

# BHUTAN

## PEFA ASSESSMENT OF CLIMATE RESPONSIVE PUBLIC FINANCIAL MANAGEMENT

30 June 2023



 **PFM-MDF** Bhutan Public Financial Management  
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# PEFA CHECK



**Bhutan**

## **PEFA Assessment of Climate Responsive Public Financial Management**

May 2023

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat  
June 1, 2023

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# ABBREVIATIONS AND ACRONYMS

CO2e	Carbon dioxide equivalent	MTFF	Medium-term fiscal framework
CRPFM	Assessment of Climate Responsive Public Financial Management	NAP	National Adaptation Plan
DMDF	Department of Macro-fiscal and Development Finance	NDA	National Designated Authority
DTA	Department of Treasury and Accounts	NDC	Nationally Determined Contribution
EFC	Economic and Finance Committee	NEC	National Environment Commission
FYP	Five Year Plan	NECS	National Environment Commission Secretariat
Gg	gigagrams	PAC	Public Accounts Committee
GHG	Greenhouse gas	PEFA	Public Expenditure and Financial Accountability
GNHC	Gross National Happiness Commission	PFA	Public Finance Act
LEDS	Low Emission Development Strategies	RAA	Royal Audit Authority
LG	Local government	RGoB	Royal Government of Bhutan
MoF	Ministry of Finance	UNFCCC	United Nations Framework Convention on Climate Change



**VOLUME II**  
**Climate Responsive Public Financial  
Management (CRPFM) Assessment**



# 1. INTRODUCTION

## 1.1 Purpose

1.1. This Climate Responsive Public Financial Management (CRPFM) assessment of the Royal Government of Bhutan (RGoB) is conducted using the ‘CRPFM Framework (PEFA Climate)’.<sup>1</sup> The purpose is to review the extent to which the RGoB’s PFM system supports and fosters the implementation of climate change policies, i.e. if it is “climate responsive”.

1.2. The arrangements described in Volume I (PFM assessment) as regards funding, peer review, time coverage,<sup>2</sup> scope, etc., similarly apply to the CRPFM assessment.

1.3. The CRPFM assessment was conducted concurrently with the PFM assessment so as to collect specific information on the extent to which the RGoB’s PFM system is climate responsive, and so as to enable promoting climate-related aspects going forward based on the assessment findings.

## 1.2 Climate Profile

1.4. The climate of Bhutan is exceptionally diverse and varies substantially from one district to another due to dramatic changes in topography, elevation, and altitude. The country has three climatic zones:

- a) the southern plains with a typical subtropical climate with high humidity and heavy rainfall;
- b) the central belt of flat valleys characterized by cool winters and hot summers with moderate rainfall; and,
- c) the high valleys with cold winters and cool summers. The land over 5000m is permanently covered with snow and glaciers.

1.5. Bhutan receives about 70% of the precipitation during monsoons, which last from late June through late September. The rain bearing clouds which originate from the Bay of Bengal travel north towards the Bhutan Himalayas.

1.6. The annual precipitation ranges widely across the country. The northern region gets about 40 mm of annual precipitation, mostly in the form of snow. The temperate central valley receives about 1,000 mm of rainfall, while the southern region gets about 1,500 mm of rain annually.

## A. Legal and Policy Framework

1.7. The Climate Change Policy of the Kingdom of Bhutan 2020 anchored in four policy statements: carbon neutral development, resilience to climate change, ensuring means of implementation, and effective and coordinated actions. The Policy is notable for clearly

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<sup>1</sup> [https://www.pefa.org/resources/catalog?field\\_resource\\_type\\_target\\_id=5961](https://www.pefa.org/resources/catalog?field_resource_type_target_id=5961). The Assessment Team applied the ‘After Samoa’ version, which was shared by the PEFA Secretariat on 31 January 2022.

<sup>2</sup> The cut-off date for the assessment was 30 June 2022, hence it covers FY 2019/20, FY 2020/21 and FY 2021/22, while the last budget submitted to Parliament for purposes of the assessment is FY 2022/23, which was submitted in FY 2021/22.

outlining institutional arrangements for climate change action and implementation, including designating the Climate Change Coordination Committee (or C4) as a technical body for discussion and coordination, and the National Environment Commission (NEC) as responsible for monitoring implementation together with relevant government ministries and agencies. The Policy is formulated to respond to particular provisions of the following legal instruments:

- i) **Constitution of the Kingdom of Bhutan:** Article 9.2 states the need to “*strive to promote those conditions that will enable the pursuit of Gross National Happiness*”, and Article 5 includes the obligation for the Government to “*protect, conserve and improve the pristine environment and safeguard the biodiversity of the country*” and “*ensure a safe and healthy environment*”.
- ii) **National Environment Protection Act 2007:** This document is aligned to the principles in the Act and also supported the implementation of mandates and functions of the National Environment Commission (NEC) and its Secretariat in implementing obligations under multilateral agreements, and in facilitating the implementation of actions by stakeholder agencies.
- iii) **The Environment Assessment Act 2000:** This Act establishes procedures for the assessment of potential effects of strategic plans, policies, programs and projects on the environment, and for the determination of policies and measures to reduce potential adverse effects and to promote environmental benefits.
- iv) **The Water Act of Bhutan 2011:** Climate change has huge impact on water bodies. This Act aims to ensure that the water resources are protected, conserved and/or managed in an economically efficient, socially equitable and environmentally sustainable manner.
- v) **The Waste Prevention and Management Act of Bhutan 2009:** The purpose of the Act shall be to protect and sustain human health through protection of the environment.
- vi) **Public Finance Act (PFA) 2007:** Climate financing shall be governed by Chapter VI of the PFA 2007.

#### International Commitments for Climate Change Adaptation and Mitigation

1.8. Bhutan ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1995. The Intended Nationally Determined Contribution (INDC), submitted to the UNFCCC Secretariat in September 2015, became Bhutan’s first Nationally Determined Contribution (NDC) upon the ratification of the Paris Agreement in 2017.

1.9. The NDC reaffirmed Bhutan’s pledge to remain carbon neutral, a pledge first made in 2009, and laid out the priorities for low greenhouse gas (GHG) emission development across nine areas. The NDC also contained ten areas of priority needs for adaptation and called on the international community to support Bhutan’s efforts to mitigate and adapt to climate change and that “*the successful implementation of our intended actions to mitigate will depend on the level of financial and technical support received*”. The NDC primarily outlines the mitigation strategy. Bhutan is in the process of formulating a National Adaptation Plan (NAP), which will be submitted in 2023.

1.10. In presenting the 2<sup>nd</sup> NDC in June 2021, Bhutan maintains the commitment to remain carbon-neutral and enhancing the 1<sup>st</sup> NDC in several ways:

- i) The data and information that demonstrates Bhutan's position as a net carbon sequestering country has been greatly improved. Since the 1<sup>st</sup> NDC, the national GHG inventory system has been improved with the completion of the 3<sup>rd</sup> GHG Inventory with the utilization of the 2006 Intergovernmental Panel on Climate Change (IPCC) Guidelines.
- ii) Bhutan's forests serve as the cornerstone of the carbon commitment and there have been tremendous improvements in estimation of forest emissions and removals. The data and information for forest emissions and removals have been estimated at a higher tier with the completion of a comprehensive National Forest Inventory in 2016 and the submission of Bhutan's National Forest Reference Emission Level and National Forest Reference Level prepared as part of Bhutan's Reduce Emissions from Deforestation and forest Degradation (REDD)+ Readiness preparedness.
- iii) The broad plans and actions for low emission development identified in the 1<sup>st</sup> NDC to support Bhutan's efforts to remain carbon neutral have been further elaborated and refined through sectoral Low Emission Development Strategies (LEDS).

1.11. The mitigation strategies identified in the LEDS has further been redefined in the 'Bhutan's Long-Term Low Greenhouse Gas Emission and Climate Resilient Development Strategy (LTS)', with the objective of remaining carbon neutral for all times to come as pledged at the 15<sup>th</sup> Conference of Parties (COP) of the UNFCCC and subsequently reiterated in all the COPs and Meeting of Parties (MOPs) of the Paris Agreement.

1.12. The secondary objective of the LTS is to decouple socio-economic growth in the form of GDP, employment and improved balance of payment from GHG emissions. The LTS is also developed to identify key interventions to ensure that socio-economic development remains carbon resilient and required adaptation measures are developed for vulnerable sectors as identified in Bhutan's Second NDC. The LTS will be submitted to the UNFCCC in mid-2023.

1.13. The Government has developed the following LEDS:

- **Food Security** – Emissions from agriculture and livestock have not historically been increasing significantly and neither is it expected to increase significantly soon. However, emissions from this sector are a significant fraction of national emissions at 14.5%. The LEDS for Food Security identifies six mitigation actions to reduce emissions and increase carbon sequestration. The prioritized mitigation measures and targets until 2030 have cumulative mitigation potential of up to 710 Gg carbon dioxide equivalent (CO<sub>2</sub>e) with an estimated investment requirement of \$61.65 million.
- **Human Settlements** – Bhutan has been experiencing rapid urbanization with a corresponding increase in greenhouse gases. Activities in the human settlement sector were considered across energy in buildings, transport infrastructure, waste management, land-use in urban areas, and information communication and technology. The LEDS for Human Settlement identifies measures over the short- and medium-term scenario (2020-2030) with cumulative mitigation potential of up to 4,122 Gg CO<sub>2</sub>e requiring an investment of \$101.84 million.

- **Industries** – Industries are important for Bhutan’s economic diversification and growth but emissions from industries may triple by 2035 under a business-as-usual scenario. The LEDS for Industries presents an excellent opportunity to transform the sector. The strategy identifies mitigation opportunities through energy saving measures and process improvements. It also recommends diversifying away from heavy industries to higher value-addition industries and manufacturing of products with cross cutting benefits. Mitigation potential is estimated between 999 and 1,137 Gg CO<sub>2</sub>e per annum. Support needs for creating an enabling environment and conducting detailed technical assessments is estimated at \$3.52 million.
- **Surface Transport** – Transport emissions are projected to increase by a factor of three by 2050 as compared to 2020 levels under business-as-usual scenario. The mitigation options across the short-term and medium-term have a cumulative mitigation potential of 5,283 Gg CO<sub>2</sub>e. The measures ranging from a mix of relatively inexpensive low hanging interventions to large infrastructure investments will require a total investment of \$3.233 million until 2030. Major expenditures in the transport sector are in the areas of infrastructure development to introduce low emission transport modes.

1.14. Other sectoral targets and plans include the following:

- **Waste Management** – Under the National Waste Management Strategy 2019, Bhutan has set the goal to achieve Zero Waste Bhutan and to reduce disposal of waste to landfills from currently 80% to less than 20% by the year 2030 based on the principles of a circular economy.
- **Sustainable Hydropower Development** – Clean hydropower enables low emission energy systems and also mitigates emissions in the region at large. Hydropower supply from Bhutan was, according to Kuensel newspaper (3 October 2015), expected to reduce carbon dioxide in India by about 10M tons in 2016/17 and could be as high as 40M tons annually by 2020/21. This is possible because Bhutan’s hydro power would replace coal-based thermal power plants in India. Future development of hydropower will be as per the revised Sustainable Hydropower Policy 2021, which also stipulates climate resilience through measures such as reservoir or pumped storage schemes to ensure energy and water security.
- **Alternative Renewable Energy** – An alternative renewable energy program consisting of mini hydro, solar, wind and waste-to-energy technologies will be pursued as a priority program with the aim to reduce deforestation in rural communities and diversify the energy portfolio as adaptation measure to changing water flows, particularly in the dry seasons. Short to-medium-term targets from 2020-2028 have been highlighted.
- **Green Hydrogen Roadmap** – In line with the Sustainable Hydropower Policy 2021, the potential for the use of hydrogen created from hydroelectricity in Bhutan will be assessed for the end-uses of energy storage and substitute for fossil fuel usage. Feasibility studies, preparation of the Green Hydrogen Roadmap and pilot projects will be pursued in the near term.
- **National Energy Efficiency & Conservation Policy 2019 and Energy Efficiency Roadmap 2019** – Energy efficiency measures were established in line with the 1<sup>st</sup> NDC. The implementation of Energy Efficiency & Conservation (EE&C) measures has about 0.59

million CO<sub>2</sub> emission reduction potential. Several of the actions and measures in the Energy Efficiency (EE) policy and action plan are also being integrated into the different LEDS for human settlements, transport, and Industries.

#### National Commitments for Climate Resilience and Climate Mitigation

1.15. Bhutan first pledged to remain carbon neutral in 2009. The successive NDCs reaffirm the commitment to remain carbon neutral and integrate mitigation actions across key sectors to manage carbon sinks and to address growing GHG emissions.

1.16. The Paris Agreement calls on parties to achieve net carbon neutrality by 2050, and in this regard, Bhutan is already carbon negative. However, it was observed that the emission has been increasing by the year and the challenge is to maintain this carbon neutral status as pledged.

1.17. The mitigation actions for the period until 2030 are presented as LEDS as well as other sectoral action plans and policies that will be integrated into the national development planning.

1.18. Other relevant national plans and strategies include the National Environment Strategy (1998), Renewable Energy Master Plan (2016), Electric Vehicle (EV) Roadmap 2020-2025, and Renewable Natural Resources (RNR) Strategy 2040.

#### Forest conservation and management through the National REDD+ Strategy

1.19. The National REDD+ Strategy (NRS) aims to manage forest emissions and sequestration through a broad vision that provides co-benefits, including enhancing livelihoods, protecting ecosystem services, and biodiversity conservation. One of the challenges for Bhutan is that, due to low levels of deforestation and degradation, the opportunities to participate in results-based carbon payment systems in forestry is limited. Therefore, the REDD+ strategy emphasizes conservation, management and protection of the extant forest cover and climate proofing of the economy as strategic investments that is more economical than restoring degraded ecosystems. Implementing the NRS is estimated to require approximately \$54.5 million.

## **B. Institutional Structures**

1.20. The institutional arrangements for climate change coordination in Bhutan have evolved over the years since Bhutan's signing of the Rio Conventions in 1992.

1.21. The National Environment Protection Act 2007 mandates the *National Environment Commission (NEC)* as an independent authority and the highest decision-making body on all matters relating to the environment and its management for the purpose of protecting the environment and preventing, controlling and abating environmental harm or pollution. The Commission is supported by the *National Environment Commission Secretariat (NECS)*, and is responsible for implementing the policies, regulations and directives issued by the NEC. The NECS is the national focal point for all the multilateral environmental agreements.

1.22. The *National Center for Hydrology and Meteorology (NCHM)* is mandated to provide hydro-meteorological data, services and advice to meet the needs of the general public, emergency services and other specialized users. The NCHM provides hydro-



meteorological data and information, climate modeling and scenarios and other early warning services.

1.23. The *Royal University of Bhutan (RUB)* and other research institutions, in line with their respective mandates, conduct needs-based research to support informed decision-making and the planning and implementation of climate change action.

### **C. Coordination Mechanisms for Climate Change Mainstreaming**

1.24. The NEC shall continue to function as the high-level *National Climate Change Committee (NCCC)*. The NEC, chaired by the Prime Minister or his/her nominee, is the highest cross-sectoral environmental policy and regulatory body responsible for coordinating all the matters relating to the protection, conservation and improvement of the environment. The NCCC is supported in implementing its mandates and functions through the NECS. The NEC, in its functions as NCCC, will consider all policy and regulatory matters on climate change and provide overall guidance on the Climate Change Policy and ensure that the policy is implemented by all sectors. NECS in supporting the NEC/NCCC shall also lead the preparation of national strategies and plans on climate change such as NDCs, NAPs, and LEDS.

1.25. The *Climate Change Coordination Committee (C4)*, as per the Climate Change Policy 2020, is the technical body to serve as a forum for discussion and coordination of matters related to climate change in Bhutan and makes recommendations for consideration by the NCCC/NEC. The C4 is comprised of high-level executive representation from stakeholder agencies and organizations and is chaired by the Secretary of NECS. The C4 derives its mandate from the Executive Order of the Prime Minister of October 2016. The C4 is supported in implementing its mandates and functions through the Climate Change Division of NECS. The C4 will monitor and provide guidance on the overall implementation policy. The C4 will in particular ensure an effective and coordinated implementation of actions on climate change as articulated in policy objectives.

### **D. Capacity of Relevant Stakeholders to Perform Climate Change Mainstreaming in PFM**

1.26. Resource mobilization and allocation, including related to climate financing, involves the following main entities:

- Besides coordinating preparation of policy and five-year plans, programming and prioritization of national priorities, the former *Gross National Happiness Commission (GNHC)* was mandated to coordinate and facilitate mobilization of all external grants and ensure that grants are allocated to agencies and local governments based on government priorities and guidelines in consultation with the Ministry of Finance (MoF). The GNHC, where possible, supported the integration of climate change into policies, programs and plans as well as mobilizing external resources for the implementation of climate change programs and projects. Also, to complement international financing support, the GNHC Secretariat identified as the National Designated Authority (NDA) for the Green Climate Fund to enable direct access to the Fund. The GNHC was dissolved in late 2022 as part of the new Civil Service Reform Bill, and its Grant Division transferred to the MoF's Department of Macro-fiscal and Development Finance (DMDF) where it has more or less the same tasks.

- The *Ministry of Finance (MoF)* is mandated to formulate and implement dynamic fiscal policies and sound financial management through maximization of resource generation, efficient allocation, prudent expenditure and debt management and proper accountability of public resources. The mandates and functions of the MoF are governed by the PFA 2007, Public Debt Policy, Income Tax Act, Revised Taxes and Levies Act, Fiscal Incentives Act 2021, and PPP Policy. In line with provisions of the various legislations, the MoF has mandate for resource mobilization and budget allocation and also providing fiscal incentives and other instruments to support private sector lending to support implementation of the policy. The MoF is in the early stages of developing a framework for tracking climate-related expenditures (see CRPFM-7.1. below).
- The *National Environment Commission Secretariat (NECS)* is leading the establishment of the Bhutan Climate Fund, which will serve as the innovative and sustainable financing mechanism from the sale of Bhutan’s carbon credits. However, this will depend on the development of the carbon market institutions, and carbon markets around the world.

1.27. As regards tax incentives (import duty and sales tax exemption), such are recommended in the LEDS Surface Transport in order to promote the uptake of electric vehicles (EVs). Furthermore, a policy study is recommended in the LEDS Industries to check possible options for cleaner technologies or mitigation measures. For instance, the government can impose stricter taxes on the fossil-oriented reductants like coke. This would shift the choice to the carbon-neutral/more clean wood-based reductants such as domestic charcoal. Similarly, the LEDS Industries suggest imposing tax exemptions or rebates on cleaner investments.

1.28. Bhutan has not (yet) assessed macro-fiscal implications of implementing its climate change plans or NDCs. It would be important to do so, also considering plans to graduate from least developed country (LDC) status and the dependence on donor-funded projects.

### 1.3 PEFA Scoring

1.29. The performance of each dimension and indicator has been assessed and assigned scores of “A” to “D” in line with the PEFA framework. To justify a score, every aspect specified in the scoring requirements must be fulfilled. A score of “C” reflects the basic level of performance for each indicator. A score of “D” means that the feature being measured is present at less than the basic level of performance, or absent altogether, or that there is insufficient information to score the indicator. A score of “D” due to insufficient information is distinguished from a score of “D” due to low-level performance by using an asterisk—that is, “D\*”. In cases where the question is not applicable to a country’s circumstances, the assessment team should respond “NA.”

1.30. The table below presents the four-point ordinal scale for the PEFA CRPFM assessment.

**Table 1.1: Four-point ordinal scale for the PEFA CRPFM assessment**

<b>A</b>	Climate change issues and the policy response are mainstreamed in the relevant PFM institutions, processes, or systems.
<b>B</b>	Climate change issues and the policy response are partially mainstreamed in the relevant PFM institutions, processes, or systems.
<b>C</b>	Initial efforts have taken place to mainstream climate change issues and the policy response in the relevant PFM institutions, processes, or systems.
<b>D</b>	Performance is less than the basic level of performance.

Source: PEFA Secretariat. 2021. *Public Expenditure and Financial Accountability Climate Responsive Public Financial Management Framework (PEFA Climate)*. Version from August 4, 2020 – After Samoa. Washington DC, p. 14.

## 2. ASSESSMENT FINDINGS AND WAY FORWARD

2.1. This chapter presents the main findings of the assessment compared with the PEFA CRPFM framework, shows the indicator-level scores across the three main budgetary outcomes (aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery), and provides a brief list of potential areas for improvement going forward.

### 2.1 Main findings

2.2. The dimension-level scores and the resulting indicator-level scores are shown in the table below.

**Table 2.1: PEFA CRPFM Assessment Summary of Scores 2022**

Indicator	Description	Dimension Score				Overall Score
		i.	ii.	iii.	iv.	
CRPFM-1	Budget alignment with climate change strategies	C				<b>C</b>
CRPFM-2	Tracking climate-related expenditure	D				<b>D</b>
CRPFM-3	Climate responsive budget circular	C				<b>C</b>
CRPFM-4	Legislative scrutiny	D	NA			<b>D</b>
CRPFM-5	Climate responsive public investment management	C	D	B	D	<b>D+</b>
CRPFM-6	Climate responsive non-financial asset management	D				<b>D</b>
CRPFM-7	Climate-related liabilities	C	B			<b>C+</b>
CRPFM-8	Climate-responsive procurement	C	C	D	D	<b>D+</b>
CRPFM-9	Climate responsive revenue administration	C	A			<b>B</b>
CRPFM-10	Compliance of climate-related expenditure	A	C			<b>B</b>
CRPFM-11	Climate responsive fiscal decentralization framework	C	C	B		<b>C+</b>
CRPFM-12	Climate-related performance information	D	D			<b>D</b>
CRPFM-13	Climate-related performance evaluation	B	D			<b>C</b>
CRPFM-14	Expenditure outturn for climate activities	NA	NA			<b>NA</b>

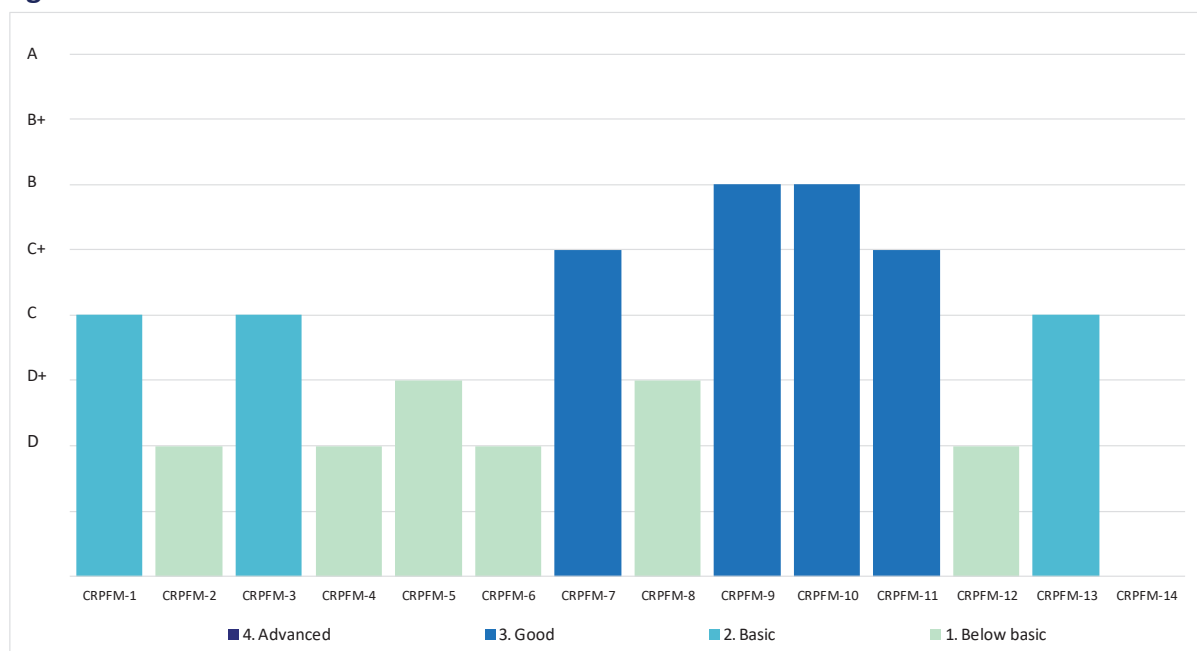
NA = not applicable.

2.3. Out of 14 indicators, two scored “B” (CRPFM-9 and 10), two scored “C+” (CRPFM-7 and 11), three scored “C” (CRPFM-1, 3 and 13), two scored “D+” (CRPFM-5 and 8), four scored “D” (CRPFM-2, 4, 6 and 12), and one indicator was deemed “NA” (CRPFM-14).

2.4. Out of the 29 dimensions, the majority of scores were “C” (10) and “D” (10), while there was two “A” scores, four “B” scores, and three “NA”.

2.5. The indicator-level scores are shown graphically in the figure below.

**Figure 2.1: PEFA CRPFM Assessment Overall Scores 2022**



2.6. Four indicators – climate-related liabilities (CRPFM-7), climate responsive revenue administration (CRPFM-9), compliance of climate-related expenditure (CRPFM-10), and climate responsive fiscal decentralization framework (CRPFM-11) – show ‘good’ performance. This means that climate change issues and the policy response are partially mainstreamed in relevant PFM institutions, processes, and systems.

2.7. Three indicators – budget alignment with climate change strategies (CRPFM-1), climate responsive budget circular (CRPFM-3), and climate-related performance evaluation (CRPFM-13) – have a ‘basic’ performance. This means that initial efforts have been made to mainstream climate change issues and policy responses in the relevant PFM institutions, processes, and systems.

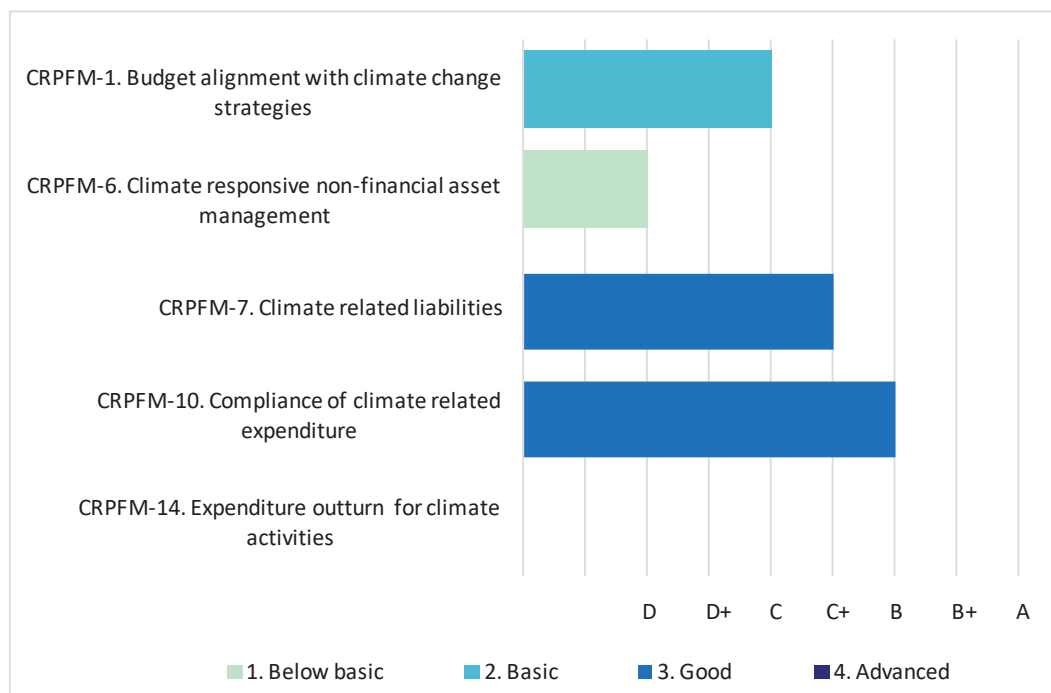
2.8. The remaining six indicators (CRPFM-2, 4, 5, 6, 8 and 12) have a ‘below basic’ performance, which in effect means that efforts to mainstream climate change issues and policy responses in relevant PFM institutions, processes, and systems remains to be started.

## 2.2 Aggregate fiscal discipline

2.9. Aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks. The figure below shows the scores for the CRPFM indicators relevant for this budgetary outcome.<sup>3</sup>

<sup>3</sup> The following CRPFM dimensions are covered under this budgetary outcome: 1.1, 6.1, 7.1, 7.2, 10.1, 10.2, 14.1 and 14.2.

**Figure 2.2: Aggregate fiscal discipline**



2.10. Aggregate fiscal discipline benefits from the legal framework clearly specifying the purposes for which the RGoB may borrow, which includes climate-related liabilities, and that the National Budget Report provides estimated costs of contingent liabilities related to natural disasters, including climate-related fiscal risks (CRPFM-7). And also from the legal and regulatory framework providing a system of internal controls is also used for climate-related transactions, which are effective, cover all transaction categories, including emergency payments, and are subject to annual external audit (CRPFM-10).

2.11. Also, there is a certain level of budget alignment with climate change strategies – in that sector-level medium-term strategic plans are prepared in the form of Low Emission Development Strategies (LEDS) for some sectors, specific LEDS activities are identified and some are being implemented as flagship programs, the Tourism Levy Act 2022 is aligned with the Climate Change Policy 2020, the Policy aims to promote integration of climate change adaptation planning and implementation of adaptation actions into both national and local level plans, and there is an operational body in the form of the NEC to spearhead policy and decision-making regarding climate change aspects (CRPFM-1).

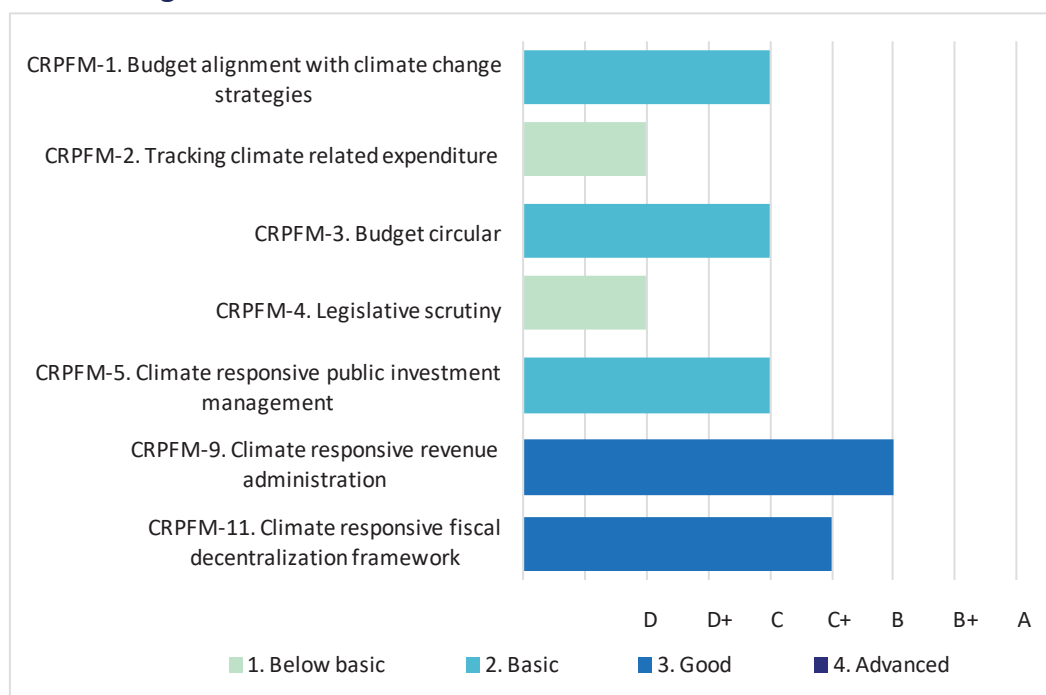
2.12. However, the processes and systems regarding climate responsive non-financial asset management (CRPFM-6) only to a limited extent help to mainstream climate change issues and policy responses.

2.13. As the RGoB has not developed a methodology to define ‘climate change expenditure’, climate-related expenditure cannot be calculated (CRPFM-14).

## 2.3 Strategic allocation of resources

2.14. Strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives. The figure below shows the scores for the CRPFM indicators relevant for this budgetary outcome.<sup>4</sup>

**Figure 2.3: Strategic allocation of resources**



2.15. The allocation and use of financial resources benefits from climate-related taxes being collected in full at the point of entry into the country, hence there being no such arrears, and also that a partly structured and systematic approach for assessing and prioritizing compliance risk as regards climate-related taxes is used (CRPFM-9). Also, the fiscal decentralization arrangements involving local governments (LGs) have some basic climate responsive aspects, the RGoB's annual grants to the LGs enable them to implement competencies and mandates related to climate change, and climate responsive PFM arrangements for LGs meet the requirements for three of five specific criteria<sup>5</sup> (CRPFM-11).

2.16. Other supporting elements include that sector-level medium-term strategic plans are prepared in the form of LEDS for some sectors (CRPFM-1); that the MoF's Budget Call Notification 2022/23 includes guidance on how to incorporate climate change aspects into capital budget proposals (CRPFM-3); and, that the Climate Change Policy 2020 mandates the MoF to formulate and implement dynamic fiscal policies and sound financial management, which provides a framework for public investment management, and that the Environmental Assessment Act 2000 requires major projects to be assessed for the impact on the environment (CRPFM-5).

<sup>4</sup> The following CRPFM dimensions are covered under this budgetary outcome: 1.1, 2.1, 3.1, 4.1, 5.1, 5.2, 5.3, 9.1, 9.2, 11.1, 11.2 and 11.3.

<sup>5</sup> Element 3: Rules and procedures for transfer and disposal of climate change sensitive non-financial assets apply to LGs; Element 4: The legal framework for debt and guarantees applies to LGs; and Element 5: The climate-related procurement framework covers SNGs..

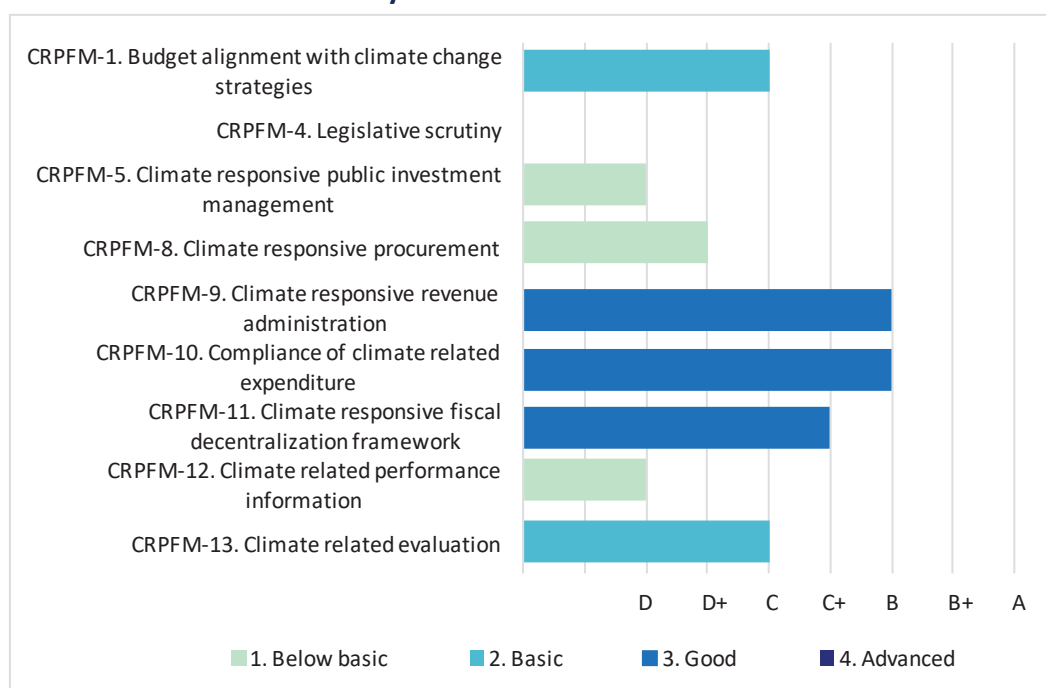


2.17. However, the processes and systems for tracking climate-related expenditure (CRPFM-2) and legislative scrutiny of budgets as well as audit and evaluation reports (CRPFM-4.1) only to a limited extent support the mainstreaming of climate change issues and policy responses.

## 2.4 Efficient service delivery

2.18. Efficient service delivery requires using budgeted revenues to achieve the best levels of public services within available resources. The figure below shows the scores for the CRPFM indicators relevant for this budgetary outcome.<sup>6</sup>

**Figure 2.4: Efficient service delivery**



2.19. As climate-related taxes are collected in full at the point of entry into the country, there are no arrears and there is a partly structured and systematic approach for assessing and prioritizing compliance risk as regards climate-related taxes is used (CRPFM-9). Furthermore, the RGoB's PFM system provides for internal controls that also apply to climate-related transactions, including emergency payments, and are subject to annual external audit (CRPFM-10). Moreover, the fiscal decentralization arrangements involving LGs have some basic climate responsive aspects, the RGoB's annual grants to the LGs enable them to implement competencies and mandates related to climate change, and climate responsive PFM arrangements for LGs meet the requirements for three of five specific criteria<sup>7</sup> (CRPFM-11.2 and 11.3).

<sup>6</sup> The following CRPFM dimensions are covered under this budgetary outcome: 1.1, 4.2, 5.4, 8.1, 8.2, 8.3, 8.4, 9.1, 9.2, 10.1, 10.2, 11.2, 11.3, 12.1, 12.2, 13.1 and 13.2.

<sup>7</sup> Element 3: Rules and procedures for transfer and disposal of climate change sensitive non-financial assets apply to LGs; Element 4: The legal framework for debt and guarantees applies to LGs; and, Element 5: The climate-related procurement framework covers SNGs.

2.20. Other supporting elements include sector-level medium-term strategic plans being in place in the form of LEDS for some sectors (CRPFM-1); and, that the NEC in 2021 has reported on progress and challenges in the implementation of climate-related programs and activities (CRPFM-13).

2.21. However, climate responsive procurement (CRPFM-8) and climate-related performance information (CRPFM-12) only to a limited extent help to mainstream climate change issues and policy responses. Legislative scrutiny of audit and evaluation reports (CRPFM-4.2) is at present largely non-applicable for climate change issues.

# 3. DETAILED ASSESSMENT OF CLIMATE RESPONSIVE PUBLIC FINANCIAL MANAGEMENT

3.1. This chapter presents a detailed analysis of the CRPFM indicators and dimensions by scoring them against the calibration and presenting the evidence to justify the scoring.

## CRPFM-1. Budget alignment with climate change strategies

3.2. This indicator measures the extent to which long and medium-term climate change strategies are reflected in costed sector medium-term strategic plans and mid- and short-term budgets.

**Table 3.1: Minimum scoring requirements for CRPFM-1**

Score	Minimum requirements for scores
<b>CRPFM-1.1 Budget alignment with climate change strategies</b>	
A	The system in place fulfills 8 elements, including at least 4 basic elements (1-6).
B	The system in place fulfills 6 elements, including at least 3 basic elements (1-6).
C	The system in place fulfills at least 3 basic elements (1-6).
D	Performance is less than required for a C score.

**Table 3.2: Summary of scores for CRPFM-1 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-1. Budget alignment with climate change strategies</b>	<b>C</b>	-
CRPFM-1.1 Budget alignment with climate change strategies	C	The system in place fulfills three basic elements (nos. 1, 3 and 5) and two additional elements (nos. 7 and 12).
Coverage:	Budgetary central government	
Time period:	Last budget and budget documentation submitted to the legislature (2022/23)	

## CRPFM-1.1 Budget alignment with climate change strategies

3.3. **Performance level and evidence for scoring of the dimension:** The elements for budget alignment are shown below together with the corresponding descriptions.

**Table 3.3: Basic and additional elements for budget alignment**

Elements	Yes/No	Description
<b>Basic Elements</b>		
1. Sectoral medium-term strategic plans are prepared. They reflect priorities from national climate change policy and strategy - and in their absence, NDC targets.	Yes	Sector-level medium-term strategic plans are prepared in the form of Low Emission Development Strategies (LEDS) for four sectors: Food security, human settlement, industries, and surface transport. The National Waste Management Strategy 2019 aims to

Elements	Yes/No	Description
		achieve Zero Waste Bhutan. The LEDS reflect priorities from the Climate Change Policy 2020.
2. Climate-related projects and initiatives are costed in sector medium-term strategic plans.	No	All LEDS include calculations of abatement costs (i.e., the costs of reducing environmental negatives), but these do not directly cover 'recurring expenditures, capital costs, and future recurrent cost implications of investment commitments' (as per the PEFA guidance), and funding sources are also not included.
3. Climate-related projects are accounted for in public investment plans.	Yes	Specific LEDS activities have been identified and some are being implemented as flagship programs. <sup>8</sup>
4. Climate-related expenditure policy proposals in the approved medium-term budget estimates align with sector costed medium-term strategic plans.	No	The medium-term fiscal framework (MTFF) does not specify climate-related expenditures for the medium term.
5. Climate-related tax policy proposals in the approved medium-term budget estimates align with the national climate change strategy.	Yes	The Tourism Levy Act, adopted in July 2022 and the Fiscal Incentives Act 2021 are aligned with the Climate Change Policy 2020. <sup>9</sup>
6. Climate-related annual expenditure and tax estimates align with the approved medium-term budget estimates for the first year.	No	The RGoB does not have in place a system of keeping record of climate-related expenditure and tax estimates.
<b>Additional Elements</b>		
7. Climate change policy and strategies cover subnational governments, public corporations and other operators in charge of implementation.	Yes	The Climate Change Policy 2020 aims, inter alia, to promote integration of climate change adaptation planning and implementation of adaptation actions into both national and local level plans. The government shall encourage climate change action by the private sector, civil society and communities to implement this policy through relevant provision of adequate support and incentives.
8. Climate change strategies or climate-related medium-term budget estimates identify funding gaps and funding sources.	No	The LEDS to some extent estimate climate-related financing requirements, but funding gaps and funding sources are not identified.
9. Medium-term fiscal strategy refers to climate targets.	No	Chapter 2 (Fiscal Policy) in the RGoB's National Budget reports does not refer to climate targets.
10. Medium-term fiscal strategy refers to climate-related fiscal risks.	No	Chapter 2 (Fiscal Policy) in the RGoB's National Budget reports does not refer to climate-related fiscal risks.

<sup>8</sup> For example, a national organic certification program is being promoted as well as an organic guarantee and certification system developed under the food security LEDS with an outlay of about Nu. 1 billion. Under the waste and stray dog-free communities flagship programs, the Thimphu City waste disposal site is being developed into an Integrated Solid Waste Management System (IWMS). This will be replicated in other districts. Nu. 1 billion has been earmarked for this program. <sup>9</sup> It is stated in Volume I that the National Budget Report for 2022/23 did not include estimates for expenditure (and also not revenue) for the two following fiscal years. However, although not published, the MoF did prepare (and internally approve) medium-term budget estimates. It is in relation to these that the climate-related tax policy proposals are assessed.

Elements	Yes/No	Description
11. If there is a gap between climate-related annual expenditure and tax estimates and the approved medium-term budget estimates for the first year, the annual budget document provides the underlying explanation.	No	Climate-related annual expenditures and tax estimates are not separately quantified, hence no gap is identified and thus no explanation to be meaningfully provided.
12. There is an operational body, unit or team in charge of fostering coordination on climate change activities in line with climate change policies.	Yes	The National Environment Commission (NEC) spearheads all policy and decision-making in the country regarding climate change aspects.

3.4. Based on the analysis and supporting evidence, the score for the dimension is C.

### CRPFM-2. Tracking climate-related expenditure

3.5. This indicator measures the extent to which the government is able to track climate-related expenditure.

**Table 3.4: Minimum scoring requirements for CRPFM-2**

Score	Minimum requirements for scores
<b>CRPFM-2.1 Tracking climate-related expenditure</b>	
A	The system in place to track climate related expenditure fulfills 7 elements, including Element 1 and at least 3 other basic elements (2-5).
B	The system in place to track climate related expenditure fulfills 5 elements, including Element 1 and at least 3 other basic elements (2-5).
C	The system in place to track climate related expenditure fulfills at least 3 basic elements, including Element 1 (2-5).
D	Performance is less than required for a C score.

**Table 3.5: Summary of scores for CRPFM-2 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-2. Tracking climate-related expenditure</b>	D	-
CRPFM-2.1 Tracking climate-related expenditure	D	None of the five basic elements or the four additional elements for tracking climate-related expenditure are in place.
Coverage:	Budgetary central government	
Time period:	Last completed fiscal year (2021/22)	

### CRPFM-2.1 Tracking climate-related expenditure

3.6. **Performance level and evidence for scoring of the dimension:** The elements related to tracking climate-related expenditure are assessed in the table below.

**Table 3.6: Basic and additional elements for tracking climate-related expenditure**

Elements	Yes/No	Description
<b>Basic Elements</b>		
1. The government uses a methodology that defines what constitutes “climate change expenditure”.	No	No specific methodology/mechanism is in place.
2. The government applies the same methodology across all ministries, departments and agencies to identify climate-related expenditure.	NA	Since the government does not have a methodology to track climate-related expenditure, this element is not applicable.
3. Expenditure related to activities that are counter to climate policy is disclosed in budget documents and in end-of-year budget execution reports (as in Element 4). This covers spending explicitly or implicitly linked to climate change.	No	No disclosure on activities that are counter to climate policy is made in budget documents or in the annual financial statements (AFS).
4. Climate-related expenditure is disclosed by the Ministry of Finance or the budgetary units in budget documents and in end-of-year budget execution reports (as in Element 3).	No	Climate-related expenditure is not disclosed in budget documents or financial statements. However, the National Budget Report does include major capital activities related to climate. For instance, Table xvi in the National Budget Report 2021/22 shows allocations for some climate related activities.
5. The methodology applied by the government to identify climate-related expenditure is reviewed by an entity other than the preparing entity.	NA	Since the government does not have a methodology in place, this element is not applicable.
<b>Additional Elements</b>		
6. Climate-related expenditure is identified using specific budget expenditure line items, program codes, elements in the government’s chart of accounts or markers such as Rio markers.	No	No specific object code for climate-related expenditure is defined in the chart of accounts. However, expenditure can be tracked through the name of the climate related activities. It is further noted that, as part of reform activities, and recognizing the importance of monitoring and reviewing spending on climate adaptation and mitigation activities, the Climate Budget Tagging approach was introduced in the National Budget report for 2022/23 for four pilot entities viz. the NEC, Ministry of Agriculture and Forest, Ministry of Economic Affairs, and Ministry of Work and Human Settlement. This initiative is expected to enhance reporting on climate related expenditure going forward.
7. Climate-related expenditure is disclosed in in-year budget reports, including in-year budget adjustments.	No	No such disclosure is made.
8. Budgeted climate-related transfers to subnational governments and outturn are identified.	No	Since the budget transfers to the subnational government is made in the form of current and capital grants, climate-related transfers cannot be identified.

Elements	Yes/No	Description
9. Budgeted climate-related transfers to extrabudgetary units and public corporations in charge of implementing climate change actions, and outturn, are identified.	No	No climate-related transfers to extrabudgetary units and public corporations are identified. However, a few climate-related budgetary transfers are released in the form of subsidies from the MoF to, for instance, the Bhutan Ecology Society (Nu. 4.545 million) and the Bhutan Birdlife Society, during 2021/22 (Nu. 1.131 million).

3.7. Based on the analysis and supporting evidence, the score for the dimension is D.

### CRPFM-3. Climate responsive budget circular

3.8. This indicator measures the extent to which the budget circular takes climate change into consideration by referring to the national climate change strategy, providing clear guidance on how the budgetary units should propose climate change mitigation and adaptation measures, defining a methodology for tracking climate change related expenditure, and setting expenditure target.

**Table 3.7: Minimum scoring requirements for CRPFM-3**

Score	Minimum requirements for scores
<b>CRPFM-3.1 Climate responsive budget circular</b>	
A	The budget circular provides a methodology to track climate change related expenditure, as well as expenditures that are counter to climate policy. It contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals, and on how to limit expenditures that are counter to climate. It refers to the national climate change strategies.
B	The budget circular provides a methodology to track climate change related expenditure. It contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals and refers to the national climate change strategies.
C	The budget circular contains guidance on how to factor climate change mitigation or adaptation planned expenditure into budget proposals.
D	Performance is less than required for a C score.

**Table 3.8: Summary of scores for CRPFM-3 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-3. Climate responsive budget circular</b>	<b>C</b>	-
CRPFM-3.1 Climate responsive budget circular	C	The MoF's Budget Call Notification for 2022/23 includes guidance on how to incorporate climate change aspects into capital budget proposals.
Coverage:	Budgetary central government	
Time period:	Last Budget Call Notification issued (for 2022/23)	



### **CRPFM-3.5 Climate responsive budget circular**

3.9. **Performance level and evidence for scoring of the dimension:** The Budget Call Notification is the primary guidance from the MoF to the budgetary bodies on the formulation of the budget. The Budget Call Notification 2022/23, through the introduction of the Capital Budget Proposal Framework (CBPF), captured information or guidance on incorporating climate change aspects into capital budget proposals.

3.10. Furthermore, as part of reform activities, and recognizing the importance of monitoring and reviewing spending on climate adaptation and mitigation activities, the Climate Budget Tagging approach was introduced in the National Budget report for 2022/23 for four pilot entities viz. the NEC, Ministry of Agriculture and Forest, Ministry of Economic Affairs, and Ministry of Work and Human Settlement. This initiative is expected to enhance reporting on climate related expenditure going forward.

3.11. Based on the analysis and supporting evidence, the score for the dimension is C.

### **CRPFM-4. Legislative scrutiny**

3.12. This indicator measures how climate change aspects are included in legislature’s scrutiny of budgets and audit reports.

**Table 3.9: Minimum scoring requirements for CRPFM-4**

Score	Minimum requirements for scores
<b>CRPFM-4.1 Legislative scrutiny of budgets</b>	
The legislature’s scrutiny of the proposed budget includes:	
(1) Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others. A report on the work and conclusions of the committees or groups is published.	
(2) A performance or impact assessment review of (i) climate change revenue and (ii) climate change programs, including expected results in the future, either through specific impact assessment or information on planned performance.	
(3) A review of the positive, neutral or negative contribution to climate change of (i) revenue and (ii) programs or actions that are not directly related to climate change.	
(4) A review of climate related fiscal risks	
(5) A public consultation that includes a specific focus on climate. A report on the feedback received during public consultation is published.	
A	The legislature’s scrutiny of the proposed budget meets four criteria.
B	The legislature’s scrutiny of the proposed budget meets three criteria.
C	The legislature’s scrutiny of the proposed budget meets two criteria
D	Performance is less than required for a C score.
<b>CRPFM-4.2 Legislative scrutiny of audit and evaluation reports</b>	
The legislature’s scrutiny of audit reports includes:	
(1) Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others.	
(2) A review of climate related executed expenditure and revenue at a level comparable with the approved budget.	

	(3) A review of audit reports or/and evaluation reports on the performance of climate change programs or activities in line with planned outputs and outcomes.
	(4) A review of audit reports or/and evaluation reports of climate change impacts of the executed budget.
	(5) Recommendations for actions issued by the legislature to be implemented by the executive.
	(6) Follow up on their implementation.
A	The legislature's scrutiny of audit and evaluation reports meets five criteria.
B	The legislature's scrutiny of audit and evaluation reports meets four criteria.
C	The legislature's scrutiny of audit and evaluation reports meets two criteria.
D	Performance is less than required for a C score.

**Table 3.10: Summary of scores for CRPFM-4 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-4. Legislative scrutiny</b>	<b>D</b>	Scoring method M2
CRPFM-4.1 Legislative scrutiny of budgets	<b>D</b>	The National Assembly's Economic and Finance Committee (EFC) reviews the annual budget and submits recommendation to the House. However, the EFC did not review the 2022/23 budget specifically on climate change.
CRPFM-4.2 Legislative scrutiny of audit and evaluation reports	<b>NA</b>	Parliament's joint Public Accounts Committee (PAC) scrutinizes audit and evaluate reports, and it submits recommendations and undertakes follow-up on implementation, but as of date there have not been recommendation specifically on climate change since such have not (yet) featured in any audit reports.
Coverage:	CRPFM-4.1 – Budgetary central government CRPFM-4.2 – Central government	
Time period:	CRPFM-4.1 – Last budget and budget documentation submitted to the legislature (2022/23) CRPFM-4.2 – Last completed fiscal year (2020/21)	

3.13. The budget allocated for climate co-benefits for 2022/23 is Nu. 10,376.074 million.

#### **CRPFM-4.1 Legislative scrutiny of budgets**

3.14. **Performance level and evidence for scoring of the dimension:** The elements of Parliament's scrutiny of the 2022/23 budget documentation are assessed in the table below.

**Table 3.11: Elements of legislative scrutiny of budgets**

Requirements	Met	Description
1. Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others. A report on the work and conclusions of the committees or groups is published.	No	The National Assembly's Economic and Finance Committee (EFC) did not involve any experts or scientific support on the budget scrutiny in particularly for climate change.
2. A performance or impact assessment review of (i) climate change revenue and (ii)	No	The EFC did not perform any impact assessment review.

Requirements	Met	Description
climate change programs, including expected results in the future, either through specific impact assessment or information on planned performance.		
3. A review of the positive, neutral or negative contribution to climate change of (i) revenue and (ii) programs or actions that are not directly related to climate change.	No	The EFC did not review the positive, neutral or negative contribution to climate change of revenue or programs or actions that are not directly related to climate change.
4. A review of climate-related fiscal risks.	No	Parliament's scrutiny of the proposed budget did not include a review of climate-related fiscal risks.
5. A public consultation that includes a specific focus on climate. A report on the feedback received during public consultation is published.	No	Parliament's scrutiny of the proposed budget did not include a public consultation with a specific focus on climate.

3.15. Based on the analysis and supporting evidence, the score for the dimension is D.

#### **CRPFM-4.2 Legislative scrutiny of audit and evaluation reports**

3.16. **Performance level and evidence for scoring of the dimension:** The elements of Parliament's scrutiny of the 2020/21 audit and evaluation reports are assessed in the table below.

**Table 3.12: Elements of legislative scrutiny of audit and evaluation reports**

Requirements	Met	Description
1. Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others.	No	Parliament's joint PAC did not involve support mechanisms or receive expert advice from climate advocacy groups, independent climate councils, or others, since there has been no such need given that climate change aspects do not (yet) feature in audit reports.
2. A review of climate-related executed expenditure and revenue at a level comparable with the approved budget.	NA	The PAC has not been able to review climate-related executed expenditure and revenue at a level comparable with the approved budget since such have not been part of the annual budget and, hence also not the annual financial statements (AFS) of the RGoB.
3. A review of audit reports or/and evaluation reports on the performance of climate change programs or activities in line with planned outputs and outcomes.	No	The PAC did not conduct any review of audit reports or/and evaluation reports on the performance of climate change programs or activities in line with planned outputs and outcomes since no such have been submitted to the PAC by the RAA.
4. A review of audit reports or/and evaluation reports of climate change impacts of the executed budget.	NA	The PAC did not receive any audit reports or/and evaluation reports of climate change impacts of the executed budget for its review.
5. Recommendations for actions issued by the legislature to be implemented by the executive.	No	After the scrutiny of the audit reports, the PAC proposes recommendations to Parliament, and the resolutions on the same are forwarded to the executive for implementation. However, it is noted that no

Requirements	Met	Description
		recommendations related to climate change were proposed.
6. Follow-up on their implementation.	NA	After sending the resolutions of Parliament for implementation by the executive, the PAC follows up with the concerned agencies. As per current practice, Action Taken Reports (ATRs) from concerned agencies on the resolution passed during the summer session of Parliament is to be submitted by end-September and the resolution passed during the winter session of Parliament is to be submitted by end-March. However, it is noted there were no climate-related reports available for follow-up.

3.17. Based on the analysis and supporting evidence, the score for the dimension is NA.

3.18. **Recent or ongoing reform activities:** In line with the RGoB's PFM Reform Strategy 2017-2021, a number of PFM reforms were initiated, including to upgrade the Chart of Accounts (CoA) in line with international standards with the support of International Monetary Fund (IMF) South Asia Regional Training and Technical Assistance Center (SARTTAC). The main goal is to help the RGoB migrate from a CoA based on the Government Finance Statistics Manual (GFSM) 1986 to a Unified Chart of Accounts (UCoA) linked with the GFSM 2014. The UCoA will tentatively have eight segments of reporting expenditures. The cross-cutting segment would be able to track expenditure for climate-related expenses. Currently, a working team is formed and they have initiated working on the UCoA.

## CRPFM-5. Climate responsive public investment management

3.19. This indicator measures the extent to which public investment management is climate responsive.

**Table 3.13: Minimum scoring requirements for CRPFM-5**

Score	Minimum requirements for scores
<b>CRPFM-5.1 Climate-related provisions in regulatory framework for public investment management</b>	
A	The legal or regulatory framework describes the objectives and requirements for investment programs or projects in relation to climate change mitigation and adaptation. Requirements include the mandatory assessment of new significant investment projects with an impact on national mitigation targets and climate vulnerabilities. There is a high level of compliance of investment project proposals with the climate related objectives and requirements. The scope of climate related objectives and requirements covers central government and public corporations.
B	The legal or regulatory framework describes the objectives and requirements for investment programs or projects in relation to climate change mitigation or adaptation. There is a high level of compliance of investment project proposals with the climate related objectives or requirements. The scope of climate related objectives and requirements covers central government.
C	The legal or regulatory framework describes the objectives and requirements for investment programs or projects in relation to climate change mitigation or adaptation. The scope of climate related objectives and requirements covers central government.

D	Performance is less than required for a C score.
<b>CRPFM-5.2 Climate-related project prioritization</b>	
A	Published climate assessment and prioritization criteria are used to prioritize new investment projects. Climate assessment criteria cover the climate impact of the project and its exposure to climate risks, based on adequate hazard and exceedance data (OR based on adequate hazard and available data).
B	Climate assessment and prioritization criteria are used to prioritize new investment projects. Climate assessment criteria cover the climate impact of the project or its exposure to climate risks.
C	Climate assessment and prioritization criteria are used to prioritize new investment projects.
D	Performance is less than required for a C score.
<b>CRPFM-5.3 Climate-related provisions for project appraisal</b>	
A	National guidelines for projects appraisal require the evaluation of climate change impacts of new investment projects and provide a methodology. They also require adaptation measures in the project design to address climate risks. Climate change impacts are reviewed by an entity other than the sponsoring entity. The appraisal results are published.
B	National guidelines for projects appraisal require the evaluation of climate change impacts of new investment projects. They also require adaptation measures in the project design to address climate risks.
C	Guidelines for projects appraisal recommend the evaluation of climate change impacts of new investment projects or adaptation measures in the project design to address climate risks.
D	Performance is less than required for a C score.
<b>CRPFM-5.4 Reporting from entities in charge of implementation</b>	
A	The government requires extra budgetary units and public corporations in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent. All entities report back within six months of the end of the fiscal year. Reporting covers the use of climate related funding they received from the government to implement investment projects and results against objectives, targets and indicators.
B	The government requires extra budgetary units and public corporations in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent. Most entities report back within six months of the end of the fiscal year. Reporting covers climate related funding they received from the government to implement investment projects and results against these objectives, targets and indicators.
C	The government requires extra budgetary units and public corporations in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent. Most entities report back within nine months of the end of the fiscal year. Reporting covers climate related funding they received from the government to implement investment projects and results against these objectives, targets and indicators.
D	Performance is less than required for a C score.

**Table 3.14: Summary of scores for CRPFM-5 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-5. Climate responsive public investment management</b>	<b>D+</b>	Scoring method M2
CRPFM-5.1 Climate-related provisions in regulatory framework for public investment management	C	The Climate Change Policy 2020, which is a regulatory policy, mandates the MoF to formulate and implement dynamic fiscal policies and sound financial management by

Indicator/Dimension	Score	Brief justification for score
		maximizing resource generation, efficient allocation, prudent expenditure and debt management and proper accountability of public resources in relation to climate change mitigation and/or adaptation.
CRPFM-5.2 Climate-related project prioritization	D	Projects are not prioritized based on climate change aspects, but rather on developmental needs.
CRPFM-5.3 Climate-related provisions for project appraisal	B	The Environmental Assessment Act 2000 requires any major project to be assessed for its impact on the environment.
CRPFM-5.4 Reporting from entities in charge of implementation	D	The RGoB has only one general reporting format for all entities, which does not specifically cover climate change activities.
Coverage:		CRPFM-5.1 – Central government CRPFM-5.2 – Central government CRPFM-5.3 – Central government CRPFM-5.4 – Extrabudgetary units and public corporations
Time period:		Last completed fiscal year (2021/22)

### CRPFM-5.1 Climate-related provisions in regulatory framework for public investment management

3.20. **Performance level and evidence for scoring of the dimension:** The Climate Change Policy 2020, which is a regulatory policy to guide climate action in Bhutan, mandates the MoF to “*formulate and implement dynamic fiscal policies and sound financial management through maximization of resource generation, efficient allocation, prudent expenditure and debt management and proper accountability of public resources. The mandates and functions of the MoF are governed by the Public Finance Act, Public Debt Policy, Income Tax Act, Revised Taxes and Levies Act, Fiscal Incentives Act 2021 and PPP Policy*”.<sup>10</sup> Considering that the Policy was formulated relatively recently, it is possible that some of these factors will become more streamlined as the Policy is operationalized. It is further noted that the Climate Change Policy 2020 outlines four specific policy objectives – (1) Pursue carbon neutral development, (2) Building resilience to climate change, (3) Ensure means of implementation, and (4) Effective and coordinated actions – which are pursued through policies, programs and plans.

3.21. In line with provisions of the various legislations, the MoF has the mandate for resource mobilization and budget allocation and also providing fiscal incentives and other instruments to support private sector lending to support implementation of the policy.

3.22. Based on the analysis and supporting evidence, the score for the dimension is C.

### CRPFM-5.2 Climate-related project prioritization

3.23. **Performance level and evidence for scoring of the dimension:** A Long-Term Low Greenhouse Gas Emission and Climate Resilient Development Strategy (LTS) has been completed and is awaiting final approval. It will be used to prioritize projects based on a multi-

<sup>10</sup> RGoB. 2020. *Climate Change Policy of the Kingdom of Bhutan 2020*. Thimphu, p. 13.

criteria assessment approach. The total GHG reduction potential is assessed against each project identified in LEDS.

3.24. Based on the analysis and supporting evidence, the score for the dimension is D.

### **CRPFM-5.3 Climate-related provisions for project appraisal**

3.25. **Performance level and evidence for scoring of the dimension:** The National Environment Protection Act 2007 and the Environment Assessment Act 2000 mandate major investment projects to be assessed for their impacts on the environment, which covers climate change impacts. Mitigation measures are sought if projects are deemed to overly impact on the environment. They also require adaptation measures in the project design to address climate risks, including ‘No Project’ alternative.

3.26. Based on the analysis and supporting evidence, the score for the dimension is B.

### **CRPFM-5.4 Reporting from entities in charge of implementation**

3.27. **Performance level and evidence for scoring of the dimension:** The RGoB has only one general reporting format for all agencies, namely that they report physical and financial progress of project implementation, although this does not specifically cover climate change activities.

3.28. Based on the analysis and supporting evidence, the score for the dimension is D.

## **CRPFM-6. Climate responsive asset management**

3.29. This indicator measures the extent to which non-financial assets, in particular lands and buildings, are covered by CC adaptation and mitigation approaches regarding the identification of the risks and potential contribution, their inclusion in the government’s strategies, and the regulation of their use, disposal and transfer.

**Table 3.15: Minimum scoring requirements for CRPFM-6**

Score	Minimum requirements for scores
<b>CRPFM-6.1 Climate responsive asset management</b>	
A	Exposure and sensitivity of public lands, buildings, and infrastructures to climate variability, extreme weather events and transition risks are identified for the relevant assets. Information is included in the register. Contribution to emission and capture of GHG of relevant non-financial assets is identified. Procedures and rules for the disposal, transfer, and use of lands and subsoils provide climate related arrangements and are complied with.
B	Exposure and sensitivity of public lands, buildings, and infrastructures to climate variability, extreme weather events and transition risks are identified for the relevant assets. Information is included in the register. Procedures and rules on disposal, transfer, and use of lands and subsoils provide climate related arrangements.
C	Exposure and sensitivity of relevant fixed assets to climate variability, extreme weather events and transition risks are identified for the relevant assets.
D	Performance is less than required for a C score.



**Table 3.16: Summary of scores for CRPFM-6 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-6. Climate responsive asset management</b>	<b>D</b>	-
CRPFM-6.1 Climate responsive asset management	D	The RGoB has different web-based systems in place, but they do not cover information on climate change adaptation and mitigation approaches.
Coverage:	Budgetary central government	
Time period:	Last completed fiscal year (2021/22)	

### **CRPFM-6.1 Climate responsive asset management**

3.30. **Performance level and evidence for scoring of the dimension:** The management of non-financial assets is decentralized to line ministries and agencies that individually record and manage their assets through the web-based Government Inventory Management System (GIMS).<sup>11</sup> The GIMS, which is managed by the MoF’s Department of Procurement and Properties (DPP), has recently been implemented at the central level. It includes a register for non-financial assets, but does not include information on climate change adaptation and mitigation approaches (such as, for example, identification of risks and potential contribution).

3.31. The Department of Forests and Park Services (DoFPS) has a centralized real-time data sharing system for forestry, the Forest Information Reporting and Monitoring System (FIRMS),<sup>12</sup> which is an online database repository of all information and data captured by the DoFPS. It also annually publishes data and information on forest management and resource utilization.

3.32. The National Land Commission has an online system, eSakor,<sup>13</sup> which contains information regarding urban land transaction, rural land transaction system, land mortgage system, land related grievance redressal system and online land tax payment system.

3.33. Although no reference to climate and disaster risk consideration is taken into account, the transfer, disposal, and use of lands is governed by the Property Management Manual (PMM) 2016 to avoid negative impact on GHG emissions (including increase in oil and gas extraction, deforestation, and draining of wetland).

3.34. Based on the analysis and supporting evidence, the score for the dimension is D.

### **CRPFM-7. Climate-related liabilities**

3.35. This indicator measures the extent to which the government is able to manage climate-related liabilities.

<sup>11</sup> <https://www.gims.gov.bt/>.

<sup>12</sup> <https://firms.dofps.gov.bt/>.

<sup>13</sup> <https://esakor.nlcs.gov.bt/portal/public/app/portal>.

**Table 3.17: Minimum scoring requirements for CRPFM-7**

Score	Minimum requirements for scores
<b>CRPFM-7.1 Climate-related fiscal risks</b>	
A	The government publishes a report consolidating climate related fiscal risks. The report includes a quantitative and qualitative assessment of climate related fiscal risks. It considers impacts of such fiscal risks on expenditure and revenue.
B	The government produces a report consolidating climate related fiscal risks. The report includes a qualitative assessment of climate related fiscal risks. It considers impacts of such fiscal risks on expenditure and revenue.
C	The government produces a report consolidating climate related fiscal risks.
D	Performance is less than required for a C score.
<b>CRPFM-7.2 Climate-related debt and guarantees</b>	
A	The purposes for which the government can borrow, as specified in the legal framework, allow to cover climate related liabilities. The legal or regulatory framework specifies arrangements for SNGs and public corporations. It also refers to a methodology to identify projects eligible to climate finance. Mandatory climate related reporting is produced in a timely way.
B	The purposes for which the government can borrow, as specified in the legal framework, allow to cover climate related liabilities. The legal or regulatory framework specifies arrangements for SNGs and public corporations. Mandatory climate related reporting is produced.
C	The purposes for which the government can borrow, as specified in the legal framework, allow to cover climate related liabilities. The legal or regulatory framework specifies arrangements for SNGs and public corporations.
D	Performance is less than required for a C score.

**Table 3.18: Summary of scores for CRPFM-7 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-7. Climate-related liabilities</b>	<b>C+</b>	Scoring method M2
CRPFM-7.1 Climate-related fiscal risks	C	The National Budget report provides estimated costs of contingent liabilities related to natural disasters, including climate-related fiscal risks.
CRPFM-7.2 Climate-related debt and guarantees	B	The purposes for which the RGoB may borrow is specified in the legal framework and includes climate-related liabilities. The MoF may on-lend to public corporations and local governments (LGs).
Coverage:	Central government	
Time period:	Last completed fiscal year (2021/22)	

### CRPFM-7.1 Climate-related fiscal risks

3.36. **Performance level and evidence for scoring of the dimension:** The total estimated costs of contingent liabilities related to natural disasters, which could impact the fiscal position of the government, and includes climate-related fiscal risks, are reported in Chapter 6 (Fiscal Risk Assessment Matrix) of the National Budget Report.

3.37. The Climate Budget Tagging approach has been adopted in the National Budget Report for 2022/23 to monitor and review the spending related to the climate adaptation and

mitigation activities. The climate co-benefits related allocation is reported in Table 4.11 of the National Budget Report.

3.38. Based on the analysis and supporting evidence, the score for the dimension is C.

### **CRPFM-7.2 Climate-related debt and guarantees**

3.39. **Performance level and evidence for scoring of the dimension:** The framework for contracting loans and issuing guarantees is provided with the Constitution 2008, which allows for the Government to do so in the public interest, and the PFA 2007, which enables the Government to obtain loans for any purpose approved by the Cabinet. While there is no separate legal provision about climate-related debt and guarantees, the MoF thus has the authority to borrow and issue guarantees on behalf of the Government, including for protection from natural disasters and national emergencies. This means that government guarantees as well as guarantees issued by state-owned enterprises (SOEs) may include those related to climate change. LGs can borrow from the MoF as per the provisions of the PFA 2007, including in relation to climate change.

3.40. The MoF’s quarterly Public Debt Situation Report covers external debt, domestic debt, government guarantees, and cost and risk indicators.

3.41. Based on the analysis and supporting evidence, the score for the dimension is B.

## **CRPFM-8. Climate responsive procurement**

**Table 3.19: Minimum scoring requirements for CRPFM-8**

Score	Minimum requirements for scores
<b>CRPFM-8.1 Climate responsive procurement framework</b>	
A	The framework establishes clear criteria to determine what products or services count as climate responsive and the scope of procurement operations subject to climate responsive procurement principles. It sets quantitative targets, priorities and timeframes. Quantitative targets have been reached during the last completed fiscal year. There is an operational body, unit or team in charge of the development of the framework, and support to the users.
B	The framework establishes clear criteria to determine what products or services count as climate responsive and the scope of procurement operations subject to climate responsive procurement principles. It sets quantitative targets, priorities and timeframes.
C	The framework establishes clear criteria to determine either what products or services count as climate responsive or the scope of procurement operations subject to climate responsive procurement principles.
D	Performance is less than required for a C score.
<b>CRPFM-8.2 Climate responsive public procurement operations</b>	
A	Climate responsive standards are used to help determine tender requirements and specifications, or award criteria. Climate responsive criteria are included in contract performance clauses. Climate responsive procurement examples or templates are included into framework agreements for commonly procured goods. Life-cycle costing is included as a cost element at the award stage of a procurement procedure. There are simplified procedures and templates to expedite procurement for response to climate induced disasters. Circumstances of their activation are clearly defined.

Score	Minimum requirements for scores
B	Climate responsive standards are used to help determine tender requirements and specifications, or award criteria. Climate responsive criteria are included in contract performance clauses. Climate responsive procurement examples or templates are included into framework agreements for commonly procured goods. There are simplified procedures and templates to expedite procurement for response to climate induced disasters. Circumstances of their activation are clearly defined.
C	Climate responsive standards are used to help determine tender requirements and specifications, or award criteria or there are simplified procedures and templates to expedite procurement for response to climate induced disasters.
D	Performance is less than required for a C score.
<b>CRPFM-8.3 Climate responsive public procurement monitoring</b>	
A	There is a high-level of compliance of contract awards and implementation with climate responsive specifications of tenders and contracts. There is an operational system in place for ensuring the compliance of emergency procedures used in case of climate induced disasters. Procurement operations related to climate induced disasters were compliant with emergency procedures. Procurement databases or records capture specific information on climate responsive procurement and include emergency procurement. There are no material concerns about their completeness and accuracy.
B	Compliance of contract awards and implementation with climate responsive specifications of tenders and contracts is verified. There is an operational system in place for ensuring the compliance of emergency procedures used in case of climate induced disasters. Procurement databases or records capture specific information on climate responsive procurement and include emergency procurement. Their completeness and accuracy are verified.
C	Compliance of contract awards and implementation with climate responsive specifications of tenders and contracts is verified. There is an operational system in place for ensuring the compliance of emergency procedures used in case of climate induced disasters. Procurement databases or records capture specific information on climate responsive procurement and include emergency procurement.
D	Performance is less than required for a C score.
<b>CRPFM-8.4 Climate responsive public procurement reporting</b>	
A	A report on climate responsive procurement, which includes statistics and refers to the targets and priorities set in the national framework, is published and submitted to the legislature. Benefits and outcomes of climate responsive procurement have been assessed at least once during the last three completed fiscal years. Indicators of performance for public procurement include indicators on climate responsive procurement. A report is published on the compliance with procedures and rules requiring emergency procurement operations and includes an analysis of their implementation.
B	A report on climate responsive procurement, which includes statistics and refers to the targets and priorities set in the national framework, is published and submitted to the legislature. A report is published on the compliance with procedures and rules requiring emergency procurement operations.
C	A statistical report on climate responsive procurement is produced. A report is produced on the compliance with procedures and rules requiring emergency procurement operations.
D	Performance is less than required for a C score.

3.42. This indicator examines the extent to which climate change mitigation and adaptation measures are embedded into key aspects of procurement management. It measures the extent to which the government purchases goods, services and works that cause minimal adverse

impacts on climate change. It also evaluates resilience and responsiveness of the procurement system to climate induced risks, and responsiveness of the system to climate induced disasters.

**Table 3.20: Summary of scores for CRPFM-8 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-8. Climate responsive procurement</b>	<b>D+</b>	Scoring method M2
CRPFM-8.1 Climate responsive procurement framework	C	The scope of the RGoB's Procurement Rules and Regulation (PRR) 2019 is subject to the climate responsive procurement principles.
CRPFM-8.2 Climate responsive public procurement operations	C	The Simplified Procurement Rules and Regulations (SPRR) 2021 help expedite procurement in response to climate induced disasters.
CRPFM-8.3 Climate responsive public procurement monitoring	D	While specific operational system in place to ensure compliance of emergency procedures used in case of climate induced disasters, compliance of contract awards and implementation with climate responsive specifications of tenders and contracts is not verified and no databases/records capture information on climate responsive procurement, including emergency procurement
CRPFM-8.4 Climate responsive public procurement reporting	D	The RGoB does not prepare climate responsive procurement reports.
Coverage:	Central government	
Time period:	CRPFM-8.1, 8.2, 8.3 – Last completed fiscal year (2021/22) CRPFM-8.4 – Last completed fiscal year - covering the last three completed fiscal years for the assessment of the CC responsive procurement (2021/22 + 2019/20-2021/22)	

### **CRPFM-8.1 Climate responsive procurement framework**

3.43. **Performance level and evidence for scoring of the dimension:** The scope of procurement operations is subject to climate responsive procurement principles. The RGoB's PRR 2019 in para 5.2.2.11 (under 'Specifications/Scope of Works') state that the technical description of the goods, services or works under a bid shall, where possible, include a requirement of goods, equipment or materials that are environment friendly (and that non-conformity therewith would render a bid non-responsive). A similar requirement is stated in para 6.3.4.1 (under 'Scope, Quantity and Quality').<sup>14</sup>

3.44. Based on the analysis and supporting evidence, the score for the dimension is C.

### **CRPFM-8.2 Climate responsive public procurement operations**

3.45. **Performance level and evidence for scoring of the dimension:** The RGoB's Simplified Procurement Rules and Regulations (SPRR) 2021, although developed to address the challenges posed during the COVID-19 pandemic, may be applied to help expedite

<sup>14</sup> <https://www.mof.gov.bt/wp-content/uploads/2019/07/PRR2019.pdf>.

procurement processes in response to climate induced disasters.<sup>15</sup> According to para 61.1.f, the Direct Contracting Method may be used in emergency situations (similar to para 4.2.5.2 (g) of the PPR 2019).

3.46. Based on the analysis and supporting evidence, the score for the dimension is C,

### **CRPFM-8.3 Climate responsive public procurement monitoring**

3.47. **Performance level and evidence for scoring of the dimension:** This dimension requires all of the following three elements:

- (i) Compliance of contract awards and implementation with climate responsive specifications of tenders and contracts is verified.
- (ii) There is an operational system in place for ensuring the compliance of emergency procedures used in case of climate induced disasters.
- (iii) Procurement databases or records capture specific information on climate responsive procurement and include emergency procurement.

3.48. While (ii) is met, (i) and (iii) are not met.

3.49. Based on the analysis and supporting evidence, the score for the dimension is D.

### **CRPFM-8.4 Climate responsive public procurement reporting**

3.50. **Performance level and evidence for scoring of the dimension:** The RGoB does not prepare climate responsive procurement reports.

3.51. Based on the analysis and supporting evidence, the score for the dimension is D.

## **CRPFM-9. Climate responsive revenue administration**

3.52. This indicator measures the government’s capacity to implement tax policies aimed at reducing GHG emissions and increase resiliency. It also evaluates the extent to which revenue collection generates arrears.

**Table 3.21: Minimum scoring requirements for CRPFM-9**

Score	Minimum requirements for scores
<b>CRPFM-9.1 Climate-related tax management, audit and investigation</b>	
A	For climate related taxes, a structured and systematic approach for assessing and prioritizing compliance risk, is used. GHG emitters are registered in a database, which is accurate and comprehensive, and linked to the taxpayer database. A documented compliance improvement plan exists comprising mitigation activities in respect of identified high risks covering climate related taxes. Planned audit and investigations have been completed as intended. Penalties for non-compliance exist and are effective.
B	For climate related taxes, a structured and systematic approach for assessing and prioritizing compliance risk, is used. GHG emitters are registered in a database, which is linked to the taxpayer

<sup>15</sup> <https://www.mof.gov.bt/wp-content/uploads/2021/11/SPRR2021.pdf>.

Score	Minimum requirements for scores
	database. Accuracy and completeness of the emitters' database are regularly controlled. A documented compliance improvement plan exists comprising mitigation activities in respect of identified high risks covering climate related taxes. Planned audit and investigations have been completed as intended.
C	For climate related taxes, a partly structured and systematic approach for assessing and prioritizing compliance risk, is used. GHG emitters are registered in a database, which may not be fully and consistently linked with the taxpayer database. Part of the planned audit and investigations have been completed.
D	Performance is less than required for a C score.
CRPFM-9.2 Climate-related tax arrears	
A	The stock of total climate related tax arrears at the end of the last completed fiscal year is below 10 percent of the total climate related tax arrears collection for the year.
B	The stock of total climate related tax arrears at the end of the last completed fiscal year is below 20 percent of the total climate related tax arrears collection for the year.
C	The stock of total climate related tax arrears at the end of the last completed fiscal year is below 40 percent of the total climate related tax arrears collection for the year.
D	Performance is less than required for a C score.

**Table 3.22: Summary of scores for CRPFM-9 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-9. Climate responsive revenue administration</b>	<b>B</b>	Scoring method M2
CRPFM-9.1 Climate-related tax management, audit and investigation	C	All fuel importers and vehicle owners are registered by the RGoB, although it this is not fully and consistently linked to the taxpayer database. Relevant authorities, which apply a structured and systematic approach for assessing and prioritizing compliance risk in relation to green tax, undertake audits and investigations as required.
CRPFM-9.2 Climate-related tax arrears	A	There is no stock of green tax-related arrears as the taxes collected in full when imported into Bhutan.
Coverage:	Budgetary central government	
Time period:	Last completed fiscal year (2021/22)	

3.53. Bhutan's green tax on motor vehicles and motor fuel was notified in 2012 upon enactment of the Tax Act 2012 (amended in 2020). The aim of the green tax is to reduce import of fossil fuel-based vehicles, encourage electric vehicles, and ultimately reduce vehicular emissions. Green tax benefits economic growth and environmental protection.

#### **CRPFM-9.1 Climate-related tax management, audit and investigation**

3.54. **Performance level and evidence for scoring of the dimension:** Green tax as a policy is levied only on vehicles and fuel. Green tax on passenger vehicle is a one-time levy based on engine type and engine capacity of the vehicle as shown in the table below.



**Table 3.23: Green tax on passenger vehicle**

Type of Engine	Engine Capacity	Green Tax (% of CIF)
Fossil Fuel (Petrol and Diesel)	Of cc not exceeding 1000cc	10
	Of cc exceeding 1,500 cc but not exceeding 1,799 cc	15
	Of cc exceeding 1,799 cc but not exceeding 2,500 cc	20
	Of cc exceeding 2,500 cc but not exceeding 3,000 cc	25
	Of cc exceeding 3,000cc	30
Hybrid Vehicles	Of cc exceeding 1,000cc but not exceeding 1,500cc	2.5
	Of cc exceeding 1,500 cc but not exceeding 1,799 cc	5
	Of cc exceeding 1,799 cc but not exceeding 2,500 cc	10
	Of cc exceeding 2,500 cc but not exceeding 3,000 cc	15
	Of cc exceeding 3,000cc	20

3.55. Green tax on buses and vehicles used for transport of goods varies from 2.5% to 10% of the Cost, Insurance and Freight (CIF) depending on the engine type and weight of the vehicle. Electric vehicles are exempted from green tax. The Road Safety and Transport Authority (RSTA) maintains a register of all automobiles registered in the country, although it this is not fully and consistently linked to the taxpayer database.

3.56. Bhutan imports all its fuel requirements. Green tax on fuel (petrol, diesel and light oils) is levied at 5% on the free onboard price (FOB) value. Bhutan has four fuel imports (three private and one public), which are registered with the RGoB.

3.57. The Department of Revenue and Customs (DRC) applies a structured and systematic approach for assessing and prioritizing compliance risk in relation to taxes, including green tax on vehicles and fuel. It undertakes audits and fraud investigations managed and reported in accordance with a documented compliance improvement plan, and completes all planned audits and investigations.

3.58. Based on the analysis and supporting evidence, the score for the dimension is C.

### **CRPFM-9.2 Climate-related tax arrears**

3.59. **Performance level and evidence for scoring of the dimension:** Green tax is collected at the point of entry into Bhutan and it is collected at the time of clearance from Customs Station. As the taxes are collected upfront, there are no arrears in the collection of green tax.

3.6. Based on the analysis and supporting evidence, the score for the dimension is A.

3.60. **Recent or ongoing reform activities:** The green tax on hybrid vehicles was revised downward by 5% under each engine capacity with effect from January 2020. This was done to encourage the use hybrid vehicles.



## CRPFM-10. Compliance of climate-related expenditure

3.61. This indicator measures the extent to which efficient control systems are in place to guarantee the compliance of payments with climate change criteria.

**Table 3.24: Minimum scoring requirements for CRPFM-10**

Score	Minimum requirements for scores
<b>CRPFM-10.1 Effectiveness of the systems of controls</b>	
A	The legal or regulatory framework provides a system of controls of the climate conditionalities of transactions. Controls are performed at the commitment and payment stage. Evidence shows that the control system is effective, covers all categories of climate related transactions, and that emergency payments are compliant with the procedures. The control system has been audited at least once during the last three completed fiscal years.
B	The legal or regulatory framework provides a system of controls of the climate conditionalities of transactions. Controls are performed at least at payment stage. Evidence shows that the control system is effective, covers the major categories of climate related transactions, and that emergency payments are compliant with the procedures. The control system has been partially audited at least once during the last three completed fiscal years.
C	The legal or regulatory framework provides a system of controls of the climate conditionalities of transactions. Controls are performed at least at payment stage. Evidence shows that the control system is partially effective and provides partial coverage.
D	Performance is less than required for a C score.
<b>CRPFM-10.2 Compliance of transactions</b>	
A	Audits and fraud investigations are conducted for all categories of climate related transactions to ascertain that public monies have been used for the proper climate objectives. They include access to information on the use of climate related monies by receiving entities. There is an effective mechanism for recovering undue transactions.
B	Audits and fraud investigations are conducted for the major categories of climate related transactions to ascertain that public monies have been used for the proper climate objectives. They include access to information on the use of climate related monies by receiving entities. There is a mechanism for recovering undue transactions.
C	Audits and fraud investigations are conducted for climate related transactions to ascertain that public monies have been used for the proper climate objectives, but their coverage is partial.
D	Performance is less than required for a C score.

**Table 3.25: Summary of scores for CRPFM-10 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-10. Compliance of climate-related expenditure</b>	<b>B</b>	Scoring method M2
CRPFM-10.1 Effectiveness of the systems of controls	A	The RGoB has in place a solid legal and regulatory framework for internal controls, which are also used for climate-related transactions at the commitment and payment stages, and cover all categories of expenditure, including emergency payments. The controls are subject to external audit once a year
CRPFM-10.2 Compliance of transactions	C	The RAA is conducting compliance audits of environment sector programs that partially include climate change-related aspects.
Coverage:	Budgetary central government	
Time period:	Last completed fiscal year (2021/22)	

### CRPFM-10.1 Effectiveness of the systems of controls

3.62. **Performance level and evidence for scoring of the dimension:** The RGoB has in place a solid legal and regulatory framework for internal control, which is also used for climate-related transactions. This was confirmed through a review of transactions for climate-related expenditure under the Electric Vehicle (EV) Project and the Green Climate Fund (GCF) funded ‘Supporting Climate Resilience and Transformational Change in the Agriculture Sector in Bhutan’ project. Controls are performed at the commitment and payment stages, and cover all categories of expenditure, including emergency payments. The controls are subject to external audit once a year.

3.63. Based on the analysis and supporting evidence, the score for the dimension is A.

### CRPFM-10.2 Compliance of transactions

3.64. **Performance level and evidence for scoring of the dimension:** The RAA has undertaken compliance audits of the environment sector that partially include climate-related aspects – for example, ‘Report on the Government Property Management (Disposal) System’ and ‘Report on Review of Surface Collections and Dredging of Riverbed Materials (RMB) in Phuentsholing and Samtse’ – published during 2019/20. More recent audits have been undertaken by the RAA, but are yet to be published.

3.65. Based on the analysis and supporting evidence, the score for the dimension is C.

### **CRPFM-11. Climate responsive fiscal decentralization framework**

3.66. This indicator measures the extent to which fiscal decentralization arrangements factor climate change in order to facilitate and encourage local climate policies conducted by subnational governments (SNGs), ensuring the translation of a vertical integration of climate change objectives.

**Table 3.26: Minimum scoring requirements for CRPFM-11**

Score	Minimum requirements for scores
<b>CRPFM-11.1 Climate responsive fiscal decentralization arrangements</b>	
A	The legal and regulatory framework clearly states the competencies and mandates of SNGs related to climate change mitigation and adaptation. Resources allocated to SNGs allow them to implement their competencies and mandates related to climate change. Evaluation of the implementation of these mandates and competencies has been conducted and published at least once during the last three completed fiscal years.
B	The legal and regulatory framework clearly states the competencies and mandates of SNGs related to climate change mitigation and adaptation. Evaluation of the implementation of these mandates and competencies has been conducted at least once during the last three completed fiscal years.
C	The legal and regulatory framework clearly states the competencies and mandates of SNGs related to climate change mitigation and adaptation.
D	Performance is less than required for a C score.
<b>CRPFM-11.2 Climate responsive fiscal transfers</b>	
A	Climate change related conditional transfers are associated with objectives aligned with the national climate change strategy. SNGs report annually to central government on the use of climate

Score	Minimum requirements for scores
	related transfers from central government. The horizontal allocation of unconditional transfers is partly based on climate related criteria and/or in case of performance-based transfers, climate change is considered as part of the performance indicators.
B	Climate change related conditional transfers are associated with objectives aligned with the national climate change strategy. SNGs report annually to central government on the use of climate related transfers from central government.
C	Climate change related conditional transfers are associated with objectives aligned with the national climate change strategy.
D	Performance is less than required for a C score.
CRPFM-11.3 Climate responsive PFM arrangements applied by subnational governments	
The fiscal decentralization arrangements satisfy the following criteria:	
1. National arrangements for tracking climate related expenditure are applied to SNGs	
2. The climate change related investment framework covers SNGs.	
3. Procedures and rules for the transfer and disposal of CC sensitive non-financial assets apply to SNGs.	
4. The legal or regulatory framework for climate related debt and guarantees specifies arrangements for SNGs.	
5. The climate related procurement framework covers SNGs.	
A	At least Four of the following elements are fulfilled.
B	Three of the following elements are fulfilled.
C	Two of the following elements are fulfilled.
D	Performance is less than required for a C score.

**Table 3.27: Summary of scores for CRPFM-11 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-11. Climate responsive fiscal decentralization framework</b>	<b>C+</b>	Scoring method M2
CRPFM-11.1 Climate responsive fiscal decentralization arrangements	C	The legal and regulatory framework states the general mandates and competencies of LGs regarding activities pertaining to environmental protection, which includes climate change aspects.
CRPFM-11.2 Climate responsive fiscal transfers	C	Annual grants provided by the RGoB enable LGs to implement their competencies and mandates related to climate change.
CRPFM-11.3 Climate responsive PFM arrangements applied by subnational governments	B	The climate responsive PFM arrangements for LGs meet the requirements for three of the listed criteria, but do not meet the requirements for the remaining two criteria.
Coverage:	Central government and the subnational governments which have direct financial relationships with the central government.	
Time period:	CRPFM-11.1 – At time of assessment covering the last three completed fiscal years (i.e., 2019/20, 2020/21 and 2021/22) CRPFM-11.2 – Last completed fiscal year (2021/22) CRPFM-11.3 – At time of assessment	

### CRPFM-11.1 Climate responsive fiscal decentralization arrangements

3.67. **Performance level and evidence for scoring of the dimension:** The Local Government Act 2009 gives LGs the general power to undertake activities, consistent with other relevant laws and policies, which may conserve and enhance the environment within the limits of the areas under its jurisdiction (Article 48.i). Dzongkhag Tshogdus are furthermore required to regulate water, air and noise pollution and other environmental degradation in accordance with the law (Article 50.b), and Thromde Tshogdes are required to frame and enforce rules for protecting the health, safety and well-being of their residents so as preserve and promote the quality of the environment (Article 62.b).

3.68. The National Environment Protection Act of Bhutan 2007 states that the uniformity of the environmental protection system must be guaranteed by the Government, local governments, and the private sector through appropriate policies, plans and programs, e.g. environmental assessment processes, regulations, incentives, fiscal policies and other instruments (Article II.14).

3.69. The above are the aspects covered in the legal framework and, moreover, the mandate related to climate change is with respect to jurisdiction of respective LGs, hence there is clarity of delineation.

3.70. Based on the analysis and supporting evidence, the score for the dimension is C.

### CRPFM-11.2 Climate responsive fiscal transfers

3.71. **Performance level and evidence for scoring of the dimension:** The Climate Change Policy requires LGs to undertake action for climate change in terms of (i) Planning and implementing local-level climate change actions within respective jurisdictions; (ii) Functioning as partners for advocacy and awareness to different groups of the general public and respective communities; and, (iii) Supporting the identification, development and management of local practices, knowledge and endogenous technologies relevant for climate change action.

3.72. The RGoB-financed annual grants for LGs, introduced in 2019/20, enable LGs to implement their competencies and mandates related to climate change. This is because the annual grants are provided as block grants to the LGs, which have the authority to decide their allocation, including in relation to climate change activities.

3.73. Performance-Based Climate Resilience Grants (PBCRGs) to LGs were introduced in Bhutan in 2011 and have for some years been included under the RGoB's Local Governance Sustainable Development Program (LGSDP), which is implemented by the Department of Local Governance (DLG) of the Ministry of Home and Cultural Affairs (MoHCA). With budget support provided by the European Union (EU), this has over time been scaled up to cover 100 Gewogs in 16 Dzongkhags. LGs that receive the PBCRG report to the DLG on their gender, environment, climate, disaster and poverty (GECDP) mainstreaming activities.

3.74. Based on the analysis and supporting evidence, the score for the dimension is C.

### CRPFM-11.3 Climate responsive PFM arrangements applied by SNGs

3.75. **Performance level and evidence for scoring of the dimension:** The assessment of the five criteria of the fiscal decentralization arrangements is provided in the table below.

**Table 3.28: Fiscal decentralization arrangements**

Criteria	Met	Description
1. National arrangements for tracking climate-related expenditure are applied to SNGs.	No	There is no framework or procedure for tracking climate-related expenditure, including for SNGs.
2. The climate change-related investment framework covers SNGs.	No	There is no climate change-related investment framework, including for SNGs.
3. Procedures and rules for the transfer and disposal of climate change sensitive non-financial assets apply to SNGs.	Yes	Disposal of any government asset, including climate change sensitive non-financial assets, is governed by Waste Prevention and Management Act of Bhutan, 2009.
4. The legal or regulatory framework for climate-related debt and guarantees specifies arrangements for SNGs.	Yes	The legal or regulatory framework for debt and guarantees, which is the PFA 2007, also applies to SNGs.
5. The climate-related procurement framework covers SNGs.	Yes	The scope of the RGoB's Procurement Rules and Regulation (PRR) 2019 is subject to the climate responsive procurement principles. This also applies to SNGs.

3.76. Based on the analysis and supporting evidence, the score for the dimension is B.

### CRPFM-12. Climate-related performance information

3.77. This indicator measures the extent to which information on planned and achieved performance covers the climate change adaptation and mitigation policies and is included in budget documentation.

**Table 3.29: Minimum scoring requirements for CRPFM-12**

Score	Minimum requirements for scores
<b>CRPFM-12.1 Climate-related information in performance plans</b>	
A	Climate related objectives, key performance indicators, outputs AND outcomes are assigned to climate related programs and activities. Indicators are consistent with those established in the national climate change strategy/plan. Performance information is available in the budget or supporting documentation submitted to the legislature and published.
B	Climate related objectives, key performance indicators, outputs OR outcomes are assigned to climate related programs and activities. Performance information is available in the budget or supporting documentation submitted to the legislature and published.
C	Performance targets are assigned to climate related programs and activities. Performance information is available in the budget or supporting documentation submitted to the legislature.
D	Performance is less than required for a C score.
<b>CRPFM-12.2 Climate-related information in performance reports</b>	
A	Climate related achieved outcomes AND produced outputs are reported for climate related programs and activities. Performance is reported against indicators that are consistent with those

Score	Minimum requirements for scores
	established in the national climate change strategy/plan. Reports are submitted to the legislature and published.
B	Climate related achieved outcomes OR produced outputs are reported for climate related programs and activities. Reports are submitted to the legislature and published.
C	Achieved performance is reported for climate related programs and activities. Reports are submitted to the legislature.
D	Performance is less than required for a C score.

**Table 3.30: Summary of scores for CRPFM-12 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-12. Climate-related performance information</b>	<b>D</b>	Scoring method M2
CRPFM-12.1 Climate-related information in performance plans	D	Performance targets are set for all climate-related projects and activities, but detailed performance information is not included in the budget documentation submitted to Parliament.
CRPFM-12.2 Climate-related information in performance reports	D	Performance achieved for climate-related programs and activities is reported in project-specific reports, but these are not submitted to Parliament.
Coverage:	Budgetary central government	
Time period:	CRPFM-12.1 – Last budget submitted to the legislature (2022/23) CRPFM-12.2 – Last completed fiscal year (2021/22)	

### CRPFM-12.1 Climate-related information in performance plans

3.78. **Performance level and evidence for scoring of the dimension:** The RGoB has in place several climate-related programs and activities, including the ‘Program Management for Green Climate Fund (GCF) Project’ (implemented by the GNHC and financed by the GCF and the Global Environment Facility (GEF)), ‘Study on Minimum Environmental Flow for Hydropower Projects in Bhutan’ (implemented by the NEC and financed by the Government of Austria), ‘National Forest Inventory (NFI) Cluster Plots in Protected Areas’ (implemented by the MoAF and financed by the GCF), and ‘Construction of and Installation of EV Charging Stations’ (implemented by the MoIC and funded by the RGoB). While performance targets are set for all projects and activities, detailed performance information is not included in the budget documentation submitted to Parliament.

3.79. Based on the analysis and supporting evidence, the score for the dimension is D.

### CRPFM-12.2 Climate-related information in performance reports

3.80. **Performance level and evidence for scoring of the dimension:** The performance achieved for climate-related programs and activities is reported in project-specific reports, but these are not submitted to Parliament.

3.81. Based on the analysis and supporting evidence, the score for the dimension is D.

## CRPFM-13. Climate-related performance evaluation

3.82. This indicator measures the existence of an evaluation of the climate change related programs as well as the inclusion of climate change in the evaluation of other programs. It covers both expenditure and revenues.

**Table 3.31: Minimum scoring requirements for CRPFM-13**

Score	Minimum requirements for scores
<b>CRPFM-13.1 Climate-related evaluation of expenditure</b>	
A	Independent evaluation of climate related programs and activities has been carried out and published at least once in the last three years. Evaluation of programs and activities indirectly contributing to climate change adaptation and mitigation, including programs and activities that undermine climate policy, have included a part devoted to impact on climate.
B	Evaluation of climate related programs and activities has been carried out and published at least once in the last three years.
C	Evaluation of climate related programs and activities has been carried out at least once in the last three years.
D	Performance is less than required for a C score.
<b>CRPFM-13.2 Climate-related evaluation of taxes</b>	
A	Independent evaluation of the contribution of tax policy to climate change has been carried out and published at least once in the last three years. It includes both the climate related taxes and the taxes that are likely to undermine climate policy goals.
B	Partial evaluation of the contribution of tax policy to climate change has been carried out and published at least once in the last three years. It includes the climate related taxes and the main taxes that are likely to undermine climate policy goals.
C	Partial evaluation of the contribution of tax policy to climate change has been carried out at least once in the last three years. It includes the climate related taxes or the main taxes that are likely to undermine climate policy goals.
D	Performance is less than required for a C score.

**Table 3.32: Summary of scores for CRPFM-13 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-13. Climate-related performance evaluation</b>	<b>C</b>	Scoring method M2
CRPFM-13.1 Climate-related evaluation of expenditure	B	The NEC in 2021 reported on progress and challenges in the implementation of climate-related programs and activities. The 12 <sup>th</sup> FYP MTR report is a publicly available document.
CRPFM-13.2 Climate-related evaluation of taxes	D	No evaluation of the contribution of the tax policy to climate change has been carried out during the last three years.
Coverage:	Budgetary central government	
Time period:	Last three completed fiscal years (2019/20, 2020/21 and 2021/22)	



### **CRPFM-13.1 Climate-related evaluation of expenditure**

3.83. **Performance level and evidence for scoring of the dimension:** As part of the Mid-Term Review (MTR) of the 12<sup>th</sup> FYP, the NEC in 2021 reported on key climate change actions implemented from November 2018 to December 2020. This covered status assessments of FYP-related key performance indicators (KPIs) as well as planned development activities and discussions on issues/challenges, including financial progress and proposals for activity and budget revisions as a result of the COVID-19 pandemic. The reporting also covered efforts made towards streamlining environmental public service delivery.<sup>16</sup> The 12<sup>th</sup> FYP MTR report is a publicly available document.<sup>17</sup>

3.84. Based on the analysis and supporting evidence, the score for the dimension is B.

### **CRPFM-13.2 Climate-related evaluation of taxes**

3.85. **Performance level and evidence for scoring of the dimension:** The NEC's *The Middle Path – National Environment Strategy 2020* includes some general as well as specific considerations on how to use taxation to promote cleaner technology and lower pollution,<sup>18</sup> but it does not comprise an evaluation of the contribution of the tax policy to climate change, as regards climate-related taxes and taxes that may undermine climate policy goals.

3.86. In preparing the Tax (Amendment) Bill 2020, which included revisions to green tax rates (as well as to customs duty and sales tax rates), the DRC undertook an internal review of the revenue budget implications of the initiative. The same was undertaken prior to the submission of the Tax Bill of Bhutan 2022, which was presented to Parliament on 9 November 2022. However, neither constituted evaluations of the contribution of the tax policy to climate change, or whether taxes undermine climate policy goals.

3.87. Based on the analysis and supporting evidence, the score for the dimension is D.

## **CRPFM-14. Expenditure outturn for climate activities**

3.88. This indicator measures the extent to which climate-related expenditures reflect the amounts originally approved, as defined in government budget documentation and end-of-year reports, both at the aggregate and at the detailed level.

**Table 3.33: Minimum scoring requirements for CRPFM-14**

Score	Minimum requirements for scores
<b>CRPFM-14.1 Aggregate climate-related expenditure outturn</b>	
A	Aggregate climate related expenditure outturn was between 95% and 105% of the approved aggregate expenditure for climate actions in at least two of the last three years.
B	Aggregate climate related expenditure outturn was between 90% and 110% of the approved aggregate expenditure for climate actions in at least two of the last three years.

<sup>16</sup> Gross National Happiness Commission (GNHC). 2021. *12<sup>th</sup> Plan Mid-Term Review Report*. Thimphu, p. 15, p. 17, pp. 54-57, and pp. 295-204.

<sup>17</sup> [http://rtm.gnhc.gov.bt/wp-content/uploads/2021/08/12th%20Plan%20MTR%20Report\\_Final.pdf](http://rtm.gnhc.gov.bt/wp-content/uploads/2021/08/12th%20Plan%20MTR%20Report_Final.pdf).

<sup>18</sup> National Environment Commission (NEC). 2019. *The Middle Path – National Environment Strategy 2020*. Thimphu.



Score	Minimum requirements for scores
C	Aggregate climate related expenditure outturn was between 85% and 115% of the approved aggregate expenditure for climate actions in at least two of the last three years
D	Performance is less than required for a C score.
CRPFM-14.2 Climate-related expenditure composition outturn	
A	Variance in climate related expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.
B	Variance in climate related expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.
C	Variance in climate related expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.

**Table 3.34: Summary of scores for CRPFM-14 and performance table**

Indicator/Dimension	Score	Brief justification for score
<b>CRPFM-14. Expenditure outturn for climate activities</b>	<b>NA</b>	Scoring method M2
CRPFM-14.1 Aggregate climate-related expenditure outturn	NA	Climate change-related expenditure is not tracked.
CRPFM-14.2 Climate-related expenditure composition outturn	NA	Climate change-related expenditure is not tracked.
Coverage:	Budgetary central government	
Time period:	Last three completed fiscal years (2019/20, 2020/21 and 2021/22)	

### CRPFM-14.1 Aggregate climate-related expenditure outturn

3.89. **Performance level and evidence for scoring of the dimension:** The RGoB has not developed a methodology that defines what constitutes ‘climate change expenditure’ (as per CRPFM-2, Element 1), hence climate-related expenditure cannot be calculated.

3.90. Based on the analysis and supporting evidence, the score for the dimension is NA.

### CRPFM-14.2 Climate-related expenditure composition outturn

3.91. **Performance level and evidence for scoring of the dimension:** The RGoB has not developed a methodology that defines what constitutes ‘climate change expenditure’ (as per CRPFM-2, Element 1), hence climate-related expenditure cannot be calculated.

3.92. Based on the analysis and supporting evidence, the score for the dimension is NA.

# ANNEX 1: SOURCES OF INFORMATION

- GNHC. 2021. *12<sup>th</sup> Plan Mid-Term Review Report*. Thimphu.
- NEC. 2019. *The Middle Path – National Environment Strategy 2020*. Thimphu.
- RGoB. 2020. *Climate Change Policy of the Kingdom of Bhutan 2020*. Thimphu.
- [https://www.pefa.org/resources/catalog?field\\_resource\\_type\\_target\\_id=5961](https://www.pefa.org/resources/catalog?field_resource_type_target_id=5961).
- <https://www.gims.gov.bt/>.
- <https://firms.dofps.gov.bt/>.
- <https://esakor.nlcs.gov.bt/portal/public/app/portal>.
- <https://www.mof.gov.bt/wp-content/uploads/2019/07/PRR2019.pdf>.
- <https://www.mof.gov.bt/wp-content/uploads/2021/11/SPRR2021.pdf>.

# ANNEX 2: HIGH-LEVEL QUESTIONNAIRE REPLIES

The Questionnaire was filled-in by the National Environment Commission (NEC).

## Section 1: International Commitments for Climate Change Mitigation and Adaptation

1) *Has the country ratified the United Nations Framework Convention on Climate Change?*  
Yes, on 25 August 1995.

2) *Has the country ratified the Paris Agreement?*  
Yes, on 19 September 2017.

3) *Has the country submitted Nationally Determined Contributions (NDCs)?*  
a. *First NDCs.*

Yes, Bhutan submitted its first Intended Nationally Determined Contribution (INDC) on 30 September 2015. However, Bhutan ratified the Paris Agreement on 19 September 2017 and the INDC, then, became Bhutan's first NDC.

b. *Revised NDCs.*  
Yes, on 5 June 2021.

4) *If "Yes" to Question 3:*

a. *What aspects of climate change do the submitted NDCs address?*

The 1<sup>st</sup> NDC communicated to address both the mitigation as well as adaptation aspects to build resilience to the impacts of climate change. However, the 2<sup>nd</sup> NDC focused primarily on the mitigation part only. The adaptation aspect is due to be submitted as the "Bhutan's Adaptation Communication" once the NAP document is finalized in mid-2022.

b. *How does the country plan to meet its greenhouse gas (GHG) emission reduction targets as described in the NDCs?*

*Financial support (Specify):*

To complement the international financing support, domestic institutional configurations are also underway in order to establish reliable and credible mechanisms. For example, the former Gross National Happiness Commission (GNHC) Secretariat was identified as the NDA for the Green Climate Fund to enable direct access to the Fund. The NDA is now the MoF's Department of Macro-fiscal and Development Finance (DMDF).

The National Environment Commission (NEC) Secretariat is leading the establishment of the Bhutan Climate Fund which will serve as the innovative and sustainable financing mechanism from the sale of our carbon credits. However, this will depend on the development of the carbon market institutions, and carbon markets around the world.

#### *Regulation (Specify):*

The key determinant of the overall carbon neutral commitment is the preservation of our forest resources. The constitutional mandate to keep 60% of the total land under forests and subsequently Bhutan's National REDD+ strategy and implementation framework contributes to the continued conservation of our forest resources.

Major developmental activity like the industrial sector is required to undergo screening processes as per the Environment Assessment Act 2000 sets in the emission limit as per the Environment Standards 2020. The Regulation for the Environment Clearance of Projects details out the procedures for environment impact assessment and outlines the responsibilities among the different agencies.

Similarly, the Transport Low Emission Development Strategy (LEDS) mentions that the government should enforce fuel-efficiency standards for all new ICE vehicles imported from 2022. An indirect import restriction on non-standard ICE cars is also one of the measures outlined.

Under the LEDS for Human settlement, measures like Energy Efficiency and green building designs require stringent regulatory and supporting measures in place for the Human Settlement Sector.

The waste management concepts also require regulatory requirements from the authorities concerned.

#### *Taxation (Specify):*

Tax incentives (import duty and sales tax exemption) are recommended in the LEDS Surface Transport in order to promote the uptake of EV.

A policy study is recommended in the LEDS Industries to check possible options for cleaner technologies or mitigation measures. For instance, the government can impose stricter taxes on the fossil-oriented reductants like the coke. This will shift the choice to the carbon-neutral/more clean wood-based reductants like the domestic charcoal. Similarly, the government can impose tax exemptions or rebates on cleaner investments. All these are being flagged in the LEDS which require more and deeper understanding and considerations.

#### *Subsidies (Specify):*

Subsidy schemes or mechanisms are identified as an important tool for the clean energy uptake. For example, in the roll out of the energy efficient cookstoves and Solar PV in buildings.

#### *Capacity building (Specify):*

Bhutan as one of the Least Developed Countries, lacks resources and capacities to address climate change. The country's contribution to climate mitigation as well as its adaptive capacity can both be enhanced through capacity building. Even the NDC formulation process per se highlights the need for continuous capacity building in understanding climate change and its causes, impacts and actions.

The implementation of NDCs will require a lot of human capacity to unpack, elaborate, explore and understand the targets set in. The LEDS for example demands a lot of further feasibility studies and technical consideration before the identified mitigation options are realized.

*Technology transfers (Specify):*

Bhutan being one of the least developed countries (LDCs), the innovations and technological development is quite limited. Almost all the mitigation and adaptation components identified and set-forth are through technical measures which require to be brought inside the country. For example, the mitigation measures in the Heavy industries require technological transference.

For some softer components like the Gender-Climate nexus, both in-country research and ex-country expertise is required.

Domestic institutional arrangements are also considered for more profound climate policies and measures, for example the involvement of indigenous people.

c. *Specify the proportion in % of total of conditional contributions.*

As per the 2<sup>nd</sup> NDC, “the successful implementation of our intended actions to mitigate will depend on the level of financial and technical support received”.

d. *How does the country plan to meet its adaptation objectives as described in the NDCs? (Specify)*

To implement the priority programs in the NDC, several LEDSs were developed to prioritize mitigation actions in key sectors of Agriculture, Human Settlement, Industry and Transport. These LEDS will serve as the basis for the sector to integrate low carbon measures into development priorities. Further support for implementation is required to realize the identified priority programs and actions in the various LEDS.

Bhutan has integrated climate neutrality, climate and disaster resilience into the 12<sup>th</sup> Five Year Plan (2018-2023) as one of the National Key Result Areas (NKRA). The priority areas for mitigation and adaptation in the NDC were developed into programs primarily under this NKRA and other NKRA for implementation across different sectors at the national and local levels.

The Climate Change Policy of the Kingdom of Bhutan 2020 was adopted with a vision for “a prosperous, resilient and carbon neutral Bhutan where the pursuit of gross national happiness for the present and future generations is secure under a changing climate.” The policy aims to (i) provide strategic guidance to ensure that Bhutan remains carbon neutral and protect the wellbeing of the people of Bhutan by adapting to climate change in an efficient and effective manner (ii) ensure meaningful participation of all relevant stakeholders in climate change action in a coordinated and coherent manner with clear roles and responsibilities and (iii) ensure that the challenges and opportunities of climate change are addressed at all appropriate levels,

through adequate means of implementation (finance, technology, capacity building and awareness) and integration into relevant plans and policies.

5) *Has the country formulated and communicated a mid-century, long-term, low greenhouse gas emission development strategy?*

Yes, in 2012 Bhutan produced the National Strategy and Action Plan for Low Carbon Development. The long-term national strategy and short-term action plan for low carbon development is aligned with the national environmental mandates and various national priorities such as the green growth approach of the Economic Development Policy 2010, and the “climate resilient and carbon neutral development” objective of the 11<sup>th</sup> Five Year Plan (2013-2018).

If “Yes” to Question 5:

a. *What aspects of climate change do mid-century strategies address?*

Mid-century, long-term, low greenhouse gas emission development strategy strives to finance local mitigation and adaptation interventions through global and regional climate financing instruments, including both market and non-market approaches.

b. *How does the country plan to meet its GHG emission reduction targets as described in the mid-century strategies? (Specify)*

LEDs (for surface transport, Industries, food security, human settlement) are in the final stage of its development.

To ensure Bhutan remains carbon neutral at all times, LTS aims to achieve following goals in the prioritized sectors:

- **Industry:** To decouple industrial growth from growth in GHG emissions, by improving the eco-efficiency of production processes, enhancing competitiveness, and using renewable energy sources.
- **Food security:** To implement climate smart and resource efficient practices in agriculture sector with a primary focus on organic agriculture including both agricultural crops and livestock.
- **Human Settlement:** To accelerate adoption of energy efficient building design, energy efficient appliance and renewable energy technologies in commercial and residential buildings
- **Surface transport:** To minimize the GHG emissions of surface transport sector through both demand and supply side management by upgradation of the emission norms of ICE vehicles, adoption of electric vehicles (100% light vehicle and bus sales to be EVs by 2045 and 25% heavy vehicles (freight) imports to be EVs by 2050) and use of shared mobility, public transport and non-motorized transport.
- **Waste Management:** Minimize GHG emissions from the waste management sector through the application of zero waste and circular economy concepts including upgradation of technology, infrastructure and capacity within the country.

- **Energy Security:** To enhance national energy security through adoption and promotion of renewable energy sources, including hydro, wind, solar, bio-fuels (where applicable) and innovative energy sources such as green hydrogen.
- **Protection and Enhancement of carbon sinks:** Protection and enhancement of Forest and Other Land Use in Bhutan which has been sequestering GHGs through sustainable forest management practices, forest fire management and rehabilitation of degraded and barren forest lands.

c. *How does the country plan to meet its adaptation objectives as described in the mid-century strategy? (Specify)*

#### **Adaptation**

To ensure awareness amongst all stakeholders of the inevitable effects of climate change and climate variability on their lives and to develop adequate capacity and resilience to respond to future climate change hazards, including:

- Integrated Water Resources Management
- Climate Resilient Agriculture and Livestock production
- Disaster risk reduction and climate proofing infrastructure.
- Mainstreaming climate adaptation into development planning.

To develop in-country expertise for predicting future climate scenario and carry out risk and vulnerability studies with the objective of supporting decision-making pertaining to climate adaptation.

#### **Means of implementation**

To note that Bhutan has done more than its fair share in combating climate change and any extra effort both towards mitigating GHG emissions and adapting climate change must be supported.

To ensure that the challenges and opportunities of climate change are addressed at all levels, through adequate means of implementation (finance, technology, capacity building and awareness).

To participate in regional and global carbon markets to make contribution towards the decarbonization and to finance Bhutan's mitigation and adaptation projects.

#### **Socio Economic Development**

To develop and implement an effective climate action plan while ensuring socially fair transition, cost-effectiveness, creation of green jobs, diversification of economy and enhancing of gross national happiness remains the main driving forces.

## **Section 2: National-Level Strategies**

6) *Is climate change identified as a key issue in the national development plan or strategy for economic growth (or equivalent)?*

Yes. Climate change has been integrated into our development planning with “Climate Neutrality, Climate and Disaster Resilience” identified as the sixth NKRA of the 12<sup>th</sup> Five Year Plan (2018-2023).

7) *What is the climate change national framework?*

Climate Change Policy was developed in 2020. This Policy was formulated in a participatory and consultative manner with a vision to have a “A prosperous, resilient and carbon neutral Bhutan where the pursuit of gross national happiness for the present and future generations is secure under a changing climate.”

**Policy Goals:**

- To provide strategic guidance to ensure that Bhutan remains carbon neutral and protects the wellbeing of the people of Bhutan by adapting to climate change in an efficient and effective manner;
- To ensure meaningful participation of all relevant stakeholders in climate change action in a coordinated and coherent manner with clear roles and responsibilities; and
- To ensure that the challenges and opportunities of climate change are addressed at all appropriate levels, through adequate means of implementation (finance, technology, capacity building and awareness) and integration into relevant plans and policies.

a. *What laws and regulations exist to support implementation of climate change related mitigation and adaptation actions?*

There are many environment-related laws enacted by the parliament of Bhutan. The most notable and directly applicable ones are:

i. **Constitution of Bhutan:** Article 5 (1) articulates that “Every Bhutanese is a trustee of the Kingdom’s natural resources and environment for the benefit of the present and future generations and it is the fundamental duty of every citizen to contribute to the protection of the natural environment, conservation of the rich biodiversity of Bhutan and prevention of all forms of ecological degradation including noise, visual and physical pollution through the adoption and support of environment friendly practices and policies.”

Article 5(3) states “The Government shall ensure that, in order to conserve the country’s natural resources and to prevent degradation of the ecosystem, a minimum of sixty percent of Bhutan’s total land shall be maintained under forest cover for all time.”

ii. **National Environment Protection Act 2007:** NEPA has come in to effect in 2007 and is considered as an umbrella Act governing all other environmental laws of the country. Following articles enshrined within the act shall be drawn to relate climate change concerns:



### **Fundamental right and duty**

A person has the fundamental right to a safe and healthy environment with equal and corresponding duty to protect and promote the environmental wellbeing of the country.

### **Inter-generational equity**

The present generation must ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations.

### **Middle Path Strategy**

In order to achieve sustainable development, natural resources such as forest, water, air, biodiversity, soil, minerals and the overall integrity of the environment shall not be degraded. In line with the Government's Middle Path Strategy, economic development and environmental conservation shall receive equal priority.

- b. *Has the government developed a detailed action/implementation plan for achieving the country's climate change goals (e.g. National Action Plan)?*

Series of National Adaptation Plan of Action (NAPA) has been developed and implemented in the past. Currently NAP is being formulated and it is expected to layout future action and implementation plans in great length.

- c. *Is there a national climate change strategic plan or a low carbon strategy?*

In 2012, Bhutan produced the National Strategy and Action Plan for Low Carbon Development. The long-term national strategy and short-term action plan for low carbon development is aligned with the national environmental mandates and various national priorities such as the green growth approach of the Economic Development Policy 2010, and the "climate resilient and carbon neutral development" objective of the 11<sup>th</sup> Five Year Plan (2013-2018) and 12<sup>th</sup> Five Year Plan (2018-2023).

A Long-Term Low Greenhouse Gas Emission and Climate Resilient Development Strategy (LTS) has been completed and is expected to be approved in March 2023. LTS will have enhanced information and strategies owing to the information gathered after the completion of national GHG inventory and National Forest Inventory providing a clearer picture of the sequestration capacity of our forests.

- d. *Is there a strategic document that establishes the country's adaptation objectives (e.g. National Adaptation Plan in developing countries)?*

Yes, the NAP will be ready by mid-2022 which will detail out the national adaptation aspirations.

- e. *How does regulation define what constitutes "climate change expenditure"? Does it provide further refinement of the definition?<sup>19</sup> (Specify)*

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<sup>19</sup> Climate change mitigation expenditure, climate change adaptation expenditure, climate change cross cutting expenditure

None of the existing regulations define climate change expenditures explicitly, however, it should ideally refer to funding spent on building resilience to adverse impacts of climate change and reducing GHG emissions while achieving SDGs.

f. Does regulation instruct how the budget should integrate climate change considerations? (Specify)

Bhutan's Five Year Plan development and budgeting is carried out simultaneously at all levels of the government. Moreover, Climate Change Policy 2020 mandates integration of climate change adaptation programs into sectoral development plans. Therefore, as we mainstream climate change considerations into the development plans, budget is also proposed against each climate actions proposed by the sector.

8) What are the institutional arrangements for executing climate change related policies and actions? (Specify)

**National Climate Change Committee:** The NEC being the apex body in dealing with all environmental matters, it shall continue to function as the high-level National Climate Change Committee (NCCC) in the country. The NEC chaired by the Hon'ble Prime Minister or his nominee is the highest cross-sectoral environmental policy and regulatory body responsible for coordinating all the matters relating to the protection, conservation and improvement of the environment.

The National Environment Commission Secretariat (NECS), headed by the Secretary, shall function as the focal agency under the committee.

a. Which sectors and institutions are involved in the implementation of the national climate change strategies and policies?

Sector	Institutions (line ministries and agencies)	Sectoral strategic plan that covers climate change		Climate-related budget for the last fiscal year	
				Submitted to the MoF	Adopted by the legislature
Planning	Ministry of Finance (Department of Planning, Budget and Performance (DPBP))	Yes			
Budget	Ministry of Finance	Yes			
	National Center for Hydrology and Meteorology	Yes			
	Ministry of Agriculture and Forest	Yes			
	Ministry of Economic Affairs	Yes			
	Ministry of Works and Human Settlement	Yes			
	Ministry of Information and Communications	Yes			
	Ministry of Health	Yes			
	Ministry of Home and Cultural Affairs	Yes			

- b. *Is there a designated agency overseeing and coordinating the implementation of the climate change activities?*

The National Environment Protection Act 2007 clearly defines the mandate and role of NEC, where it shall be an independent authority and the highest decision-making body on all matters relating to the environment and its management in the country.

The Commission also has the role to exercise its jurisdiction and powers to set the policies and to coordinate the actions required to Negotiate and enforce bilateral and multilateral environmental agreements.

- c. *Does the ministry of Finance have a specific mandate in the implementation of climate change activities?*

Yes, the MoF is mandated to formulate and implement dynamic fiscal policies and sound financial management through maximization of resource generation, efficient allocation, prudent expenditure and debt management and proper accountability of public resources. The mandates and functions of the MoF is governed by the PFA 2007, Public Debt Policy, Income Tax Act, Revised Taxes and Levies Act, Fiscal Incentives 2017, and PPP Policy.

### **Section 3: Implementation of climate change policies by the government**

- 9) *What are the top five most important measures currently being implemented by the government to reduce the country's generation of GHG emissions? (Specify)*

Since the ratification of the Paris Agreement, Bhutan has taken several measures towards implementing the priorities identified in the NDC. The key actions undertaken towards a low emission development in Bhutan are summarized below:

- i. Climate change has been integrated into our development planning with “Climate Neutrality, Climate and Disaster Resilience” identified as the sixth NKRA of the 12<sup>th</sup> Five Year Plan (2018-2023). With the five-year plan’s objective as “Just, Harmonious and Sustainable Society through enhanced Decentralisation”, the priority areas for mitigation and adaptation in the NDC were developed into programs primarily under this NKRA for implementation across different sectors at the national and local levels.
- ii. The Climate Change Policy 2020 was adopted with a vision for “a prosperous, resilient and carbon neutral Bhutan where the pursuit of gross national happiness for the present and future generations is secure under a changing climate.” The policy aims to (i) provide strategic guidance to ensure that Bhutan remains carbon neutral and protect the wellbeing of the people of Bhutan by adapting to climate change in an efficient and effective manner (ii) ensure meaningful participation of all relevant stakeholders in climate change action in a coordinated and coherent manner with clear roles and responsibilities and (iii) ensure that the challenges and opportunities of climate change are addressed at all appropriate levels, through adequate means of implementation (finance, technology, capacity building and awareness) and integration into relevant plans and policies.
- iii. The National Energy Efficiency & Conservation Policy, and the Energy Efficiency Roadmap 2030 covering the sectors of buildings, transport and industry were launched in 2019. The policy and roadmap aim to facilitate improvements in

productivity and energy efficiency while contributing to Bhutan’s efforts to remain carbon neutral. Few of the measures are now being implemented while support is required for full implementation.

- iv. To implement the priority programs in the NDC, several LEDSS were developed to prioritize mitigation actions in key sectors of Agriculture, Human Settlement, Industry and Transport.<sup>20</sup> The LEDSS articulate long-term decarbonization strategies and inform annual and periodic plans. Further support for implementation is required to realize the identified priority programs and actions in the various LEDSS.
- v. The Bhutan Electric Vehicle (EV) Roadmap (2020-2025) has also been developed for a transition to zero emission mobility with targets for 2035, 2045 and 2050. The Bhutan Sustainable Low-emission Urban Transport System project is being implemented to initiate the transition to EV mobility by focusing on taxis as the primary target for eventual market transformation.

10) *What are the top five most important measures currently being implemented by the government to adapt to climate change impacts? (Specify)*

The key actions undertaken towards a carbon resilient development in Bhutan are summarized below:

- i. The third NAPA project funded by the LDC Fund is being implemented for “Enhancing Sustainability and Climate Resilience of Forest and Agricultural Landscape and Community Livelihoods in Bhutan” (2017-2023). This follows the successful conclusion of the 2<sup>nd</sup> NAPA project “Addressing the Risks of Climate Induced Disasters through Enhanced National and Local Capacity for Effective Actions” (2014-2019).
- ii. Two GCF funded projects are also being implemented through the “Bhutan for Life” project for managing the network of Protected Areas as a key component of our carbon sink, and the project, “Supporting Climate Resilience and Transformational Change in the Agriculture Sector in Bhutan” addresses the adverse impacts of climate change on rural livelihood security and poverty, and the effects of sector-led development practices on the ecological integrity of biodiversity-rich forested landscapes.
- iii. Mainstreaming climate adaptation into local development investment has been piloted since 2011 and expanded in recent years under the Local Climate Adaptive Living (LoCAL) Facility program with support from UNCDF and the EU. The first two phases of the program covered 100 “gewogs” 6 under performance-based climate resilience grants with support integrated through the 11<sup>th</sup> and 12<sup>th</sup> five-year development plans. The program is planned to be scaled up to all 205 gewogs in the country.
- iv. The formulation of a NAP and the establishing and strengthening of the supporting elements for the NAP process is ongoing with financing from GCF’s NAP readiness support. The project will build national capacity for long term adaptation planning, and conduct in-depth sectoral assessments for water, forest and biodiversity, health, and agriculture.

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<sup>20</sup> Bhutan is one of the few least developed countries (LDCs) that has developed LEDSS. To date only 29 countries out of the 197 signatories to the Paris Agreement have submitted LEDSS, of which only one other country had LDC status. This emphasizes Bhutan’s strong climate ambitions.

- v. Bhutan has started work towards preparing the Long Term Low GHG Emission and Climate Resilient Development Strategy (LTS). The LTS will provide the overall direction and guidance for Bhutan in the long-term efforts for remaining carbon neutral. The development of the LTS has been hampered by the COVID-19 pandemic and is expected to be completed in 2022.

11) *Does the country have an operational monitoring and evaluation framework to track the implementation of its NDCs and climate actions?*

Bhutan does not have M&E framework specific to climate actions. However, NECS is in consultation with the GNHC on the modalities to integrate climate action M&E mechanism into their existing development M&E mechanism.

12) *In the last five years, were there any independent assessments<sup>21</sup> of the country's achievements in terms of climate change objectives and targets?*

As mitigation and adaptation activities are being implemented along with sectoral development activities, monitoring and evaluation is, to certain extent, observed during mid-term reviews annually. But there is no independent assessment per se to gauge the implementation of climate change activities.

13) *Has the country conducted an assessment of the macroeconomic impacts of climate change?*

It is evident that Bhutan has been experiencing increased incidences of natural disasters in recent years, causing huge loss to lives and properties. These are mostly linked to being the impact of global warming and climate change. And, although assessment of the macroeconomic impacts of climate change has not been conducted, finance ministry used to inform the country annually, through parliament, the damages incurred for by the disasters in monetary terms.

14) *If "Yes" to Question 13*

- a. *Which sectors were considered?(Specify)*
- b. *What methodology was used?(Specify)*

15) *Has the country assessed the macro-fiscal implications of implementing its climate change plans or NDCs?*

Bhutan has no way of assessing fiscal implications for implementing climate change activities because they are hugely dependent on donor-funded projects.

16) *Has the country conducted activities to mainstream its climate change plans or NDCs into its PFM systems?*

There are no specific activities that would qualify as being mainstreamed into PFM system. However, during the planning and budgeting of FYPs, budgets are allocated to whatever climate actions that are being planned and approved as an overall sectoral budget and not specific as climate budget.

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<sup>21</sup> Independent would refer to an assessment undertaken by a body that is separate from and not subordinate to the government. This could involve an NGO.

17) Which public entities (operators) are involved in the implementation of the country's climate change strategies and policies?

Type of operator	Number of entities	Type of funding		Total Climate related Budget for the last FY
		From Budgetary Central Government (BCG)	Other sources	
Extrabudgetary units				
Public corporations				
Subnational governments	20 Dzongkhags, 205 Gewogs			

References:

- National Environment Protection Act, 2007.
- National Strategy and Action Plan for Low Carbon Development, 2012.
- Climate Change Policy of the Kingdom of Bhutan, 2020.
- 2<sup>nd</sup> NDC of the Kingdom of Bhutan, 2021.





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