

## Japanese ODA Loan

### Ex-Ante Evaluation (for Japanese ODA Loan)

South Asia Division 1, South Asia Department

Japan International Cooperation Agency

#### 1. Name of the Program

( 1 ) Country: The Kingdom of Bhutan

( 2 ) Program: Development Policy Loan for Economic Recovery and Resilience Enhancement

( 3 ) Program Site/ Target Area: Bhutan

Loan Agreement: May 30, 2023

#### 2. Background and Necessity of the Program

( 1 ) Current economic status and issues in the country and the positioning of this program

Bhutan, being expected to graduate from Least Developed Country (LDC) status in December 2023, its industrial structure is approximately 19% primary industry (e.g. agriculture, livestock), 34% secondary industry (e.g. hydropower, construction), and 47% tertiary industry (e.g. wholesale, retail and tourism) as a percentage of GDP (Royal Government of Bhutan (hereinafter referred to as "RGoB"), Statistical Yearbook of Bhutan 2022). Real GDP growth has been high, averaging 6.1% per year from 2010 to 2019 (IMF, World Economic Outlook 2022), before the adverse impact of COVID-19. In the global outbreak and spread of COVID-19 after 2020, the country, considering its weak domestic medical system, quickly and rigorously implemented border control measures and lockdowns. While the spread of COVID-19 was controlled compared to other countries through such countermeasures including successful vaccination campaign, they also caused a serious impact on the economy. Real GDP growth fell sharply from 5.8% in 2019 to -10.1% in 2020, with the secondary sector stagnating at -13.1% from 2019 due to restrictions on the entry of foreign workers, a source of human resources for the construction industry in particular, and import restrictions on materials (RGoB, National Budget Financial Year 2022-23). The tertiary industry, which has been the driving force of Bhutan's economy, also slumped to -6.9% from 2019 (RGoB, National Budget Financial Year 2022-23). The unemployment rate for the working age population and youth unemployment rate as of 2020 increased to 5.0% and 22.6%, from 2.7% and 11.9% in 2019 respectively. (Reference: 4.8% and 20.9% in 2021) (RGoB,

Labour Force Survey Report 2021).

In response to this situation, the RGoB has taken measures to support the living expenses for the vulnerable groups through a Druk Gyalpo's Relief Kidu (welfare from the King), deferred payment of taxes and utility bills, and maintained access to finance by enhancing low-interest loans and strengthening credit guarantees. In addition, through the Economic Contingency Plan formulated in May 2020, the RGoB promoted the construction and tourism industries, which have been particularly affected by COVID-19, and agriculture, which is expected to increase food production, as well as job training and job creation for the youth. As a result, economic activity has gradually reactivated and the real GDP growth rate recovered to 4.1% in 2021, led by the recovery of industries such as construction, wholesale, and retail (RGoB, Statistical Yearbook of Bhutan 2022). Furthermore, in April 2022, the RGoB announced that Bhutan would shift to next phase of countermeasures for COVID-19, which would accept certain community infection of COVID-19 and enhance economic recovery. As a result, real GDP growth is expected to be 4.8% in 2022, 4.8% in 2023 and 3.2% in 2024. (RGoB, Macroeconomic Situation Report, December 2022).

Under these circumstances, the RGoB has set the acceleration of economic recovery as a pillar of the national budget document in financial year 2022-23, and it aims to address the issue of economic vulnerability, which has been a challenge even before the outbreak of COVID-19, through developing the foundations to support a strong economy by making proactive and strategic public investments that contribute to self-reliant and sustainable nation building with a good balance of rural and urban areas. For instance, the budget document states that the government will develop foundations such as the development of agricultural supply chains, the construction of arterial roads, the promotion of digitalization through the expansion of data centers, the improvement of the quality of vocational training institutes, and the enhancement of energy security through the promotion of solar power generation projects, etc., which also contribute to the growth of the private sector. Also, Bhutan, which has achieved a carbon neutral country, has a potential to promote green growth by promoting sustainable forest management and development of hydropower generation facilities in an appropriate manner. On the other hand, tax revenue remains at about 94% compared to the one before the outbreak of COVID-19, and the financial deficit has reached its largest ever level (-9.4% of GDP).In

terms of the current account balance, the construction industry has resumed and import of related materials has increased. Also, increase of oil and food prices and less income from the tourism industry cause depression of foreign exchange reserves remarkably.

Under these circumstances, the RGoB is strongly requesting financial support through concessional external borrowing to ensure its financial soundness.

Development Policy Loan for Economic Recovery and Resilience Enhancement (hereinafter referred to as "the Program") will provide financial support to the RGoB which had significant adverse impacts due to COVID-19, to strengthen fiscal policy that enhance private sector-led growth, promote policy for green growth focused on renewable natural resources and promote policy for self-reliant and sustainable nation building with a good balance of rural and urban area. It is also positioned as an important program in Bhutan.

## ( 2 ) Japan's and JICA's Cooperation Policy and the Positioning of the Program

The Country Development Cooperation Policy of the Kingdom of Bhutan (May 2015) sets "Supporting the development of an independent and sustainable country with a balance between rural and urban areas" as its basic policy and identifies "sustainable economic growth" and "reducing vulnerability" as priority areas.

In the JICA Country Analysis Paper to the Kingdom of Bhutan (March 2023), JICA identified "sustainable economic growth" and "strengthening resilience" as priority areas, based on Bhutan's national philosophy of Gross National Happiness (GNH), the country's development policy and development challenges, etc. The Program is consistent with these policies and analyses. Also, in May 2022, JICA has provided financial support to the RGoB for the implementation of economic and social measures in response to the Covid-19 through the " The COVID-19 Crisis Response Emergency Support Loan" (3.3 billion yen).

The policy actions in the Program are also consistent with the JICA Global Agenda: Transportation and Transport, Agriculture and Rural Development, Health Care (Achieving Resilient UHC), Public Finance and Financial Systems, Gender Equality and Women's Empowerment, Digitalization Promotion, Natural Environment Conservation, and Climate Change.

### ( 3 ) Other Donors' Activities

The World Bank has provided "COVID-19 Emergency Response and Health Systems Preparedness Project" (US\$5 million, April 2020), financial assistance to strengthen financial management and create employment opportunities (US\$40 million, April 2020), and "COVID-19 Crisis Response DPC"(US\$35 million, June 2021). The World Bank has also provided "Green and Resilient Growth DPC" (US\$52.5 million, June 2022) consisting of (1) Strengthen resilient and private sector-led growth through fiscal sustainability and enhanced access to finance and markets and (2) Foster green growth focused on renewable natural resources. Phase 2 of "Green and Resilient Growth DPC" is currently in the process to be provided in June 2023. The Program will be co-financed with the "Green and Resilient Growth DPC".

The Asian Development Bank has provided "COVID-19 Active Response and Expenditure Support Program"(US\$20 million, May 2020). Also, "Fiscal Sustainability and Green Recovery Program" (US\$37.35 million in October 2022), which supports domestic capital mobilization, private sector development, and promotion of green economic recovery has been provided. Phase 2 of "Fiscal Sustainability and Green Recovery Program" is under the process to be provided in 2024. Further, Countercyclical Support Facility (CSF) is also under consideration to be implemented in June 2023.

## **3. Program Description**

### ( 1 ) Program Description

#### ① Project Objective

The objective of the Program is to promote economic recovery and growth in the Kingdom of Bhutan which had significant adverse impacts due to COVID-19, by extending budget support to the RGoB strengthening fiscal policy that enhance private sector-led growth, promoting policy for green growth focused on renewable natural resources and promoting policy for self-reliant and sustainable nation building with a good balance of rural and urban areas, thereby contributing to promoting the fiscal, social and economic stabilization of the Kingdom of Bhutan.

#### ② Project Components

The Program will provide budget support to the RGoB for strengthening fiscal policy that enhance private sector-led growth, promoting policy for green growth focused on renewable natural resources and promoting

policy for self-reliant and sustainable nation building with a good balance of rural and urban areas.

The policy agendas and actions are based on "Green and Resilient Growth DPC" financed by World Bank, and JICA added its own policy actions which mutual impacts to other JICA activities.

Policy agenda	Policy actions
Strengthen resilient and private sector-led growth through fiscal sustainability and enhanced access to finance and markets	<ol style="list-style-type: none"> <li>1) To expedite the resolution of non-performing loans, the RMA has approved the standard operating procedure for out-of-court settlement of nonperforming loans.</li> <li>2) To strengthen risk assessment and monitoring of public debt and SOE oversight, the Ministry of Finance has mandated the annual publication of the Debt Sustainability Analysis, including guaranteed and non-guaranteed debt of non-financial SOEs under the Ministry of Finance.</li> <li>3) To support the digital economy and e-trade, the Cabinet has approved the e-commerce policy.</li> <li>4) To reduce and streamline duties on imports, the Recipient has issued the 2021 Customs Duty Act.</li> </ol>
Foster green growth focused on renewable natural resources	<ol style="list-style-type: none"> <li>5) To improve sustainable forest management and regulate the development of sustainable private forestry and forest based industries, the Cabinet has submitted the Forest and Nature Conservation Bill to the Parliament.</li> </ol>

<p>Promotion for self-reliant and sustainable nation building with a good balance of rural and urban areas</p>	<p>6) <u>Ministry of Agriculture and Livestock has formulated the budget plan for 2023/2024 including necessary cost for training on market-oriented agriculture and submitted to the Ministry of Finance.</u></p> <p>7) <u>Ministry of Infrastructure and Transport has approved main concept of next road sector masterplan including the aspects of “capacity development of Bhutanese human resources” and “lifecycle cost”.</u></p> <p>8) <u>To improve quality of medical human resources, MOH/KGUMSB has initiated discussions with Japanese universities and/or medical institutes for new strategic collaboration agreements.</u></p> <p>9) <u>To improve social service and create job opportunity, RGoB has formulated first draft 13th five years plan including promotion of strategic digitalization.</u></p> <p>10) <u>Ministry of Home Affairs has submitted all the necessary documents to establish a new division that promotes women’s empowerment in managing their own affairs, contributing to economic and livelihood improvement of women.</u></p> <p>11) <u>To maintain fiscal balance, Government Expenditure Rationalization, Tax Act 2022, and Property Act has been effectuated.</u></p>
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\*Policy actions from 6) to 11) are added by JICA.

- ③ Beneficiaries of the Program (target groups)  
Citizens of Bhutan: Approximately 750,000 people

- ( 2 ) Estimated Program Cost  
Japanese ODA loan: 6,550 million Yen

( 3 ) Schedule

From July 2022 to June 2023 (12 months)

The Program will be completed upon the completion of loan disbursement (expected to be in June 2023). Disbursement is expected to be conducted soon after loan effectuation as well as achievement of all the policy actions expected in May 2023.

( 4 ) Program Implementation Structure

- 1 ) Borrower: The Royal Government of Bhutan (RGoB)
- 2 ) Guarantor: None
- 3 ) Executing Agency: Ministry of Finance
- 4 ) Operation and Maintenance System : The implementation of each policy action will be undertaken by the responsible ministries and agencies under the coordination of the Ministry of Finance. In addition, the Program Monitoring Committee consisting of the Ministry of Finance and relevant ministries/agencies/company will be established to monitor the progress of the indicators and report the results to JICA every six months after the policy actions are achieved.

( 5 ) Collaboration and Sharing of Roles with Other Donors

1 ) Japan's Activity:

The achievement of the policy actions added by JICA in the Program is expected to generate synergistic effects such as further enhancement of the sustainability, etc. with other JICA's projects.

- Technical Cooperation "Integrated Temperate Fruit Crops Promotion Project" (2022-2026). This project supports the introduction of market-oriented agriculture in the agricultural sector, which is a priority for the Bhutanese government in its economic recovery. The achievement of policy action and indicator of the Program is expected to promote the commercialization of agriculture in Bhutan by securing of training funds needed to promote market-oriented agriculture.
- Technical Cooperation "Project for Establishment of Human Resource Development System in Construction Sector" (2023-2028). This project plans to implement human resource development for necessary human resources such as engineers of the country in the road sector in the construction industry, which is regarded as a pillar of economic recovery. The achievement of the policy action and indicator of the Program is expected to ensure an organizational structure that will enhance the

sustainability of this technical cooperation project.

- Technical Cooperation "The Project for Strengthening Quality of Medical Education" (2020-2025). This project provides support to improve the quality of medical education in the health sector. The achievement of the policy actions and indicators of the project is expected to promote exchange in the medical community between Japan and Bhutan, which will enhance the sustainability of this technical cooperation project.
- Technical cooperation "Project for Strengthening Government Capacity for Using Digital Technology and Data" (2023-2027). This project supports the improvement and expansion of health care services and the promotion of economic industry through the use of digital technology. Achievement of the indicator of the Program is expected to promote the introduction of the e-Patient Information System, which is an important personal medical data system for the promotion of digital health, further improvement and expansion of health care services, and the promotion of economic industry.
- In the gender mainstreaming area, technical cooperation to the Ministry of Home on women's economic empowerment is under consideration. The achievement of this policy action and indicator is expected to strengthen the institutional structure of the Ministry of Home regarding women's empowerment and improve the smooth implementation and sustainability of this technical cooperation project.

## 2) Other Donors' Activity:

To monitor indicators, the progress will be shared with the World Bank, the co-financing partner, and if it delays, particularly with regard to the achievement of common indicators of the "Green and Resilient Growth DPC", JICA and the World Bank will work with the RGoB to implement countermeasures to address the issues.

## (6) Environmental and Social Consideration

① Category: C

② Reason for Categorization: As the Program is a budget-support loan, the negative impact on the environment from this Program is likely to have minimal or little adverse impact on the environment under the 'JICA Guidelines for Environmental and Social Considerations (January 2022)'.

## (7) Cross-Sectoral Issues

① Relevance to climate action: The Program will contribute to climate



change mitigation and adaptation, as one of the policy action requires the submission of the Forest and Nature Conservation Bill to the parliament that will help to maintain forest cover area and improve forest management. It is also envisaged that the World Bank will include policy actions related to emission offsets from renewable natural resources such as hydropower in Phase 2 of the "Green and Resilient Growth DPC".

- ② Human Wellbeing: “Promotion for self-reliant and sustainable nation building with a good balance of rural and urban areas“ as one of the pillar of the Program will contribute to increase the Gross National happiness.

( 8 ) Gender Category:

■ Gender Informed (Significant) (Gender activity integration project)

<Details of Activities/ Reason for Categorization> Through discussions with the implementing agencies and the Mistry of Home, it was confirmed that strengthening the institutional structure is necessary for gender mainstreaming in Bhutan. One of the policy actions require the submission of all the necessary documents to establish a new division that promotes women’s empowerment for the purpose of "promoting women's empowerment that contributes to women's advancement and improvement of their lives". “The number of staff members in the relevant division” is set as an indicator for this project.

- ( 9 ) Other Important Issues: The policy matrix includes the Cabinet approval of an e-commerce policy to support the digital economy and e-trade, and the formulation of a draft 13th Five-Year Plan that includes the promotion of strategic digitization. The plan is expected to include studies on the promotion of domestic distribution, secondary use, and cross-border transfer of data that will contribute to the promotion of DFFT (Data Free Flow with Trust), which is under discussion among Japan and other countries.

#### 4. Targeted Outcomes

( 1 ) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual value in January, 2023)	Target (December, 2024)
Continuity of training on market-oriented agriculture	-	RGoB has increased 20% of budget allocation for the training on market-oriented agriculture in FY2024/2025.
Establishment of technical committee for training on human resource development in road sector in Department of Surface Transport (DOST)	-	Establishment
Ensure adequate staff for construction and maintenance of roads and bridges under DOST(%)	64	90
MOUs for the enhancement of quality of medical human resources that agreed among MOH, KGUMSB and Japanese medical university or institutes from 2023 (number of MOUs, cumulative from 2023)	0	3
Health human resources exchanged between Bhutan and Japanese medical universities or institutes from 2023 (number of human resources, cumulative from 2023)	0	86
National monitoring meeting to promote digitalization (number of meetings, cumulative)	0	54

Formulation of digital health strategy and its publication	-	Formulation and Publication
Number of medical facilities which has introduced e-Patient Information System	0	10
Formulation of National Drone Strategy and its publication	-	Formulation and Publication
The meeting among Fab-Lab Bhutan Network (number of meetings, cumulative)	0	8
Number of staff members of a division that promotes women's empowerment in managing their own affairs, contributing to economic and livelihood improvement of women.	0	7
Fiscal Balance(% of GDP)	-9.4% in FY2022/2023	-3.0% in FY2024/2025

## ( 2 ) Qualitative Effects

The qualitative effects of the Program are expected as per below.

- Strengthen debt management capabilities;
- Mitigation of unemployment;
- Improvement of productivity in business activities;
- Agriculture promotion;
- Promotion and facilitation of human mobility and logistics;
- Digitalization of government services
- Promotion of evidenced based policy making
- Promotion of women's aspiration for economic activities
- Stabilization and sustainable growth of Bhutan's socioeconomy associated with the above effects; and
- Increase of Gross National Happiness

( 3 ) Internal Rate of Return

Not calculated as it is a program loan.

## **5 . External Factors and Risk Control**

( 1 ) Preconditions/External Factors:

Avoiding extreme impacts on economic activities in Bhutan due to the spread of Covid-19 and further deterioration of the global situation.

## **6 . Lessons Learned from Past Programs**

In the ex-post evaluation of the Development Policy Support Program - Investment Climate for the Republic of the Philippines (evaluation year: 2017), it was found that by sharing the policy matrix and monitoring policy reforms in collaboration with international organizations, necessary policy reforms could be further expected. Also, such collaboration made it easier to tackle issues that are difficult to support alone.

In the ex-post evaluation results of the Development Policy Loan for Indonesia (I-IV)" (evaluation year 2009), it was found that Development Policy Loan and technical cooperation can work complementary and synergistic effects can be expected at various stages of the reform process.

Having learned the lessons above, the Program will promote reforms by monitoring policy reforms in cooperation with the World Bank, the co-financing partner. For policy agendas newly added by JICA, JICA will support the implementation of policy actions and subsequent promotion of their reforms through ongoing and planned technical cooperation.

## **7 . Evaluation Results**

The Program is consistent with the development issues and policies in Bhutan, as well as the Japan's and JICA's cooperation policy and analysis, and its objective of the Program is to promote economic recovery and growth in the Kingdom of Bhutan which had significant adverse impacts due to COVID-19, by extending budget support to the RGoB strengthening fiscal policy that enhance private sector-led growth, promoting policy for green growth focused on renewable natural resources and promoting policy for self-reliant and sustainable nation building with a good balance of rural and urban areas, thereby contributing to promoting the fiscal, social and economic stabilization of the Kingdom of Bhutan.

Also, the Program is likely to contribute to five of the SDGs: Goal 2 (Zero hunger), Goal 3 (Good Health and Well-being), Goal 5 (Gender equality), Goal 8

(Decent Work and Economic Growth), Goal 9 (Industry, innovation and infrastructure) , Goal 10 (Reduced inequalities), Goal 13 (Climate actions) and Goal 15 (Life on land).

Therefore, it is highly necessary to support the implementation of the Program.

## **8 . Plan for Future Evaluation**

( 1 ) Indicators to be Used

As indicated in Section 4.

( 2 ) Future Evaluation Schedule

Ex-post evaluation: two years after the program completion

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