

TA COMPLETION REPORT

Division : IWF1

TA NO./NAME: No. 2284 Conversion of the Unit Trust of Bhutan to a Commercial Bank				TA AMOUNT APPROVED: US\$146,500	SOURCE: TASF
EXECUTING AGENCIES: The Royal Monetary Authority (RMA)				REVISED AMOUNT: None	
DATE: 19 March 1996				TA AMOUNT UNDISB. US\$69,354.16	TA AMOUNT UTILIZED: US\$77,145.84
APPROVAL: 4 January 1995	SIGNING: 30 March 1995	FIELD: 11 April 1995	CLOSING: ORIGINAL: Sept. 1995	ACTUAL: Sept. 1995	

TA DESCRIPTION (Background/Rational)

1. In order to support Government's development efforts to transform the Bhutanese economy from a subsistence one to a more diversified one, and to promote greater participation by the private sector, Bank considers that a more efficient and competitive financial sector is necessary. Bank's strategy is to improve the financial sector institutions to enable them to contribute to this process.
2. At present there is only one commercial bank: Bank of Bhutan (BOB) to operate in the country. Its operations have been inefficient and unsatisfactory to the public because of its monopoly position in commercial banking, which has resulted in a large amount of funds being held outside the financial system. Government requested the Bank to provide the technical assistance (TA) to study the feasibility of creating a second commercial bank through conversion of the Unit Trust of Bhutan (UTB).

TA OBJECTIVE AND SCOPE

1. The basic objective of the TA was to study the feasibility and design an appropriate approach for the creation of a second commercial bank in Bhutan through conversion of the UTB which was considered as best suited for the conversion.
2. The scope of the TA included (i) reviewing the existing structure, activities, operations, and staff skills of UTB; (ii) studying the financial viability of a second commercial bank in Bhutan and recommending the most suitable methodology to be used in the conversion with the possibility of finding a foreign partnership; (iii) preparing an implementation plan for the conversion, inclusive of the financial arrangements, technology needs, and a timetable of tasks to be completed; (iv) preparing the local staff for the conversion and transferring commercial banking knowledge to Bhutan.

TA INPUTS EVALUATION (Adequacy of Formulation/Terms of Reference/Performance of Consultant/Other Inputs/Review Missions/Inputs of Recipients)

1. The Terms of Reference were comprehensive and adequately designed to meet the objectives of the TA. No variation of consultant contract was made except for the tripartite meeting which was held in Manila.
2. Mr. Marshall Browne, a retired banker from Australia was selected as an individual consultant. The International Securities Consultancy, a Hong Kong-based consulting firm which recommended Mr. Browne, provided backdrop support. The consultant was in the field from April to July 1995, one month short of the original plan due to Government's pressure to complete the Final Report before July 1995. UTB assigned a deputy manager to assist the consultant full time during his stay. The Royal Monetary Authority of Bhutan (RMA), the central bank, through its

advisor from the International Monetary Fund (IMF) and the Banking Supervision Division, provided support and guidance to the consultant.

3. Project implementation and performance of the consultants were found to be satisfactory according the Consultant Evaluation.

TA OUTPUT EVALUATION (Reports Generate/Institution Building/Training/Analysis of Quality and Comparison with Terms of Reference)

1. The Draft Final Report was found to be comprehensive but not very reader friendly. After accepting Bank's comments, the consultant made some efforts for better organization and presentation in the Final Report. The consultant demonstrated his good experience in designing the conversion implementation plan, but his analytical skill was relatively weak in the study of the feasibility and the financial viability of the second commercial bank in Bhutan.

2. The Final Report of the TA reviewed UTB's existing financial and organizational structures, examined the financial viability of having a second commercial bank in Bhutan, and presented an implementation plan for the conversion. The plan involves 19 action programs. Step-by-step procedures and guidance on critical issues were given for each action program within a broad timetable.

3. At the tripartite meeting, the Bank decided that the conversion of UTB to a commercial bank would be firstly carried out by UTB itself supported by another Bank TA. Moreover, Government agreed that after the new bank becomes fully operational for no more than two years, the Government would (i) divest and privatize the new commercial bank; (ii) with the help of the Bank, identify foreign bank partnership; (iii) approach the Bank for an equity investment; and (iv) clean up the non-performing loans portfolio in the new commercial bank.

4. There was no concrete training program required per detailed Terms of Reference. However, the consultant helped the UTB to contact a number of banker's training schools and centers in other countries. In particular, they have established contacts with the Australian Institute of Bankers and the Open Training and Education Network in Australia.

TA OVERALL ASSESSMENT/RATING

The TA was generally successful. Project implementation by the Executing Agency has been adequate. Total expense was within the TA budget and reports were submitted on time.

FOLLOW-UP ACTION AND RECOMMENDATIONS

A follow-up TA was approved (TA No. 2532-BHU) on 13 February 1996 to implement the recommendations and findings of the TA, with the main objective of the TA to convert and incorporate the Unit Trust of Bhutan (UTB) to a commercial bank, improve the loan portfolio of the new bank, prepare local staff for the conversion and transfer commercial banking knowledge, advise the new bank in all area of its operations, and lay out a solid foundation for its privatization. The TA will promote a more efficient and competitive financial sector and greater participation by the private sector. The project will result in significant transfer of technical knowhow and human resource development.