

March 14, 2019

## **World Bank Statement at the 14th Round Table Meeting**

Honorable Prime Minister, Ministers, Your Excellences, Distinguished Delegates, Ladies and Gentlemen, on behalf of the World Bank, I would like to thank the Royal Government for the collaboration between Bhutan and the World Bank for about 40 years since 1981.

The World Bank would like to congratulate the government for successfully organizing the 14th Round Table Meeting (RTM), the highest forum for policy dialogue between Bhutan and its development partners. The RTM is instrumental to learn the latest development direction and to discuss key issues among the stakeholders.

Bhutan has a strong track record of reducing poverty and maintaining solid growth. Using the international poverty rate of \$3.2 a day, the poverty headcount rate fell from 36.4 percent in 2007 to 12.1 percent in 2017. Annual average economic growth rate in the past decades is 7.5 percent, one of the highest in the world. Bhutan's unique philosophy of Gross National Happiness, good governance and remarkable environmental management are foundations of the strong track record. Building on the strong track record, Bhutan has a lot of opportunities to address its development challenges including: (a) creating quality jobs for youth and opportunities for female, (b) reducing macroeconomic volatility and vulnerability and (c) addressing spatial disparities and vulnerability to natural disasters.

On creating quality jobs for youth and opportunities for female, the 2017 Labor Force Survey Report shows that the youth unemployment rate stood at 12 percent in 2017 with the urban youth unemployment rate at 17 percent. The female labor force participation rate of 60 percent is much lesser than the male labor force participation rate of 72 percent. Addressing the job challenges are critical to harness opportunities for demographic dividend (i.e., the increase in the share of working-age population in total). On the micro level, addressing demand and supply mismatch is critical. About 65 percent of employed persons has either no education and primary / lower education. On the other hand, more than 90 percent of unemployed youth has middle / higher education or bachelor's degree.

On the macro level, as job absorption capacity of the public sector is limited, private sector development through improving business climate and economic diversification is a priority.

Economic diversification is also critical to address macroeconomic and vulnerability. Currently, hydropower accounts for 30 percent of GDP. Also, the link between sectors is weak. For example, the link between hydropower and the rest of the economy can be improved. To consider economic diversification in Bhutan, there are two points. One is that economic diversification is not an end, but a means for private sector development and quality job creation. Second, economic diversification is not away from hydropower but how to use hydropower including revenues for economic diversification. The recently published Bhutan Development Report recommends investing in physical capital (including road networks and ICT), human capital and institutional development, all of which are foundations for economic diversification. On business

climate, Bhutan's global ranking on World Bank's 2019 Doing Business fell to 81, the second in South Asia after India.

There remain spatial disparities and vulnerability to natural disasters. The poverty rates are low in Thimphu and Paro at about 1 percent. On the other hand, rates are high in Dagana and Zhemgang at about 40 percent. Also, the quality of services such as electricity have spatial disparities among districts. Bhutan is highly vulnerable to natural disasters affecting people's life through agriculture, water resources, tourism, and hydropower, while reliability and quality of infrastructure has room for improvement. In this regard, investment in ICT is likely to contribute to not only economic diversification, but also enhancing data management and communicating system (such as hydromet information services) to foster systematic approaches to prepare / react to natural disasters.

Addressing these challenges require (a) accelerating reforms; (b) investing in human capital; (c) identifying financing for development; and (d) investing in data and statistics.

On reforms, the World Bank would like to encourage the government to accelerate reforms for economic diversification, tax policy and administration, public financial management, agricultural productivity, connectivity and business climate, as well as policies to encourage energy efficiency and address climate change and urban development. These reforms will enable Bhutan to harness its opportunities and to address its challenges. Though these areas sound many, Bhutan will be able to take advantage of 'its smallness and strong governance' to effectively and efficiently formulate and implement policy reforms. The World Bank has been supporting Bhutan in these reforms areas through the combination of analytical work, technical assistance and lending. In addition to the Bhutan Development Report for economic diversification. Also, the World Bank plans to publish the Urban Policy Notes, a report on Agriculture and Rural Development and Poverty Assessment. On economic diversification, the World Bank commends the government initiative to organize the second BEFIT in July 2019. The World Bank appreciates the opportunity extended to the World Bank Group by the government and the Royal Monetary Authority to partner in this initiative.

On human capital, the World Bank has been reengaging in health, education and social protection. The World Bank recently launched the Human Capital Project, a global initiative to accelerate more and better investments in people for greater equity and economic growth. We are glad that Bhutan is one of the early adopters of the Human Capital Project. The World Bank applauds the government's strong commitment to invest in its people's health and education through its "Narrowing the Gap" strategy. As the Human Capital Project is a global initiative, the World Bank has been collaborating with other development partners on this issue. As human capital development is a cross-cutting issue which requires strong coordination among stakeholders, the World Bank encourages the government to use a "whole of government" approach and to formulate a Human Capital Action Plan based on the 12th FYP. The World Bank would like to offer our support in this area including facilitating the Human Capital Forum.

As financing for development, the 12th FYP has identified development financing needs of US\$420 million. While prioritizing expenditures is critical, identifying sustainable financing sources is equally important. In the 2018 Voluntary National Report (VNR) for the SDGs, the government committed to develop a financing strategy. As part of the strategy, it is important to discuss pros and cons of each financing source, including debt financing, grants and innovative financing, needs to be discussed. For example, the World Bank has secured \$100 million allocation for Bhutan from July 2017 to June 2020 at concessional rate (0 percent interest rate and 40-year repayment period). Given its relatively high GNI per capita (\$3,000), it may not have access to IDA financing at current terms in the next IDA cycle. Therefore, the World Bank has been encouraging Bhutan to utilize its IDA country allocations as well as other IDA windows. Other IDA windows include regional windows in which Bhutan would be able to tap regional IDA window as well with the same financing terms for regional projects. Also, the World Bank has been encouraging to tap Catastrophe Deferred Drawdown Option (Cat DDO) to better prepare for natural disasters. This is an innovative contingent line of credit that can provide immediate liquidity to countries in the aftermath of a disaster resulting from an adverse natural event. The financing terms are the same as IDA lending. Also, the World Bank is happy to support to establish Bhutan Climate Fund.

On data and statistics, for the government to conduct evidence-based policy formulation, quality and frequency of data and statistics need to be improved. Despite recent efforts, Bhutan ranks lower than other South Asia countries in the World Bank's 2018 Statistics Capacity Indicator. The World Bank has been supporting statistics development especially in household survey and economic census. However, there is room for improvement. For example, a lack of quality of education data has prevented Bhutan from participating in the Human Capital Index under the Human Capital Project. Going forward, quality data and statistics will be more important for successful decentralization.

In conclusion, the World Bank stands ready to continue supporting Bhutan's national priorities that are consistent with World Bank Group's goals of ending poverty and boosting shared prosperity. The World Bank would like to reaffirm its commitment to support Bhutan's development agenda as described in the 12th Five-Year Plan. The World Bank has also started preparing its new Country Partnership Framework (CPF) for Bhutan for the next five years, which will fully align with the government's 12th FYP.

Thank you very much and Tashi Delek.

### **Resources**

World Bank in Bhutan: <http://www.worldbank.org/en/country/bhutan>

The Policy Notes: <http://documents.worldbank.org/curated/en/484471550069124862/Bhutan-Rising>

Bhutan Development Report:

<http://documents.worldbank.org/curated/en/259671548449315325/Bhutan-Development-Report-A-Path-to-Inclusive-and-Sustainable-Development>

Bhutan Development Update:

<http://documents.worldbank.org/curated/en/510171542039840599/Bhutan-Development-Update-Accelerating-Reform-Momentum>