



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 06-Apr-2020 | Report No: PIDA28934



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Bhutan	P173008	Bhutan Development Policy Financing with Cat DDO (P173008)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	16-Jun-2020	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
The Kingdom of Bhutan	Ministry of Finance		

**Proposed Development Objective(s)**

To support the Royal Government of Bhutan in enhancing its technical and institutional capacity to manage the risk of climate change and natural disasters including disease outbreaks.

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

**SUMMARY**

<b>Total Financing</b>	14.80
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**DETAILS**

<b>Total World Bank Group Financing</b>	14.80
World Bank Lending	14.80

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

1. **Addressing Bhutan’s vulnerability to natural disasters and climate-related hazards requires integration of resilience into infrastructure planning and development.** The country is exposed to a diversity of natural hazards, including floods, landslides, cloudbursts, windstorms, cyclones, river erosion, earthquakes, glacial lake outburst flood (GLOF), wildfire and droughts. Between 1994 and 2016, some 87,000 people were affected and over 380 deaths occurred



due to natural disasters in Bhutan. The majority of the country's infrastructure is located along drainage basins that are highly vulnerable to flooding, particularly riverine flooding caused by heavy monsoon rains and glacial melt. The country's urban areas are vulnerable to urban flooding, and extreme heat in the south and this risk is exacerbated by rapid urbanization driven by rural-urban migration and the increasing concentration of economic activity in urban areas. According to historical data, flooding occurs most frequently and is responsible for the largest percentage of mortality.<sup>1</sup> As Bhutan's urban population is projected to increase from 37.8 percent in 2017 to 56.8 percent by 2047 driven by rural-urban migration,<sup>2</sup> people, assets, jobs, and economic potential will increasingly concentrate in urban areas. Failures in integrating resilience into the built environment could pose a catastrophic impact on the country's ability to sustain growth, and undermine the efforts that the Royal Government of Bhutan (RGOB) is making towards development.

**2. Natural disasters and climate change impacts can pose a threat to lives and livelihoods, requiring a robust and timely emergency preparedness and response system.** Climate change could impact the intensity and frequency of hydrometeorological hazards, and it is expected to affect the country's water resources through a loss of storage in the form of ice and changes in precipitation and flow patterns, causing more floods and droughts. Bhutan is particularly at risk from climate hazards impacting glaciers (700), glacial lakes (2,674)<sup>3</sup> and hydropower (almost 100 percent hydroelectricity) through a loss of ice storage and changes in precipitation and flow patterns, causing more floods and droughts and affecting water resources and potential power generation. A study shows that reducing the exposure of the poor through universal access to early warnings prevent well-being losses in times of disaster.<sup>4</sup> In 2016, the National Center for Hydrology and Meteorology (NCHM) was formally established and delinked from the Ministry of Economic Affairs as the RGOB's autonomous scientific and technical organization for generating information and delivering products and services on weather, climate, cryosphere and water resources. Being a nascent organization, the NCHM requires a clear mandate and significant capacity strengthening to support impact-based forecasts and early warning services to enable the country's emergency preparedness and response to natural hazards such as floods, cyclones and GLOF.

**3. While Bhutan has recently revised its national legislation and policies to incorporate International Health Regulations 2005 core capacities, its implementation capacity still needs to be strengthened.** The increasing frequency of movements of people and goods globally increases the risk of rapid cross-border disease transmission. On March 6, 2020, Bhutan announced its first confirmed COVID-19 (coronavirus) case. Given the import of COVID-19 and the potential difficulties in preventing and controlling both spread of this outbreak and the economic and social impact on the population, the RGOB is aware of the urgent need to strengthen its health emergency preparedness and response systems. Furthermore, climate variability and change are linked to the emergence and re-emergence of infectious diseases including disease incidence, transmission, and outbreaks. Variations in climate, coupled with a sub-optimal disease surveillance system, porous border with India, frequent exchange of poultry products, and the fact that Bhutan is a roosting ground for a large number of wild birds that migrate to Bhutan can also establish the environmental conditions for outbreaks such as avian influenza—a disease with catastrophic financial impacts that can span sectors as diverse as livestock, trade, and health care. Consequently, improving preparedness to natural disasters including health emergencies is a national priority.

**4. Bhutan's macroeconomic policy framework is adequate for development policy financing.** COVID-19 poses substantial economic risks for Bhutan, which are expected to affect growth, exports, prices and government finances. While a global pandemic presents unprecedented challenges, the Royal Government of Bhutan has taken steps to reduce

<sup>1</sup> <https://www.preventionweb.net/>

<sup>2</sup> National Statistics Bureau of Bhutan. 2019. *Population Projections Report 2017-2047*.

<sup>3</sup> NCHM. 2019. *Bhutan Glacier Inventory 2018*.

<sup>4</sup> Hallegatte, Stephane; Vogt-Schilb, Adrien; Bangalore, Mook; Rozenberg, Julie. 2016. *Unbreakable : Building the Resilience of the Poor in the Face of Natural Disasters*. Washington, DC: World Bank.



the economic risk from COVID-19 and has started mobilizing finances for a comprehensive economic support package. Outside COVID-19, Bhutan's macroeconomic fundamentals have remained sound. Although external debt is high, the intergovernmental contract with India guarantees returns and mitigates risks. The government remains committed to macro-fiscal prudence as evidenced by its efforts to adopt fiscal stabilization measures, implement the GST, improve spending efficiencies through strengthened public financial management (all supported by this operation), adopt a debt strategy, and maintain the peg with the Indian rupee. Reforms that support the non-hydro sector—backed by the 12th FYP—will be instrumental in facilitating more private-sector-led growth and competitiveness over the medium term and will support recovery from COVID-19. This will in turn help increase employment opportunities and domestic revenues and lessen the country's dependence on the hydropower sector and foreign grant financing. The IMF also provides technical assistance which is focused on macro-fiscal management, cash management, GST and e-payments.

#### Relationship to CPF

5. **The operation is fully aligned with the Country Partnership Strategy (CPS) for Bhutan FY15-19**, particularly as it responds to an expected outcome of Focus Area 3 Supporting Green Development on strengthened resilience to climate and disaster risks. The CPS noted that the challenges to achieving green and inclusive growth include rapid urbanization and changes to hydrology in the Himalayas due to climate change. The CPS includes the improvement of disaster preparedness and delivery of weather and climate services to address this challenge. The proposed operation is expected to be aligned with the FY20-24 Country Partnership Framework, which is currently under development, as resilience is included as one of the focus areas.

#### C. Proposed Development Objective(s)

6. **The Program Development Objective (PDO) of this operation** is to support the government in enhancing its technical and institutional capacity to manage the risk of climate change and natural disasters including disease outbreaks.

#### Key Results

7. **The operation aims to deliver the following key results:** (i) integration of climate and disaster resilience into the built environment; and (ii) strengthened Bhutan's institutional and technical capacity for emergency preparedness and response.

#### D. Project Description

8. **The proposed operation will provide the RGOB access to immediate liquidity in the aftermath of natural disasters** through an IDA US\$14.8 million Development Policy Financing with Catastrophe Deferred Drawdown Option (Cat DDO). This Cat DDO is closely aligned with the RGOB's 12th FYP for FY2018–23, which recognizes the urgency in enhancing the country's climate and disaster resilience.

9. **The proposed Cat DDO is a risk financing product consistent with the Bank's increasing emphasis on disaster preparedness**, in addition to disaster response.

10. **The PDO will be achieved by supporting reforms under two pillars:** Pillar A on integrating climate and disaster resilience into the built environment; and Pillar B on strengthening Bhutan's institutional and technical capacity for emergency preparedness and response. The reforms supported under this operation are as follows: (i) the National Construction Industry Policy; (ii) the revised National Housing Policy; (iii) the designation of NCHM as the National



Hydromet Hazard Early Warning Service Provider; and (iv) the Bhutan Pandemic Preparedness and Response Plan and Standard Operating Procedures. The implementation of these reforms will contribute to achieving the National Key Result Areas (NKRAs) towards a harmonious society, including NKRA #6 on Carbon Neutrality, Climate and Disaster Resilience; #9 on Infrastructure, Communication and Public Services; #14 on Healthy and Caring Society; and #15 on Sustainable Human Settlements including access to adequate affordable housing.

## E. Implementation

### Institutional and Implementation Arrangements

11. **The Ministry of Finance (MoF) leads the effort in coordinating the overall implementation of this operation.** The MoF will have an overall coordination and decision-making role, while the Ministry of Works and Human Settlements (MoWHS), the National Center for Hydrology and Meteorology, and Ministry of Health will monitor the implementation of the indicators to ensure the progress of the proposed operation during the entire drawdown period. The Bank team will continue to provide support to the RGOB in monitoring the reform progress and results.

12. **The Bank will monitor the status of the program implementation,** based on the data provided by the Government agencies and disclosed in the official sources. The Bank team will maintain the dialogue with the authorities and assess the compliance of the authorities with legal provisions under the loan agreement.

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

### Poverty and Social Impacts

13. **The implementation of the policy reforms are expected to have a beneficial impact on the poor and vulnerable groups,** including women, female headed households, youth, elderly and individuals with a disability who are often more exposed to natural hazards, yet less prepared to cope with and recover from negative shocks. In particular the implementation of reforms under Pillar A will enable risk-informed urban development to increase the safety of vulnerable groups through improved quality of construction and provision of affordable and resilient housing. More generally this will also help provide jobs, develop skills and improve health and safety standards in the construction industry. The reforms supported under Pillar B will help provide and extend access to critical information on disaster and infectious disease risks, preparedness and early warning systems, including to vulnerable groups. In the event of a natural disaster, access to financing under the Cat DDO will help to ensure the continuity of Bhutan's development plans and making resources quickly available to respond to the needs of the affected populations.

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

14. **The reforms supported under this operation are likely to have an overall positive effect on the environment.** Enhancing the RGOB's capacity to manage climate and disaster risk will lead to preservation of natural resources and the environment. Especially, ensuring safety and resilience of housing and construction will help mitigate damage on humans, the environment and natural resources in times of disaster. In the event any potential negative effects were to arise, Bhutan has a robust and comprehensive environmental legal framework to manage potential risks from the operation, including the National Environment Protection Act 2007 that governs the use of land, water, forests, minerals and other natural resources; the Environmental Assessment Act 2000 and Regulation for Environmental Clearance of Projects 2016. However, implementation and enforcement of the environmental legal framework for medical waste management could be strengthened.



## G. Risks and Mitigation

15. **The overall risk rating for this operation is moderate**, considering the existing political and governance environment and the RGOB's high level of commitment to the reforms, as reflected in key actions to move forward with the implementation despite some institutional challenges. Risks related to institutional capacity for implementation and sustainability are substantial. In particular, the implementation involves three agencies (Engineering Council, Construction Development Authority and Housing Unit under MoWHS) that will be newly established, posing some uncertainty in their capacity to sustain the outcomes of the operation. The crosscutting nature of this operation will demand a high level of cooperation among ministries and agencies involved in the implementation of the reforms. This risk will be mitigated through (i) the Bank's technical support to the government agencies in delivering the agreed results, (ii) establishment of clear lines of accountability including monitoring and evaluation, and (iii) regular follow-ups and coordination with the implementing agencies led by MoF.

16. **Macroeconomic risk is moderate**. The global COVID-19 pandemic presents substantial macroeconomic risks which are expected to affect Bhutan's economy and fiscal stance through reduced demand for (non-hydro) exports and tourism, disruptions and increased prices for imports and potential domestic demand and supply disruptions in case of a domestic outbreak. While this is expected to affect the country's fiscal resources and expenditure, and thus poses a substantial risk to the Bhutan Strengthening Fiscal Management and Private Sector Employment Opportunities (P171780), it is less likely to materially impact the PDO of this operation. As the present crisis has highlighted the importance of disaster preparedness, enhancing capacity to manage risks is considered a policy priority in Bhutan, and is thus less likely to be affected by a crisis-induced diversion of fiscal resources and policy priorities. As a result, the macroeconomic risk for this Cat DDO is considered moderate.

### CONTACT POINT

#### World Bank

Armando Eduardo Guzman Escobar, Rianna L. Mohammed-Roberts  
Senior Disaster Risk Management Specialist

#### Borrower/Client/Recipient

The Kingdom of Bhutan

#### Implementing Agencies



Ministry of Finance  
Dasho Nim Dorji  
Finance Secretary  
ndorji@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):	Armando Eduardo Guzman Escobar, Rianna L. Mohammed-Roberts
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**Approved By**

Country Director:	Mercy Miyang Tembon	25-Mar-2020
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