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Date: 29/4/2024

Green Climate Fund
175, Art center-daero
Yeonsu-gu, Incheon 22004
Republic of Korea

Re: Due diligence for the Proposed Funded Activity – Climate Adaptation, Resilience and Engagement in Local Government (CARE-LG)

Dear Madam, Sir,

Please find the following the due diligence for the proposed project- CARE-LG:

Details of any government or regulatory approvals, licenses or permits required for implementing and operating the project/programme, the relevant issuing authority, and the date of issuance or expected date of issuance:

- Bhutan Trust Fund for Environmental Conservation (BT FEC) is a not-for-profit organization incorporated in Bhutan. BT FEC is an accredited entity of the Green Climate Fund (GCF) and have been provided with a copy of the Accreditation Master Agreement entered into between GCF and BT FEC dated 17th August 2020.
- BT FEC has applied to the GCF to obtain funding for a USD\$ 10 million grants, for a climate resilience project to be administered by BT FEC and the Department of Planning, Budget and Performance (DPBP), Ministry of Finance (MoF) and Department of Local Governance and Disaster Management (DLGDM), Ministry of Home Affairs (MoHA). To obtain the funding from the GCF, the following approvals and formalities has been obtained/completed by the BT FEC:
- Approval from Department of Macro-Fiscal and Development Finance (DMDF), the National Designated Authority (NDA) to the GCF;

- Internal Board approval for the implementation of the proposed CARE-LG project.

Documents:

- In providing this advice, we have been provided with a document called the *Funding Proposal document (Funding Proposal)* on CARE-LG.
- Based on a review of the Funding Proposal and the explanation provided by BTFEC, our understanding is that:
 - The Project will be implemented by BTFEC as the DAE to GCF and DPBP (Department of Planning, Budgeting and Performance), Ministry of Finance and DLGDM (Department of Local Governance and Disaster Management), Ministry of Home Affairs, as the Executing Entities;
 - The CARE-LG project intends to strengthen climate resilience of most vulnerable local communities across Bhutan through mainstreaming climate responsive adaptation planning and adaptation practices that are critical for their livelihoods. The project aims to ensure that local communities have reduced vulnerability and increased resilience in the face of climate variability and extremes, and the adaptive capacity needed to maintain sustainable development pathways across a range of potential climate futures;
 - The CARE-LG project will involve extensive capacity building and training of both local community and local government officials on climate change risk and impact, training on PBGM guidelines to technical team members, preparation of Gewog Adaptation Plan and implementation and monitoring of climate change adaptation project.
- Additionally, the following BTFEC policies and documents were also referred to ensure smooth implementation of the proposed CARE-LG project:
 - Anti-Money Laundering and Countering the Financing of Terrorism Policy;
 - Environmental and Social Management Framework;
 - Operations Manual;
 - Program Service Manual;
 - Program Operation Norms (where it contains conflict of interest, fraud and corruption, whistle blower, grievance mechanism policies);
 - Monitoring and Evaluation Framework.

- Based on a description of the Project and the review of relevant policies and operations of BT FEC, nothing has come to our attention that would hamper the operations/implementation of the proposed project.

Describe applicable taxes (or exemptions thereof) and foreign exchange regulations related to the project/programme:

- Tax related to goods and services relating to the project shall be as per the Income Tax Act of the Kingdom of Bhutan 2001. The Income Tax Act of the Kingdom of Bhutan 2001 prescribes taxes for (i) corporate income tax, (ii) Business income tax and (iii) Personal income tax. There are also allowable deductions for the computation of taxes prescribed in the Income Tax Act of the Kingdom of Bhutan 2001.
- Persons having personal income exceeding Nu. 200,000 per annum shall be liable to be taxed under Personal Income Tax (PIT) as per Rules on the Income Tax Act of the Kingdom of Bhutan 2001.
- All matters related to foreign exchanges will be subject to the relevant foreign exchange rules and regulations issued by the Royal Monetary Authority of Bhutan (central bank).

Details of any insurance policies or requirements related to the project/programme:

- Although, the Labour and Employment Act of Bhutan 2007 that governs the general employment and working conditions stipulates the need for promotion and protection of workers' welfare through a fair and just labour administration system, there are no mandatory requirement for insurance. The insurance relating to the project would be optional depending upon the risk and liability it will pose to the project.
- As per section 429 of the Road Safety and Transport Authority (RSTA) Act 2021, commercial vehicles should have comprehensive motor insurance and other motor vehicles should at least have third-party motor insurance.

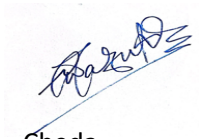
Regulatory framework that does not support the opening of an interest-bearing account:

- As per the Foreign Exchange Operational Guidelines 2024 issued by Royal Monetary Authority (RMA), Central Bank of Bhutan, non-human entities foreign currency accounts are categorized as FC (Foreign Currency) – II and hence Bhutan Trust Fund for Environmental Conservation (BTF) will fall under this category and the regulations at present do not stipulate FC-II accounts should be interest bearing¹.

¹https://www.rma.org.bt/media/Laws_By_Laws/Foreign%20Exchange%20Operational%20Guidelines%202024.pdf

- On the local interest-bearing account, the corporates/non-individuals are not eligible for opening of local Saving Account which is the interest-bearing account as per the bank's internal policies (except under very exceptional circumstances). The corporates/non-individuals are only permitted to open the local Current Account which is a non-interest-bearing account.
- Based on the above, the BFT seeks an endorsement of opening the non-interest bearing accounts in USD and local currency for the project.

Yours faithfully,



Cheda _____
Chief Executive Counsel