which will lead to a training action plan. Training will be offered to staff of DNB, DPA, RAA, Planning Commission, and budget officers to standardize methods and improve coordination. It will also include training of *dzongkhag*- and *gewog*-level officials, such as budget and accounting officers, to develop a bottom-up approach to budget planning in view of reform introduction, such as block grant schemes.

24. The TA will be implemented over 24 months, from January 2008 to January 2010.

IV. THE PRESIDENT'S DECISION

25. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis to the Government of Bhutan for Strengthening Public Financial Management, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Enhancement of public financial institutions' capacity, leading to greater transparency and accountability of public accounts, more effective use of public spending, and ultimately fiscal savings	Maintain the current operating deficit near zero Fiscal policies consistent with future taxes and supportive of macroeconomic stability Meeting the sustainability of fiscal balance does not compromise the development budget Improvement in public spending outcomes Reductions in ways and means advances to the Government Improvement in systems, policies, and procedures in conducting audits of state institutions Expanded capacity of RAA in undertaking variety of audit functions	Semiannual budget report Year-end budget review RAA annual report ADB consultant reports ADB evaluation missions	Assumptions <ul style="list-style-type: none"> Scheduled approval of constitution Continuity in Tenth Five-Year Plan Continued commitment to reforms to public finance by incoming Government Risks <ul style="list-style-type: none"> Difficulties in staffing <i>dzongkhags</i> (districts) and <i>gewogs</i> (local) Coordination problems between Planning Commission and MOF Coordination difficulties between the Government and ministries and subnational administrations Coordination problems between RAA and line departments Inability of line departments and state-owned enterprises in appreciating expanded audit role of RAA and audit requirements
Outcome Stronger budget, treasury, and audit management in place to support fiscal sustainability principles and financial management reporting requirements as enumerated under the newly-approved PFA	Adherence to budget policy and fiscal framework statement Reduction in time for line ministries to present and agree with MOF on spending commitments for new budget year Reduction in carryover of spending agencies' undisbursed commitments from one year to the next Improved integration of current	Budget statement Feedback from MOF and from line ministries Feedback from civil society Audit report ADB consultant reports ADB evaluation missions Surveys conducted pre- and post-formal training	Assumptions <ul style="list-style-type: none"> Effectiveness of hired consultants Regular ADB reviews Sufficient absorptive capacity is in place from training activities Risk <ul style="list-style-type: none"> Ineffective resource use, or inability to make use of resources, by

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	and development budget A minimum of 30 hours of training provided across each of the 3 components	Annual staff performance reviews	agencies
Outputs			Assumptions
1. Revised FRRs on budget management	Distribution and training on use of updated and revised FRRs and budget manuals targeting central ministries and subnational administrations (April 2009)	Consultants' reports ADB and steering committee reviews Direct feedback from institutions from site visits	<ul style="list-style-type: none"> • Effective capacity is in place based on timely inputs from the training needs assessment and rollout of workshops. • Successful installation of dial-up remote access to <i>dzongkhags</i> and most <i>gewogs</i> • Effective coordination with World Bank's TA on multi-year budget framework. • Effective coordination between Planning Commission and DPA.
2. Effective design and use of multi-year rolling budget framework	Line ministries and subnational administrations capable of identifying development projects that are (i) aligned with policy priorities, (ii) well integrated with current expenditures, (iii) within the sector/subsector expenditure ceilings, and (iv) consistent with the medium-term fiscal framework (August 2009)		
3. Effective intergovernmental fiscal transfers framework in place	Subnational administrations are receiving fiscal transfers in the form of block grants according to approved selection criteria (August 2009).		Risks
4. Consolidation of treasury accounts	DPA is operating under a consolidated fund regime and with either a single or single digits accounts—expenditure and revenue—depending on the recommendation from the consultants (July 2009)		<ul style="list-style-type: none"> • Poor working relationships between consultants and the implementing agencies and the executing agency • Subnational administrations fail to agree on intergovernmental sharing formula. • Risks to liquidity management resulting from interest rate differential between Bhutan and India • Liquidity continues to be difficult to forecast despite the development of the cash management system.
5. Effective financial management accounting and reporting in place	Enhanced BAS network connections and requisite software operating, and allowing for real-time disbursement and reporting to DPA (April 2009).		
6. Develop cash management operations framework	Cash management reporting system in place providing monthly balances on government monthly expenditure and revenues (May 2009)		
7. Training curriculum developed in all aspects of RAA operations,	Year-on-year improvement in quality of audit exercises in line with best practices (December 2009)		

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
specifically in performance, environment, IT, and financial audits	RAA is able to undertake performance, IT, environmental, and financial audits (December 2009).		
8. IT systems and processes to improve in-house training capacity of RAA established	Audit functions are well integrated with overall financial and budget management functions (December 2009).		
9. Established in-house training system for continuous capacity development and staff skill enhancement	RAA performance audit reports are used in financial management accounting and reporting (December 2009).		
Activities with Milestones			Inputs
<ol style="list-style-type: none"> 1. Finalize training needs assessment for outputs 1–9 (Milestone: Needs assessment completed by September 2008) <ol style="list-style-type: none"> 1.1 Review mandates of each agency, particularly against requirements under new legislation 1.2 Assess capacity in institution to carry out mandates 1.3 Assess gaps in capacity, including any enabling mechanisms, such as legal framework, as well as internal processes 1.4 Specify the needs of each institution in order to fulfill their mandates better 1.5 Collect benchmark data on the work of all five institutions 2. Finalize completion of road maps or action plans for each output identified (Milestone: Action plans for the institutions completed by December 2008) <ol style="list-style-type: none"> 2.1 Evaluate the overall context of action plans against various development options 2.2 Evaluate any human resources, technical, and technological development options 2.3 Complete the human resources, technical, and technological capacity development plans to effectively support outputs 1–9 3. Implement action plans (Milestone: Action plans implemented by December 2009) <ol style="list-style-type: none"> 3.1 Implement solutions covering the technical way forward, capacity development, and procurement 3.2 Disseminate FRRs, manuals, and other forms of systems and procedures (or knowledge) to make effective use of these advances 3.3 Revise training materials and modalities, if necessary, based on information from the post-training follow-up 4. Perform project supervision and administration <ol style="list-style-type: none"> 4.1 Establish project steering committee (January 2008) 4.2 Engage consultants for project activities (March 2008) 4.3 Conduct reviews of: <ol style="list-style-type: none"> (i) Steering committee (quarterly) (ii) TA monitoring unit (regularly) (iii) ADB missions (at least once per quarter) 4.4 Prepare and submit: <ol style="list-style-type: none"> (i) TA inception report (May 2008) (ii) TA mid-year reports (July and December 2008, July 2009) (iii) TA draft final report (September 2009) (iv) TA tripartite and final report (November 2009) 			ADB: <ul style="list-style-type: none"> • \$750,000 • Consultants • Review missions • Participation in tripartite meeting Government: <ul style="list-style-type: none"> • Counterpart staff • Office accommodation and transport • Administrative services • Participation in tripartite meeting

ADB = Asian Development Bank, BAS = budget and accounting system, DPA = Department of Public Accounts, FRR = financial rules and regulations, IT = information technology, MOF = Ministry of Finance, PFA = Public Finance Act, RAA = Royal Audit Authority, TA= technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants (11 person-months)	300
ii. National Consultants (46 person-months) ^b	184
b. International and Local Travel	
i. International Travel	25
ii. Local Travel	15
c. Reports and Communications	10
2. Equipment ^c	60
3. Training and Workshops including Manuals	66
4. Contingencies (assumed at 12%; rounded)	90
Subtotal (A)	750
B. Government of Bhutan Financing	
1. Office Accommodation and Transport	70
2. Administrative Support	25
3. Other (including communications, etc.)	15
Subtotal (B)	110
Total	860

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

^b Includes 6 person-months of unallocated staff to be determined at a later date.

^c Includes costs for network connections, database management software, and selected personal computers and printers.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Fiscal Management Specialist and Team Leader and Task Manager for Component 1 (international, 4 person-months)

1. The consultant will have experience in leading fiscal management reforms, and possess an educational background in economics/finance. The consultant will spend 20% of allocated time on training. The consultant will coordinate closely with the project director and other project specialists, particularly in developing an integrated public financial management system.

2. In support of subcomponent 1, the activities of this position include but are not limited to:

- (i) reviewing the Public Finance Act (PFA), the latest budget policy and fiscal framework statement, and fiscal rules and regulations (FRRs) on budget management;
- (ii) consulting with central ministries and district and local administrators to understand FRRs' shortfalls in budget formulation, implementation, and auditing;
- (iii) revising FRRs to support the Ministry of Finance's (MOF) responsibilities under PFA; ensuring clear and up-to-date regulations; and identifying clear assignment of responsibilities for spending agencies, financial officers, and clerks;
- (iv) in coordination with the information technology (IT) specialist, developing the budget ledger to ensure proper coding of entries as part of the budget and accounting system (BAS) improvement;
- (v) reaching an agreement with the Government and other donors on a common set of financial management indicators, to be included as performance benchmarks across future donor-funded projects;
- (vi) reviewing FRRs to ensure consistency across FRRs;
- (vii) in coordination with the IT specialist, developing new fields to ensure reports generated under the BAS fulfill reporting requirements under related FRRs and any planned auditing guidelines;
- (viii) developing a budget manual to include clear and up-to-date instructions that follow PFA and support FRRs; and
- (ix) in association with the training expert, conducting workshops to disseminate revised budget FRRs and the new budget manual, which target all relevant users.

3. In support of subcomponent 2, the activities of this position include but are not limited to:

- (i) reviewing, in coordination with World Bank consultants, work undertaken by the Department of National Budget (DNB) in support of the multi-year rolling budget framework;
- (ii) recommending a road map over the medium term that serves to combine the horizontal dimension of budget planning (between DNB and line ministries) with the vertical dimension (between DNB and subnational spending agencies) according to international best practices;
- (iii) in association with the Planning Commission, developing investment planning/prioritization criteria methodology for project selection at both the line ministry and subnational level;
- (iv) developing an effective system of expenditure ceilings within the overall budget allocation that is easy to implement and monitor;

- (v) reaching an agreement with the Government and other donors on a common set of financial management indicators, to be included as performance benchmarks across future donor-funded projects;
 - (vi) suggesting modifications to the budgeting methodology that are well coordinated with macroeconomic and fiscal frameworks;
 - (vii) in association with the training expert, conducting workshops to disseminate the road map, investment planning methodology, and expenditure ceilings framework, which target relevant users; and
 - (viii) identifying terms of reference and work plans for unidentified national consultants.
4. In support of subcomponent 3, the activities of this position include but are not limited to:
- (i) reviewing Planning Commission work in support of the framework with a focus on identification of resources to support block grant system implementation;
 - (ii) developing a plan of action to roll out block grant funds, building on simple absorptive capacity criteria across subnational administrations;
 - (iii) in coordination with the IT expert, creating a database linked to the BAS to monitor target outcomes at the subnational level; and
 - (iv) in association with the training expert, conducting workshops to disseminate the plan of action and database, which targets relevant users.

B. Treasury Management Specialist and Task Manager for Component 2 (international, 3 person-months)

5. The consultant will have experience in national treasury management, possess an educational background in economics/finance, and will spend 20% of allocated time on training. The consultant will coordinate closely with project director and other project specialists, particularly in developing an integrated public financial management system.

6. In support of subcomponent 4, the activities of this position include but are not limited to:
- (i) reviewing the treasury account operations framework at the Department of Public Accounts (DPA), including the number of operating accounts, consolidated accounts, and consolidated funds off and on the budget and in contrast to international best practices;
 - (ii) assessing the potential fiscal savings from consolidation to a more manageable set of treasury accounts or even adopting a single account;
 - (iii) developing an action plan with clear directions and responsibilities to implement a targeted consolidation of treasury accounts;
 - (iv) creating a user-friendly consolidated treasury account operations manual; and
 - (v) in association with the training expert, conducting workshops to disseminate the plan of action and operations manual, which targets relevant users.
7. In support of subcomponent 5, the activities of this position include but are not limited to:
- (i) reviewing the operating practices for flow of funds, focusing on areas of improvement;
 - (ii) contrasting operating procedures with best international practices with a view to simplification;

- (iii) in association with the IT expert, creating an action plan to support the development of a real-time fund disbursement and reporting system based on the BAS;
 - (iv) developing an operations manual or a budget manual chapter, which provides user-friendly instructions to operate the revised BAS; and
 - (v) in association with the training expert, conducting workshops to disseminate the action plan and new manual, which targets relevant users.
8. In support of subcomponent 6, the activities of this position include but are not limited to:
- (i) reviewing recommendations of the National Capital Markets Development Task Force on developing a treasury bills market;
 - (ii) in coordination with the IT expert, recommending amendments to the BAS that support nearest to real-time reporting on monthly cash balances based on actual spending and revenue collection;
 - (iii) simulating the revised BAS for past fiscal years to identify targeted annual public sector borrowing requirements for the Government;
 - (iv) in coordination with the Planning Commission and Royal Monetary Authority, preparing government liquidity forecasting for fiscal year (FY) 2008–2009 based on the budget policy and fiscal framework statement;
 - (v) preparing a budget manual chapter that provides user-friendly instructions to support the revised BAS's implementation; and
 - (vi) in association with the training expert, conducting workshops to disseminate the cash management operations system to relevant staff.

C. Training Specialist 1 (national, 8 person-months)

9. The consultant will have experience in financial management, preferably in a national budget department, and possess an educational background in economics/finance. The consultant will have ideally worked in training at the Royal Institute of Management (RIM) or have conducted workshops or other training activities. The consultant will work closely with the fiscal management specialist and will coordinate with the project director and other project specialists:

10. In support of subcomponents 1–3, the activities of this position include but are not limited to:
- (i) with the training specialist 2, undertaking a comprehensive training needs assessment focusing on (a) DNB, DPA, Planning Commission, and budget officers in central line ministries; and (ii) *dzongkhag* (district)-level officials, such as budget and accounting officers, and selected *gewog* (local) officials;
 - (ii) reviewing the in-house DPA and DNB training programs;
 - (iii) coordinating with the fiscal and treasury management specialists to prepare a comprehensive training plan for concerned staff;
 - (iv) developing an institutional link-up between the technical assistance (TA) team and RIM to support arrangement of training facilities, RIM resource staff, and other activities to strengthen capacity development;
 - (v) coordinating with other individual consultants, and designing a capacity development plan for achieving three outcomes under the project, i.e., better fiscal management, improved Treasury management, and improved financial management capacity in subnational administration;

- (vi) in coordination with fiscal and treasury management specialists and RIM resource staff, conducting a specialized training syllabus under RIM's management development courses program for the purpose of tailoring specialized training to selected civil servants;
- (vii) in coordination with fiscal and treasury management specialists and RIM resource staff, coordinating institutional arrangements with regional institutes to deliver specialized training in Bhutan; and
- (viii) in coordination with the fiscal management specialist, conducting training workshops to disseminate (a) revised FRRs and manuals on budget management, (b) investment planning methodology and expenditure ceilings framework, and (c) expenditure performance database.

D. Training Specialist 2 (national, 8 person-months)

11. The consultant will have experience in financial management, preferably in a national treasury department, and possess an educational background in economics and/or finance combined with IT. The consultant will have trained others at the RIM or have conducted workshops or other training activities. The consultant will work closely with the treasury management specialist, project director, and other project specialists.

12. In support of subcomponents 4–6, the activities of this position include but are not limited to:

- (i) in coordination with the Civil Service Commission, conducting performance reviews of staff who would benefit from training under the TA;
- (ii) in coordination with fiscal and treasury management specialists, developing accreditation standards based on the successful completion of diplomas that could be recognized by Royal Civil Service Commission;
- (iii) in coordination with the treasury management specialist, conducting workshops to disseminate the operations manual on consolidated treasury account use;
- (iv) in coordination with the treasury management specialist, conducting workshops to disseminate training case studies using the BAS, including the amended fund disbursement and reporting system to be introduced under the TA;
- (v) in coordination with the treasury management specialist, conducting workshops on revised cash management practices to be introduced under the TA;
- (vi) in coordination with the other project specialists, identifying a study tour to a country in the region as part of the training program; and
- (vii) assisting the other project specialists in providing knowledge support as required.

E. IT Specialist (national, 8 person-months)

13. The consultant will have experience in software development, specifically treasury management systems, and possess an educational background in computer science. This consultant will spend 20% of allocated time on training. The consultant will coordinate closely with the project director and other project specialists.

14. In support of subcomponents 4–6, the activities of this position include but are not limited to:

- (i) reviewing the BAS's operating platform, ledger, supporting databases, and reports;

- (ii) reviewing reasons for and recommending measures to avoid the BAS's operational deficiencies and breakdown;
- (iii) in coordination with fiscal and treasury management specialists, reviewing proposed amendments to the BAS under the TA;
- (iv) developing supporting software applications to accommodate these amendments in a simple and user-friendly manner;
- (v) reviewing the model of dial-up connectivity supporting Bhutan's treasury management system, and preparing—in coordination with the project director—tender documents to procure the necessary materials and software management to support remote control dial-up access to the subnational database;
- (vi) in coordination with the fiscal and treasury management specialists, supervising any business process re-engineering resulting from the modifications to FRRs, ledger, or other proposed amendments to the BAS derived from the TA;
- (vii) in coordination with the training specialists, developing training modules to disseminate use of new software applications under the revised BAS; and
- (viii) assisting other project specialists in providing IT support as required across the BAS applications and other applied solutions with a special focus on supporting integration with audit management systems and public procurement management systems.

F. Curriculum Development Specialist and Task Manager for Component 3 (international, 4 person-months)

15. The consultant will have experience in all aspects of auditing and audit offices both at the national and state level. Private sector experience in an international audit consultancy is an advantage. The consultant will have significant experience in environmental, financial, performance, and IT audits; possess at least a master's degree; and have over 15 years of experience in auditing functions and training. The activities of this position include but are not limited to:

- (i) understanding the Royal Audit Authority's (RAA) internal workings and expanded mandate;
- (ii) developing curriculums, including manuals, training materials, and training systems, for RAA in environmental, financial, IT, and performance audit functions;
- (iii) developing all training materials based on international best practices for environmental, financial, IT, and performance audits;
- (iv) developing a subject training calendar;
- (v) developing an RAA staff training program, and identifying staff for specialized trainings;
- (vi) developing train-the-trainer programs, and identifying those who can serve as lead trainers;
- (vii) guiding lead trainers during the initial phase of the train-the-trainers program; and
- (viii) developing mechanisms for knowledge sharing and management within RAA.

G. IT Specialist (national, 8 person-months)

16. To support the wide use of technology in upgrading RAA's activities, e.g., through database management, networking requirements, and use of IT, the consultant will possess significant experience in IT and auditing, and preferably have both public and private sector experience. The consultant will also be expected to have at least a master's degree and over 10

years of experience in IT and auditing functions. The activities of this position include but are not limited to:

- (i) providing guidance on IT support for curriculum development and training of RAA staff;
- (ii) providing inputs on auditing software and hardware requirements for strengthening RAA's IT base;
- (iii) providing cost estimates for procuring IT systems based on best practices;
- (iv) overseeing installation and operationalization of new IT systems;
- (v) assisting RAA staff in use of the new system, including conducting staff training; and
- (vi) providing inputs on IT use in public disclosure.

H. Public Information and Disclosure Specialist (national, 8 person-months)

17. To inform line departments, government agencies, and the public of RAA's expanded role and of the implications new auditing functions will have on their operations, the consultant will have over 10 years of experience in public information and disclosure as well as in public relations, and have significant auditing experience. The activities of this position include but are not limited to:

- (i) developing a strategy for a public information and disclosure campaign on all aspects of RAA using television, multimedia, and print;
- (ii) developing a targeted information and disclosure campaign for key stakeholders including line ministries;
- (iii) providing line ministries with formats for disclosing RAA required information on environmental, IT, and performance auditing; and
- (iv) assisting RAA in information sharing of its expanded role to civil society.

PROPOSED SCHEDULING FOR THE CONSULTING INPUTS

	2008												2009											
Consulting Input	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Team Leader-Fiscal Management																								
Treasury Management																								
Training Specialist 1																								
Training Specialist 2																								
IT Specialist																								
Curriculum Development Specialist																								
IT Specialist																								
Public Information and Disclosure Specialist																								

IT = information technology.

■ = estimated field time.

Source: Asian Development Bank.