



# Program Information Document (PID)

---

Concept Stage | Date Prepared/Updated: 07-Mar-2023 | Report No: PIDC35260



**BASIC INFORMATION**

**A. Basic Project Data**

Country Bhutan	Project ID P178635	Project Name Bhutan Second Green and Resilient Growth Development Policy Credit (P178635)	Parent Project ID (if any) P177712
Region SOUTH ASIA	Estimated Board Date Jun 01, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) The Kingdom of Bhutan	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The operation aims to (i) strengthen resilient and private sector-led growth through fiscal sustainability and enhanced access to finance and markets, and (ii) foster green growth focused on renewable natural resources.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	30.00
------------------------	-------

**DETAILS**

<b>Total World Bank Group Financing</b>	30.00
World Bank Lending	30.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

**While rapid economic growth has contributed to substantial poverty reduction over the last two decades, poverty and inequality levels remain high.** Bhutan’s economy grew at an average annual rate of 7.2 percent between 2000 and 2019 and its per capita income increased threefold in purchasing power parity terms over the same period. As a result, extreme poverty was almost eliminated in 2017 and general poverty had declined substantially between 2003 and 2017. The COVID-19 pandemic caused major disruptions to economic activity and had a direct impact on production, livelihoods,



and worker earnings. An estimated 12.4 percent of the population lived below the national poverty line in 2022, with poverty more prevalent in rural areas and significant disparities across Dzongkhags (districts). While national inequality is lower than the regional average, spatial inequality across districts remains an issue.<sup>1</sup>

**The proposed operation—the second in a programmatic series of two development policy credits (DPCs)—supports the Royal Government of Bhutan’s (RGoB) efforts toward resilient and green development.** A more resilient economy with a green and diverse production base can support the COVID-19 recovery and future development, which is in line with the WBG’s approach to Green, Resilient and Inclusive Development (GRID).<sup>2</sup> The operation builds on the reform program supported under the “Strengthening Fiscal Management and Private Sector Employment Opportunities” DPC series completed in FY20, and the “COVID-19 Crisis Response DPC” completed in FY21.

#### Relationship to CPF

**This DPC series is consistent with the WBG CPF FY21-24 discussed by the Board on January 14, 2021 (Report No. 154927-BT).** Policy actions included in this operation are directly related to the first two CPF development challenges, that is, a lack of job opportunities and macroeconomic vulnerability. The CPF prioritizes macro-fiscal stability through reforms that increase transparency in fiscal and debt management. It also identifies better access to finance and digital solutions as priorities to boost private sector development. The CPF further envisions a shift from conservation to sustainable natural resource management with a focus on agriculture and biodiversity.

### C. Proposed Development Objective(s)

The operation aims to (i) strengthen resilient and private sector-led growth through fiscal sustainability and enhanced access to finance and markets, and (ii) foster green growth focused on renewable natural resources.

#### Key Results

**Results intended to strengthen resilient and private sector-led growth aim at:** (i) increasing non-performing loans (NPLs) resolved through out-of-court settlement; (ii) improving access to international finance for the private sector; (iii) improving the reporting and transparency of fiscal risks from state-owned enterprises (SOEs) and public debt; (iv) increasing the number of e-commerce business licenses, including for women; (v) facilitating domestic and international payment transactions; and (vi) lowering import tariffs.

**To foster green growth focusing on renewable natural resources, this DPC aims at four key results:** (i) increasing the export value of agricultural products; (ii) increasing the number of business licenses for sustainable forest-based industries; (iii) increasing the number of proposals for accessing genetic resources, and (iv) generating revenues through the sale of emission offsets (carbon credits) from hydropower and other renewable natural resources.

### D. Concept Description

**The proposed operation aims to achieve its policy objectives through two pillars, the first of which aims at strengthening resilient and private sector-led growth through fiscal sustainability and enhanced access to finance and markets.** The operation will support the revision of the External Commercial Borrowing (ECB) framework to increase access to international finance to support domestic firm growth, improve transparency and reduce fiscal risks through better monitoring of public debt and SOE performance, strengthen the e-payments framework to facilitate e-commerce and the digital economy, and improve customs rules and regulations to facilitate cross-border trade and increase access to international markets.

<sup>1</sup> The Gini index that measures the inequality is recorded at 0.29 in 2022 in Bhutan.

<sup>2</sup> “From COVID-19 Crisis Response to Resilient Recovery - Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID)”, prepared by the World Bank Group for the virtual April 9, 2021 Development Committee Meeting



**The second pillar of the operation aims at fostering green growth by leveraging Bhutan’s natural renewable resources.** Supported reforms include the Food and Nutrition Security (FNS) Policy and the Biodiversity Act and Rules, which are expected to promote the sustainable management of renewable natural resources to unlock their untapped economic potential, while continuing to ensure conservation of renewable natural resources. They will create green and inclusive economic opportunities in remote areas, where many of the poor and vulnerable live. The operation will further support the adoption of Article 6 of the Paris Agreement (Carbon Market Rules) to support Bhutan’s access to carbon markets, and to monetize emission reductions from hydropower and other renewable natural resources.

**The proposed operation supports the government’s reform agenda.** Actions supported in this operation contribute to the objectives of the 12<sup>th</sup> Five Year Plan (FYP), and the government’s focus on economic recovery and growth following the COVID-19 pandemic. Measures under Pillars 1 and 2 are aligned with the 12<sup>th</sup> FYP’s objectives of building a *sustainable, just, and harmonious society*. Reforms under Pillar 1 ensure fiscal and financial sector stability through enhanced fiscal risk assessment, SOE oversight, and simplified NPL resolution. Pillar 1 also supports better access to finance and digital solutions as priorities to boost private sector development. These policy actions are expected to support economic diversification, supporting the objectives of two flagship programs under the 12<sup>th</sup> FYP (Digitalizing Bhutan, and Increasing Economic Diversification). Measures under Pillar 2 promote the sustainable utilization of Bhutan’s renewable natural resources and biodiversity focusing on commercial agriculture, biotechnology, and monetization of emission reductions.

### **E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

#### Poverty and Social Impacts

**The proposed operation is expected to have positive poverty and social impact.** The policies fostering international commercial borrowing and the digital economy are expected to have positive social and distributional impacts, as they can help accelerate private sector development and provide increased job opportunities. The FNS Policy is expected to enhance food sustainability and security and promote job creation, thereby contributing to the reduction of malnutrition, and promoting a diversified, balanced, and healthy diets with positive impacts on the health and wellbeing of the population. The Biodiversity Act and Rules will help recognize and protect the rights of rural populations who are more likely to be poor and rely on forests and forest products for their livelihoods. The policy on facilitating Bhutan’s access to carbon markets can have a positive impact on poverty if the revenues from the sale of carbon credits are invested in a pro-poor manner.

#### Environmental, Forests, and Other Natural Resource Aspects

**Policies supported by this operation are expected to have either positive or no effect on Bhutan’s environment, forests, and other natural resources.** Policies under Pillar 1 are not expected to have any significant environmental effects. Policies under Pillar 2 promote the sustainable use of renewable natural resources, while ensuring security and sustainability of the food and nutrition system, creating new jobs, and stimulating economic opportunities, especially for the poor. These policies are expected to generate positive environmental effects, as they will contribute to (i) strengthening environmental and natural resources management, particularly for biodiversity conservation; (ii) improving sustainability and climate resilience in the agriculture sector, and (iii) reducing greenhouse gas emissions and potentially air pollutants.

### **CONTACT POINT**

#### **World Bank**

Melanie Simone Trost Zagatti, Ignacio M. Urrutia Duarte  
Economist



**Borrower/Client/Recipient**

The Kingdom of Bhutan

**Implementing Agencies**

Ministry of Finance  
Leki Wangmo  
Acting Secretary  
lwangmo@mof.gov.bt

**FOR MORE INFORMATION CONTACT**

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

**APPROVAL**

Task Team Leader(s):

Melanie Simone Trost Zagatti, Ignacio M. Urrutia Duarte

**Approved By**

Country Director:

Martin Raiser

29-Mar-2023