

March 16, 2017

## **World Bank Statement at the 13<sup>th</sup> Donor Round Table Meeting**

Your Excellences, Distinguished Delegates, Ladies and Gentlemen, on behalf of the World Bank, I would like to thank the Royal Government for the collaboration on Bhutan's development since 1981.

Bhutan is widely recognized as among the most successful countries in the world in many areas of development. The Royal Government committed to be carbon neutral in 2009 and the Constitution mandates to maintain 60 percent of the country under forest cover. Bhutan's annual average economic growth rate since 1981 is 7.6 percent, 13<sup>th</sup> highest among 108 countries where data is available, and the poverty rate, measured by \$1.9 a day, declined from 35 percent of the population in 2003 to 2 percent in 2012. Guided by the principles of Gross National Happiness, the country's development has benefitted from an effective public sector together with the development of hydropower projects.

The World Bank is proud to have been part of this development success. Our collaboration has strengthened further after the World Bank set up its office in Thimphu in 2011. In the past few weeks, the World Bank signed three projects. These include (a) the Second Development Policy Credit worth \$24 million that supports the Royal Government's policy reforms; (b) a trust fund to support the next household survey and economic census; and (c) a grant for the Strategic Program for Climate Resilience.

Building on its successes, it is time for Bhutan to start thinking about the next stages of development. These should address challenges such as high youth unemployment and large saving investment imbalances reflected in current account deficits. These challenges are mostly related to an underdeveloped private sector. Although this issue has been discussed for a while and the Government has implemented policy reforms, tangible progress has yet to occur. In achieving private sector development, the Government will have to play a key role. The World Bank would like to offer our support. How can the World Bank support Bhutan? I would like to make five points.

**First of all**, I am very happy to announce that the World Bank plans to significantly increase resources from the International Development Association (IDA) for Bhutan from 2017 to 2020. IDA provided about \$50 million between 2014 and 2017. The figure for the next three years for Bhutan will be available in a few months. Globally, \$75 billion was committed to IDA at the end of 2016. IDA resources will focus more on small states over the next three years, including Bhutan, where there are specific development challenges. This is a great opportunity for the country, as IDA credits are highly concessional with the grant element representing 35 percent.

**Moving to my second point:** for Bhutan to move into the next stages of development, financing for development is critical. In the past, Bhutan successfully attracted grant financing. However, the current Gross Domestic Product (GDP) per capita at about \$2,400 is more than twice as high as the lower-income country economy threshold of the World Bank at \$1,045. This means that the development stage that relied mostly on grants seems to be over. Also, seeking small grant projects may absorb limited human resources from both the government and development partners. While grants will continue to play an important role, it is important to see how credits will play a more important role in development. Of course, there are concerns about how Bhutan is accumulating debt, which now exceeds 100 percent of GDP. But about 70 percent of this debt is related to the hydropower sector and so the sustainability is secured. Also, the non-hydro debt to GDP ratio has been decreasing over last few years. As of Fiscal Year 2015/16, the non-hydro debt to GDP ratio was 24 percent, 11 percentage points below the 35 percent target mentioned in the debt policy. Moreover, the government has been improving its debt management capacity. I would like to encourage the government to think through financing development, including using concessional financing. Of course, public financing is only part of financing for development. To think through financing for development, it is important to take private financing such as FDI and PPP. Having private financing has direct contribution to private sector development. The World Bank would be happy to be part of this exercise.

My second point leads me to **my third point on World Bank instruments.** In the past, the World Bank's IDA credits were provided through either budget support for government reforms or investment projects that support a wide range of activities. These aimed at creating the physical and social infrastructure necessary to reduce poverty and create sustainable development. There is the third instrument called the Program-for-Results instrument. Three key characteristics are (a) focus on results, (b) strengthening capacity and (c) supporting a borrower's programs. Bhutan has developed a result-based development management system. Also, Bhutan has a good Public Financial Management system, including its procurement system. I am happy to mention that Thimphu Thromde is the first borrowing country agency in the world to have its procurement system and regulations cleared as an Alternative Procurement Arrangement. This demonstrates that Bhutan has a good country system, which is key for the program-for-results instrument.

Moving to **my fourth point of the importance of investment in human development:** for Bhutan moving to the next stage of development, investment in human development is critical for creating more and better jobs. The World Bank has jointly published the labor study with the Royal Government and underscored the importance of investment in human development. The World Bank would be happy support Bhutan in these areas.

**My fifth and last point** is that in thinking through the four points -- the increase in IDA financing, financing for development, the new program-for-results instrument, and

investment in human development -- the World Bank will focus more on citizen engagement, gender issues and climate change in project design as well as implementation.

Thank you very much.