



**Second Annual Report on the preparation of Bhutan's
Transition Strategy for smooth LDC graduation**

November 2021

**2nd Annual Report to Committee for Development Policy(CDP) on the preparation of Bhutan's
Transition Strategy for smooth LDC graduation**

Summary of the progress on consultative mechanism and development/finalization of a smooth transition strategy (STS). Information on whether graduation has been reflected in other national and sectoral development strategies.

- Despite the setbacks due to the pandemic, Bhutan's preparation for graduation has gained momentum.
- In support of Bhutan's process in producing a smooth transition strategy, UNCTAD prepared a white paper outlining key elements for consideration by the Royal Government of Bhutan(RGoB), its development and trading partners and other interested stakeholders. The paper also included inputs from a study on COVID-19 impacts commissioned by UNCTAD. The paper informed that the STS should discuss specific measures and strategies that the RGoB will implement to ensure Bhutan's smooth transition within seven main themes/issues; 1) Macroeconomic stability, 2) Expanding trade, 3) Productive capacities and Economic diversification, 4) Technological advancement, 5) Mitigating vulnerability and Building resilience, 6) Finances and Aid, and 7) Global level support measures and commitment extended to LDCs that must continue (if any) in the post graduation period.
- As a part of consultative mechanism and collaborative efforts and to work towards a Smooth Transition Strategy, a LDC task force was formed in April 2021 led by Gross National Happiness Commission Secretariat which includes representatives from key sectors related to Bhutan's graduation; Ministry of Finance, Ministry of Economic Affairs, Ministry of Foreign Affairs, National Statistics Bureau and the National Environment Commission.
- The first task force meeting was convened to sensitize and understand the format and requirement of the STS, share the information compiled in the white paper developed by UNCTAD and discuss the way forward in developing the STS.
- The taskforce recommended that the STS for Bhutan be integrated into the next development plan rather than having a separate strategy document.
- Bhutan's graduation forms a significant agenda for all developmental deliberations. The 15th Round Table Meeting with development partners was held on 2nd September 2021, to take stock of the progress of the 12th national development plan made till date, review challenges and work towards ensuring the alignment of development assistance for the achievement of the 12th Five Year Plan(FYP) and the Sustainable Development Goals (SDG). The meeting was recognized as an opportunity to reinforce and strengthen partnerships and to inform on the way forward post LDC graduation.
- As recommended by the LDC Task Force, Bhutan will be integrating its Transition Strategy into the next national development plan, i.e the 13th Five Year Plan (FYP) which is expected to come into effect from December 2023. The next development plan shall therefore serve as the strategy for a smooth and sustainable transition after Bhutan's graduation.
- In a build up to preparing the 13th FYP, the concept note which reflects Bhutan's transition, is currently being discussed and drafted and is expected to be approved by December 2021. Following the approval of the concept note, guidelines for the 13th FYP preparation will be

developed which will inform and guide the formulation of the 13th FYP for which vigorous nation-wide stakeholder consultations and reviews of the current plan (12th FYP) will be done in 2022. The 13th FYP will account for the gains and shortfalls of the 12th FYP and provide impetus to the impending graduation from the LDC category in 2023 which coincides with the beginning of the 13th FYP.

Information on international support for graduation- commitments on phasing out LDC- specific international support measures.

- United Nations organisations and agencies such as the OHRLLS, UNCTAD, UNESCAP and the WFP have indicated their commitment to provide technical support to Bhutan's smooth transition and to continue support after graduation. Further, in terms of the UN support to the RGoB, informal discussions have been initiated on the formulation of the next development plan/partnership framework to discuss the areas of support post 2023.
- Bhutan is expected to benefit from certain support measures that have instituted an automatic transition period after graduation of upto 5 years such as the Enhanced Integrated Framework (EIF), United Nations Capital Development Fund (UNCDF), and the UN Technology Bank.
- One of the core concerns remains the cessation of LDC related climate funds. Under the Global Environment Facility (GEF)-the Least Developed Countries Fund (LDCF) will phase out. However, its support rendered through the projects such as 'Enhancing sustainability and climate resilience of forest and agriculture landscape and community livelihood (NAPA III Project)' will continue to progress beyond graduation as there are legal agreements concerning its operations, indicated through the start and end date.
- Further, the RGoB and UNDP-Bhutan are presently working on a project titled 'ACREWAS- Advancing Climate Resilience of Water Sector in Bhutan' to access GEF-LDCF, prior to graduation, which if approved shall progress even after Bhutan's graduation.
- With regards to the Green Climate Fund's- Country Readiness and Preparatory Support Programme, GCF envisions the apportionment of 50% of its total Readiness Resource to the LDCs, Small Island Developing States, and the African States. With our graduation from the LDC, a slight decrease in the country's Readiness share is foreseen. However, this is just speculation as provisions to access a maximum amount of USD 1 million are kept open for all NDA- National Designated Authorities.
- In addition, in terms of the LDC specific EU support, during the 9th European Union(EU)-Bhutan Annual Consultations held virtually on 15th December 2020, the EU reaffirmed that its assistance to Bhutan would continue during, and beyond, the impending graduation in 2023. In this regard, the EU encouraged the RGoB to ratify the remaining human rights conventions in order to qualify in the future for greater preferential access to EU markets under the Generalised Scheme of Preferences + (GSP+) scheme. Bhutan will continue to access duty-free quota-free market access for three years after graduation, in addition to the Multi-annual Indicative Programme (MIP) for seven years and MIP+facilitated by the EU.

Implications of COVID-19 on preparations for graduation from the LDC category and preparation transition strategy.

- As of the February 2021 Triennial Review by the CDP, Bhutan's fulfillment of thresholds in all three criteria further solidifies Bhutan's decision to graduate which initially was contingent on Income-only criteria.
- However, concerns have been raised around the decline in economic activities due to lockdowns and border closure which has impacted Bhutan's GDP and GNI.
- As a result of Covid implications, the GDP rate has plunged to -10.08% in 2020 from 5.8% in 2019 while the overall unemployment rate has spiked to 5.0% in 2020 from 2.7% in 2019. The GNI per capita has also observed a drop which in 2021 was recorded at US\$ 2,982 against US \$ 3,109.33 in 2019. Further, trade imbalance and pressure on balance of payments have also been impacted, disrupting the economy.
- In view of this, preparations for the next plan would eminently focus on economic recovery, enhancing productive capacities and diversification, promoting exports among others, and aiming for sustainable and high economic growth.
- However, there have been no major impairments in the preparation of a smooth transition strategy. Bhutan is well on track towards formulating the next development plan which will also serve as an effective smooth transition strategy.