



Kingdom of Bhutan

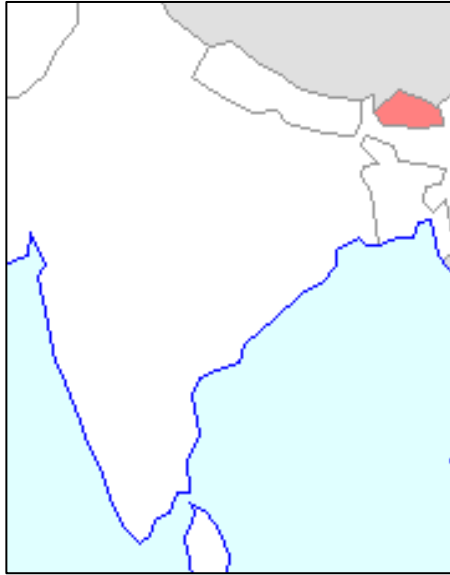
JICA Country Analysis Paper(JCAP)

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1. After the formulation of previous “Bhutan JCAP*” in March 2013, there were;
 - ✓ Improvement of poverty rate and social development indicators,
 - ✓ Increase of unemployment rate of the educated youth and
 - ✓ Necessity of setting the strategy for developing the economy and society of Bhutan, which are more resilient to address the complex risks in the current world.
2. Bhutan will graduate from Least Developed Country (LDC) in December 2023.

Composition of JCAP outline

1. Policy and main development issues
2. Main issues and sectors focused by JICA
3. Multi-sectoral cooperation



- **Geography:** Bhutan locates in the east end of Himalayas. Bhutan has a unique geography surrounded by mountains and deep valleys, and the altitude is from 200m in southern side to 7,000m in northern side.
- **Area:** Approximately 38,394km²
- **Population:** Approximately 77.99 million (2021) (Annual growth rate:1.0~1.2%)
- **Social Development:** Extreme poverty was eradicated, and the social indicators has been improved gradually. However, Human Development Index is ranked in 127th out of 191 countries (2021). Bhutan will graduate from LDC in December 2023.

| Year | 2003 | 2007 | 2012 | 2017 | 2021 |
|---|---------|---------|---------------|---------------|---------|
| Human Development Index (rank) | 136/175 | 133/177 | 140/186 *1 | 134/189 *2 | 127/191 |
| Poverty rate (less than 2.15\$/ day) | 13.4% | 5.9% | 1.7% | 0.9% | N/A |
| Poverty rate (Bhutan's Poverty line less than 3.2\$/ day) | 31.7% | 23.2% | 12.0% | 8.2% | N/A |

Reference: World Bank Data

*1: Data in 2013 *2: Data in 2018 4

0. Current Status of Bhutan (Economy)

- **Real Economy**: Steady economic growth led by Hydroelectric Power Plant construction and export of electricity before COVID-19. GNI per capita was USD 2,840 (2020).
- **Industry**: Against GDP, 19% is Primary Industry (Agriculture), 34% including 26% of Hydroelectric Power related is Secondary Industry (Construction/Manufacturing), and 43.7% is Tertiary Industry (Service/Government/Tourism/Trade/Retail etc.) (2020, World Bank).
- **Fiscal Balance**: Fiscal deficit has been increased dramatically after COVID-19 pandemic due to increase in government expenditure to take measures for economic revitalization.
- **Current Account and Balance**: Bhutan has a chronic current account deficit mainly caused by the trade deficit due to the import of capital goods for hydroelectric power plant construction.
- **Employment**: Unemployment rate is increased from 2.7% in 2019 to 4.8% in 2021. The youth unemployment rate (Age 15 to 24) has almost doubled (from 11.9% to 20.9%).

Table1 Macro-economic Indicators

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|--------|--------|--------|--------|
| GNI per capita (USD) | 2,760 | 2,940 | 3,130 | 2,840 | 3,040 |
| Nominal GDP (million USD) | 2,451 | 2,446 | 2,539 | 2,325 | 2,540 |
| Real GDP Growth Rate | 4.7% | 3.1% | 5.8% | -10.0% | 4.1% |
| Primary Balance (Against GDP) | -1.6% | -1.6% | -1.9% | -6.3% | -10.2% |
| Current Account and Balance (Against GDP) | -18.4% | -20.5% | -12.4% | -11.8% | -10.6% |
| Foreign exchange reserves (million USD) | 1,111 | 1,345 | 1,344 | 1,558 | 1,844 |
| Foreign exchange reserves (in months of goods and services imports) | 10.7 | 13.1 | 14.7 | 18.2 | 18.7 |

0. Current Status of Bhutan (Debt)

- External Debt per GDP was 117.4(2021/22). 85.7% out of this was the debt to India, for construction of Hydroelectric Power Plant (Ministry of Finance, Bhutan). It will be offset by exporting the electricity to India after the operation of the Plant. IMF evaluates Bhutan's risk of overall and external debt distress as **moderate**.
- Non-hydropower debt is managed strictly under the threshold of 35% of GDP.

| Fiscal Year | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|---------|---------|---------|---------|---------|
| Public Debt (Percent of GDP) | 108.6% | 94.0% | 100.8% | 120.5% | 130.9% |
| External Public Debt (Percent of GDP) | 105.1% | 90.1% | 99.0% | 115.6% | 117.4% |
| Non-Hydro Public Debt (Percent of GDP) | 25.2% | 20.7% | 24.9% | 29.8% | 31.7% |



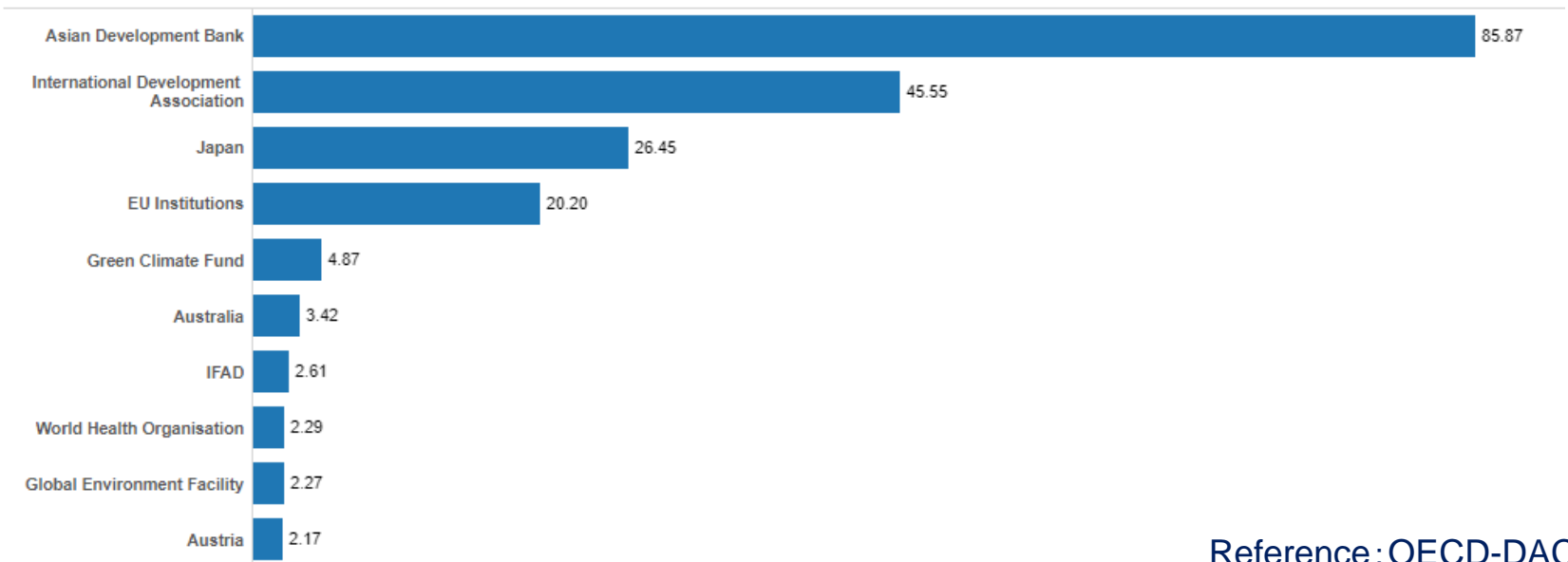
- **Politics**: Constitutional Monarchy. The King led the political system change from a monarchical system to a parliamentary democracy in 2007. Current parliament was assigned by the third National Assembly election in 2018. Next National Assembly election will be in November 2023.
 - ✓ Governance: Political situation is stable even after the democratization.
 - ✓ Ranked in 25th out of 180 for Corruption Perceptions Index(CPI 2021). One of the least corrupt country in Asia.

- **Diplomacy**: Diplomatic relations between Bhutan and Japan was established in 1986. There is a strong relation between Royal Family of Bhutan and Imperial House of Japan. Moreover, many Bhutanese generally have a good impression on Japan.
 - ✓ There are 54 countries which have diplomatic relations with Bhutan. Out of G8 countries, only Japan, Canada, Germany have diplomatic relations with Bhutan and there is no diplomatic relationship with the Permanent members of UN Security Council.

0. Current Status of Bhutan (Other DPs)

- Top 6 developing partners are (1) Asia Development Bank (ADB), (2) International Development Association/World Bank (IDA), (3) Japan, (4) Europe Union (EU), (5) Green Climate Fund (GCF), (6) Australia. As a bilateral development partner among OECD members, Japan is the biggest one.
- India is the biggest development partner to Bhutan. Around 35% (31.7 billion INR) of budget for technical and economic cooperation (average of FY2020 & FY2021) is allocated for Bhutan.

Top Ten Donors of Gross ODA for Bhutan, 2019-2020 average, USD million



1. Policy and main issues of development

1. (1) Development Policy and Plan of Bhutan

Gross National Happiness (GNH)

12th Five-Year Plan (Including SDGs)

17 NKRA (National Key Result Areas)

1. Macroeconomic stability, 2. Economic diversification, 3. Reducing poverty and inequality, 4. Preservation of culture, 5. Healthy ecosystem, 6. Carbon neutrality, climate and disaster resilient, 7. Quality education and skills, 8. Food nutrition security, 9. Infrastructure, communication and public services, 10. Gender equality, 11. Productive and gainful employment, 12. Corruption reduced, 13. Vibrant democracy and decentralisation, 14. Healthy and caring society, 15. Sustainable human settlements, 16. Effective justice services, 17. Sustainable water

9 Flagship Programmes

1. Water & Irrigation, 2. Startup and CSI, 3. Digital Drukyul (ICT), 4. Organic, 5. Tourism, 6. Health, 7. Education, 8. Waste & Stray Dog Management, 9. National Day Footprint

*** Underline parts shows the focus area by JICA**

- **GNH: Royal Government of Bhutan (RGoB) identifies Gross National Happiness (GNH) as a National Policy. GNH is defined in the constitution and considered as the highest priority in all the policies in Bhutan. JICA has supported the GNH survey since 2015 and the results of survey is utilized for the policy making in RGoB.**
- **FYP: 12th Five-Year Plan (FYP) (2018/19-2022/23) which is closely related with SDGs goal is implemented currently. The objective of the 12th FYP is “Just, Harmonious and Sustainable Society through enhanced Decentralization.” 17NKRA and 9 Flagship Programmes are also set in 12th FYP to improve the economical inequality and to build the Equal and Just Society.**

1. (2) Main issues of Development in Bhutan (SDGs)

According to SDG Index and Dashboards Report 2022, Bhutan marked 70.5 points out of 100 points, and ranked in 70th out of 163 countries. Although the situation is progressing and improving, but still there are some issues in some sectors.

- **Major challenges**: Goal 2 (Zero Hunger), 3 (Good Health and Well-being), 5 (Gender Equality), 8 (Decent Work and Economic Growth), 15 (Life on Land)
- **Significant challenges**: Goal 4 (Quality Education), 6 (Clean Water and Sanitation), 9 (Industry, Innovation and Infrastructure), 10 (Reduced Inequalities), 17 (Partnerships for the Goals)



Note: The full title of each SDG is available here: <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals>

1. (2) Main issues of Development in Bhutan

Following points have been considered as social and economical development issues to tackle in Bhutan by JICA;

- Widening inequality between urban and rural areas
115 thousand people which is 16% of Bhutan population have migrated from villages to urban towns (national census 2017). Especially, migration from less developed, eastern area to other areas is remarkable.
The expansion of Infrastructure and public services are restricted by the inland and mountainous geography.
- Upgrading industries as a source of employment
Challenges in marketization and productivity improvement of agriculture, a major industry in rural areas.
Lack of attractive employment opportunity for young people.
- Overall health Indicator has been improved, however, the lack of medical personnel, poor accessibility to the medical facilities in high-mountain /rural area, quality of medical services should be improved further.
- Environmental problems such as increase of waste due to urbanization.
Furthermore, the country is vulnerable to pandemics and disasters. In particular, risks such as damage from floods and landslides are becoming more severe due to climate change.

1. (3) ADB and World Bank's partnership strategies in Bhutan

- ADB's Country Partnership Strategy (2019-2023)
 - ✓ Fostering economic diversification and reducing spatial and social disparities.
 - ✓ Three strategic pillars are:
 - (i) dynamic economic reforms to foster a resilient and diversified economy,
 - (ii) improved connectivity to provide better access to information and markets, and
 - (iii) greater inclusiveness through more equitable socioeconomic development.
- World Bank's Country Partnership Framework (FY2021-2024)
 - ✓ Overarching priority is to help Bhutan achieve inclusive and sustainable development through private sector-led job creation.
 - ✓ Five major challenges identified by Systematic Country Diagnostic are; (i) Lack of job opportunities, especially for educated youth, (ii) macroeconomic vulnerability, (iii) Remaining spatial and gender inequality, (iv) vulnerability to natural disaster and climate change, especially for the poor, and (v) policy implementation gaps.

2. Main issues and sectors focused by JICA

2. (1) Importance of cooperation to Bhutan

- Since Bhutan is a landlocked country surrounded by steep mountains and locates between two large countries in Asia, it is vulnerable to the natural disaster and the external shock. Therefore, necessary cooperation is required from the aspect of "Human security".
- Japan has cooperated to Bhutan through various schemes, especially Technical Cooperation and Grant since 1986 when the diplomatic relations was established. JICA volunteer has been dispatched more than 600 since 1988, and their grass-root level cooperation is accepted in Bhutan.
- There is a strong friendship between Royal Family of Bhutan and Imperial House of Japan.
- The stability, independence, and development of Bhutan will contribute to the realization of a Free and Open Indo-Pacific(FOIP).

2. (2) JICA's direction for cooperation

- For Bhutan's smooth graduation from LDC, JICA's basic policy of cooperation is to support Bhutan's growth with a good balance of rural and urban areas.
- JICA will strengthen cooperation for high-quality human resource development and job creation, especially in the area of agriculture, infrastructure development and health.
- JICA will ensure cooperation to promote digital technology and knowledge-based industry.

2. (2) JICA's Cooperation program

| Priority Area | Development Issue | Cooperation Program |
|-----------------------------|---|--|
| Sustainable Economic Growth | Reducing Spatial Disparities | Agriculture and Rural Development Program |
| | | Rural basic Infrastructure Development Program |
| | | Government Capacity Building & Education Program |
| | Industry Development & Job Creation | Industrial Promotion Program |
| Strengthen Resilience | Improving Social Services | Health Program |
| | Countermeasures for Environmental Issues and Climate Change | Urban Environment Improvement Program |
| | | Climate Change Countermeasure and Disaster Risk Management Program |

① Agriculture and Rural Development Program

Development issues

- ✓ There is a large urban-rural disparity, with 87.0% of the poor living in rural areas.
- ✓ Due to urbanization and increased public sector employment, 13.8% of the population migrated within or from rural areas to urban areas during 2012-2017. Population outflow from the less-developed eastern and central regions to the western region is particularly significant, resulting in a shortage of labour in agriculture.
- ✓ The food self-sufficiency rate is 68% for cereals (2014-2016), with only 46.7% for rice, 86% for maize, 84% for vegetables, and 37% for meats, and 96.2% of imports are dependent on India.
- ✓ There are abandoned farmlands due to fragmentation of farmlands and other unfavorable conditions.
- ✓ Due to insufficient distribution systems for collection and transportation, only 12% of farmers have access to roads and distribution networks. Also, due to limited access to market information, there is a gap between production and demand sides.

Future direction

To promote balanced development between urban and rural areas, based on the assets of past cooperation, and with the use of digital technology in mind, JICA will work to improve market access by **promoting exports and building supply chains**, and to increase the income of small-scale farmers by fostering their bearer farmers through **the promotion of market-oriented agriculture**. Cooperation in the product side also will be implemented through the establishment of agricultural infrastructure such as irrigation facilities.

Development issues

- ✓ Income inequality between rural and urban areas (87.0% of the poor live in rural areas)
- ✓ Significant migration from less-developed eastern region to other regions
- ✓ Villages are scattered in mountainous areas and have difficulty in accessing public infrastructure and services
- ✓ Inadequate basic infrastructure and administrative services to create economic opportunities and to support the economically and socially vulnerable in rural areas

Future direction

Selective cooperation will be provided based on the following criteria:

- ✓ Basic infrastructure development needs in rural areas,
- ✓ Contribution to strengthening connectivity
- ✓ Highest importance in the target area, and
- ✓ Necessity of high technical capabilities due to natural conditions.

In addition, JICA will cooperate for capacity building in some areas such as bridge construction, maintenance and management of road infrastructure based on the concept of asset management and occupational health and safety.

③ Government Capacity Building & Education Program

Development issues

- ✓ To promote balanced development, in addition to the promotion of agriculture, which is the main industry in rural areas, there is an urgent need to create economic opportunities and improve social infrastructure in rural areas so that public administrative services are improved to support economically and socially vulnerable.
- ✓ Rural residents, farmers, and women have relatively low levels of happiness according to the 2015 Gross National Happiness survey.
- ✓ Lack of human resources equipped with capabilities for the new and future global economy.
- ✓ There is an urgent need to strengthen the capacity of government officials to respond quickly and appropriately to Gender-Based Violence and child protection. Additionally, women's unemployment and labor participation rates are low.

Future direction

In order to realize the planning and implementation of development plans and the provision of services based on the needs of the residents, JICA will continue to **strengthen the capacity of local administrative officials (including promotion of gender mainstreaming), promote participatory local administration, and improve administrative capacity (development of core human resources in policy)**, and also work on the education sector (improvement of the quality of education).

④ Industrial Promotion Program

Development issues

- ✓ Due to geographical constraints of being a landlocked country in Himalayas and small population, challenges remain in industry and private sector development. Industrial growth relies on public expenditure.
- ✓ Majority of the poor lives in rural areas and there is a great economic disparities between urban-rural areas.
- ✓ High youth unemployment (20.9%, 2021) and low labour participation of women (men 73.1%/women 65.3%, 2021).
- ✓ Lack of attractive economic opportunities and productive/ profitable job opportunities
- ✓ Necessity of developing hydropower plants of high quality
- ✓ Shortage of human resources with the latest technologies, including IT and innovation

Future direction

Based on the outcome of Social Economic Reform and COVID-19 related economic recovery plans, JICA will cooperate for Bhutan's transition to knowledge-based economy by 2030 and to create attractive economic opportunities specifically in the following areas:

- ✓ Industrial promotion and development of an attractive business environment that takes advantage of regional characteristics
- ✓ Fostering knowledge-intensive industries through digitization, promotion of innovation, and development of highly skilled human resources
- ✓ Reduce regional disparities by improving the livelihoods of rural communities, especially women
- ✓ Development of high-quality hydroelectric power generation to support growth and optimization of electricity use in the region

⑤ Health Program

Development issues

- ✓ The number of doctors and nurses per capita is lower compared to other Asian countries due to the lack of medical personnel and training facilities in the country.
- ✓ Access to health care service is still difficult in high mountainous and rural areas, and domestic advanced medical services are inadequate. The medical infrastructure for combating infectious diseases and dealing with the increasing number of non-communicable diseases is inadequate, and patients requiring advanced medical technology are obliged to transport to neighboring countries.
- ✓ Although healthcare services are provided free of charge under the Constitution, due to population growth and the spread of non-communicable diseases, healthcare financing has been increasing year by year and accounts for about 13% of the country's financial expenditure.

Future direction

To strengthen health and medical services, JICA will cooperate in both capacity building and infrastructure development that contribute to the introduction of medical technology and the strengthening of prevention, examination, and treatment systems.

- ✓ **Strengthening of human resource development system focusing on medical education**
- ✓ **Improvement of healthcare policies through the use of digital technology (maternal and child health services, infectious disease control, non-communicable disease control, etc.)**

⑥ Urban Environment Improvement Program

Development issues

- ✓ As migration of population from rural to urban areas and urbanization continues, there are increasing concerns about the negative impacts on the natural environment caused by unplanned development and inappropriate waste disposal.
- ✓ Villages are scattered in mountainous areas and have difficulty in accessing public infrastructure and services.
- ✓ For balanced development between urban and rural areas, appropriate urban planning and implementation based on the Comprehensive National Development Plan 2030, well-planned urban development, and appropriate environmental measures in urban areas are required to preserve both urban environment and natural environment.

Future direction

For the balanced development of urban and rural areas, JICA will cooperate with the formulation and implementation of appropriate urban planning based on the National Comprehensive Development Plan 2030, well-planned urban development, and appropriate environmental friendly measures (ex. waste management) in urban areas.

⑦ Climate Change Countermeasure and Disaster Risk Management Program

Development issues

- ✓ Being a country surrounded by Himalayas, the country is vulnerable to frequent hydro-meteorological disasters such as floods and landslides. During/after these disasters, logistics and travels are suspended due to limited road networks and no alternative routes.
- ✓ Earthquake disasters with human casualties have also occurred, and there is a risk of compounded disasters.
- ✓ There are concerns that heavy rains and other extreme weather events will increase disaster damage, and vulnerability to climate change is high.
- ✓ Carbon dioxide emissions per capita increased from 0.5 tons in 2009 to 1.4 tons in 2019 due to active industrial activities.

Future direction

In addition to strengthening institutional and organizational disaster preparedness, JICA will cooperate to strengthen the resilience of core infrastructure against disaster considering cost effectiveness. Efficient data management using digital technology will also be considered.

From the perspective of climate change countermeasures, cooperation utilizing Bhutan's rich natural resources, which can also contribute to achieving Bhutan's Nationally Determined Contribution (NDC), is considered effective from the perspective of promoting industrial development and regional decarbonization.

3. Multi-sectoral cooperation

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■ Contribution to Gross National Happiness

As GNH is an attractive indicator to measure well-being in the post-SDGs era, JICA will seriously consider GNH with the Bhutanese government through its cooperation and achieve the both increase of GNH and economic development.

■ Co-creation

To generate huge impact and secure sustainability, research institute and private sector in Japan and other countries will be involved in JICA's activities.

■ Capacity building

As the Bhutanese government is enthusiastic to enhance the capacity building of people of Bhutan, JICA will continue to input resources in this area.

■ Utilization of digital technology and promoting innovation

Digital technology will be applied in most of JICA's cooperation considering the movement that the Bhutanese government is aiming to create new industry in this area.

■ Gender mainstreaming

Gender mainstreaming will also be applied in most of JICA's cooperation.

3. Multi-sectoral cooperation

Considering that Bhutan will graduate LDC in 2023, JICA will apply best mix of following schemes.

- Grant
- Technical Cooperation
- ODA Loan
- JICA Volunteer
- PPP/Grass-root cooperation