



# Joint Programme 2022 Annual Progress Report

SDG Financing Portfolio - Component 1

## Cover page

**UNCT/MCO:** Bhutan

**Reporting Period:** 1 January - 31 December 2022

**JP title:** Additional Financing Leveraged to Accelerate SDG Achievement

**Stakeholder partner:** National Government; Sub-national Governments; Parliamentarians; Private sector; Civil Society Organizations;

**Thematic SDG Areas:** Food systems transformation; Decent jobs & universal social protection; Climate action & energy transformation; SDG localization;

**PUNOs:** UNDP, UNICEF

**Top-up received as part of DEM:** No

**Total estimated expenditures:** US\$ \$ 409,232.9

**Total estimated commitments (including expenditures):** US\$ \$ 872,050.0

**Gender Marker:** Gender-sensitive (for example, the JP acknowledged and aimed to address gender to enhance the policy/programme, such as undertaking gender analysis to ensure policies/programmes do no harm)

**Resident Coordinator:** Hershey, Karla

**Resident Coordinator Email:** [karla.hershey@un.org](mailto:karla.hershey@un.org)

## Executive Summary

Strengthening fiscal risk management framework:

The JP supported diagnostic assessment and strengthening of fiscal risk management framework, which was led by the Ministry of Finance. Short, medium and long term recommendations were provided such as strengthening the existing PFM legal and regulatory framework, integrate fiscal risk disclosure and reporting processes into broader policy and decision making of the government, strengthen institutional capacity and its related oversight functions, develop and implement fiscal risk mitigation strategy, strengthening of national disaster risk management framework, and improving fiscal risk management chapter in national budget report. These recommendations are critical and timely in the context of ongoing financial management and performance reforms of the government and will help the government in realistically rationalizing the overall financial projections for the upcoming five-year plan (2024-2028).

PPP Policy revision to leverage private sector financing for SDGs:

The JP supported revision of PPP Policy which was carried out by the Ministry of Finance. The policy aims to leverage private sector financing and partnerships to revitalize the economy and help potentially finance fiscal deficit. The policy will help bring coherence and coordination between the government and the private sector in building back better and encourage private financing in realizing the SDGs. The revised policy recommended changes in the threshold for PPP projects, permitting unsolicited proposals which was not considered in the existing policy and introduced provision in systematically screening of projects. This is aimed at increasing project uptakes under PPP framework that will boost the PPP market in Bhutan as well as diversify investments and financing sources. This revision is initiated in the backdrop of a nascent private sector and largely non-existent role of private sector in national plan and its related economic developmental activities. During the reporting period, the final draft of the policy has been submitted to the Cabinet for approval.

Enhancing budgeting processes for improved resource allocation and utilization:

JP in collaboration with the Department of Planning, Budget and Performance under the Ministry of Finance has completed reviewing the budgeting processes and provided recommendations such as rationalization of country's general reserve, introduction of programme-based budgeting, and adopting medium term expenditure framework. The Department has already started implementing the recommendation such as the rationalization of the general reserve of the country, in line with the long term plan and transformation initiatives of the government.

## Annual Progress

### Overall JP self-assessment of 2022 progress:

Satisfactory (majority of expected annual results achieved; 1 to 3 months delay in implementation)

### Overall progress and key developments to date (3 key JP milestones)

Building on the partnership between the UNCT and the government, and aligning with the national priorities in view of Bhutan's preparation for the next five year plan (2024-2028) as well the transformation initiatives underway in the whole of the government, the JP's three main results (refer below) are well aligned with and support the building blocks of the INFF and the national priorities. The results show inter-connected workstreams, strategic and timely support in accelerating Bhutan's SDG achievement and the JP document's Theory of Change. The JP's support has strengthened staff capacity through experts' analysis and consultations where recommendations/interventions are beyond the time frame of the project.

1. The JP supported diagnostic assessment and strengthening of fiscal risk management framework, which is led by the Ministry of Finance (MoF). The assessment was carried out to gain better insight and understanding of multifaceted factors that pose potential threats to Bhutan's fiscal position. The study identified key challenges and highlighted main issues facing Bhutan's public finance systems, gaps in governance and institutional arrangements for managing fiscal risks and provided comprehensive recommendations that would help the government in establishing an effective fiscal risk management framework. It provided a set of short, medium and long term recommendations such as strengthening the existing PFM legal and regulatory framework, integrating fiscal risk disclosure and reporting processes into broader policy and decision making of the government. Also strengthening institutional capacity and its related oversight functions, developing and implementing fiscal risk mitigation strategy, strengthening of national disaster risk management framework, and improving fiscal risk management chapter in national budget report. These recommendations are critical and timely in the context of ongoing financial management and performance reforms of the government and will help the government in realistically rationalizing the overall financial projections for the upcoming five-year plan while showcasing coherent support of UNCT to the government.

2. To further support and strengthen financial governance systems as envisioned in the JP document and theory of

change, the JP supported the Ministry in reviewing the budgeting processes which is timely given the ongoing transformation work of the government. The assessment has identified the gaps, recommended suitable interventions to enhance existing budgetary processes including cost cutting measures, allocation and operational efficiency. The findings also recommended operationalizing medium-term budget framework as well as strengthening linkages between planning and budgeting, and shift in general reserve to a contingency reserve. The Ministry has started implementing the recommendation such as the rationalization of the general reserve and the medium-term budget framework of the country in preparation of the next plan.

3. Bhutan's next plan is positioned to drive economic growth and stability as part of the smooth transition strategy from LDC category in 2023 and diversify the economy with emphasis in attracting FDIs and growth in private sector. Therefore, the JP's support in reviewing and revising the PPP Policy is timely in streamlining processes, removing barriers to public private partnerships and building capacity. Currently, the final draft of the Policy will be submitted to the Cabinet, awaiting approval. The revised policy recommended changes in the threshold amount required for PPP projects, interventions needed in permitting projects, provisions for systematically screening of proposals and inclusion of state-owned enterprises as public partners. The policy leverages on private sector financing and partnerships to revitalize the economy and help potentially finance fiscal deficit. The policy will encourage private financing in realizing the SDGs.

#### **Main Challenges, adjustments and lessons:**

1. Stringent COVID-19 containment and preventive measures adopted by the government. For example, the country was under lockdown in January 2022, and the restrictions were lifted only in September 2022 with the opening of the international borders, which greatly hampered the smooth implementation of the activities;

2. Since JP is implemented through NIM modality, the whole-of-government reform / transformation initiative has immensely hampered the implementation. For example, a major reform of the civil service which was rolled out in February 2022 resulted in managing out of 47 executives including government secretaries, director generals, directors and governors who are key implementing and responsible partners of the JP. The reform exercise is still undergoing and major restructuring of government agencies and ministries are taking place like the reduction in number of ministries from 10 to 9, and the merger of key government interlocuter, the Gross National Happiness Commission (central planning and aid coordination agency) with the Ministry of Finance. These disruptions led to changes in the responsible and implementing partners including the change in focal persons.

3. The parliamentary election in May 2023 will trigger election related restrictions like gathering for stakeholder consultations, advocacy and field visits would further hamper the implementation.

However, JP is able to adapt and remain relevant and effective given the alignment with national priorities and SDGs. Through joint efforts of RCO and PUNOs, most of the issues were resolved at the Steering Committee as well as at various working group level. For example, consultation and validation workshops were carried out in hybrid approach (both virtual and limited in-person meeting), and arrangements were put in place for PUNOs to directly hire consultants ensuring quality and timely support to the joint programme. In line with the transformation initiative of the government and also the new national priorities set out for the upcoming 13th Five Year Plan (2024-2028), JP's activities were re-prioritized, some advocacy activities were dropped, some capacity building trainings were deferred and new activity such as the development of public financing policy is added. The public financing policy has been added given the urgency and need of the government to consolidate all policies and guidelines into one broad policy document for supporting resource mobilization efforts of the government.

## SDG Acceleration

The Joint Programme's aim was principally to help increase Bhutan's level of public and private financing and strengthen its financial governance systems to accelerate SDG progress. Bhutan's next five year plan (2024-2028) is positioned to drive economic growth and stability as part of recovery from COVID-19's negative impact, build back better and Bhutan's smooth transition from LDC category by 2023. A total of five SDGs (SDG 1, 3, 4, 8 and 17) were selected as priorities for the Joint Programme. For this reporting purpose, we focus on SDG 3, 8 and 17 as three main SDG targets as per JP ProDoc and in line with the Theory of Change for SDG acceleration.

SDG 3 is related to health and wellbeing, and the Joint Programme has considered the financing landscape of the social sector especially the development of emergency health financing strategy. The strategy, in its final version now, has recommended strengthening of public financing management which will remove red tape and improve fund coordination and allocation mechanism, ensuring timely delivery of public health services, protecting lives and enhancing wellbeing. The strategy also recommends mobilizing domestic and external financing, strengthen and harmonize donor support, and leverage private sector resources and investment in health emergencies for sustainable financing. In addition, the JP supported assessment of the annual grant system of the sub-national governments in terms of achieving local government key result areas and recommended further fiscal decentralization to enhance citizen-centric local development with greater flexibility in the usage of funds. The JP also supported development of sustainable social security scheme for monks and nuns providing crucial social security and enhance social security during old age for monks and nuns who do not have any social security system.

SDG 8 is related to economic growth through innovation for employment creation and is immensely important in Bhutan given the economic priority of the government for next five-year plan. The Joint Programme targeted specific aspects of SDG 8 by recommending changes in the following key areas: (1) strengthening fiscal risk management framework, (2) PPP policy revision to leverage private sector financing for SDGs, (3) enhancing budgeting processes for improved resource allocation and utilization, (4) developing the strategic roadmap for film industry creating opportunities for growth of creative industry and its related job opportunities, (5) enhancing citizen-centric local development through assessment and review of the annual local government grant system, and (6) the development of financing strategy for RNR sector recommending cost saving schemes and innovative financing mechanisms for promoting sustainable RNR systems and approaches to augment food security goal of the government.

SDG 17 on strengthened partnerships sits at the heart of the Joint Programme. JP's activities are aimed towards leveraging the resources and partnerships necessary for SDG achievement in Bhutan and also enhance collaboration among key stakeholders. For example, under the JP initiative and in support of government's preparation for the next five-year plan, the JP organized a multi-stakeholder dialogue to leverage partnerships for innovative financing. It was aimed at building a shared understanding on the importance of effective development cooperation and the need to strengthen partnerships for domestic resource mobilization to finance development priorities. This is central to realizing country's priorities and the SDGs. The JP supported deliberation on Bhutan's existing financing landscape and associated issues and challenges, and explored additional new and potential financing sources and instruments.

## Updates on SDG financing framework

	Assessment Diagnostics	Monitoring	Governance
Inception phase	Financing Strategy	Review	Coordination
Advancing (50-99%)	Advancing (50-99%)	Emerging (1-49%)	Advancing (50-99%)

## Descriptions on progress by INFF building blocks

**Inception Phase:** While a separate INFF roadmap has not been developed, the following results were achieved in the inception phase: 1. The Prime Minister of Bhutan launched the JP in 2021. 2. Successfully rolled out of activities such as development of financing strategies for RNR sector and the emergency health financing, which are in advanced stage of completion. 3. Revision of PPP policy carried out and has reached final draft stage. 4. Review of budgeting processes completed. 5. Review of pension fund system for vulnerable group (monks and nuns) completed. 6. Assessment of annual grant system completed.

**Assessment & Diagnostics:** Methodologies used for assessment and diagnostics are as follows: 1. Literature and desk review 2. Development of data collection and analytical tools 3. Surveys 4. Focus Group Discussion 5. Interviews 6. Stakeholder consultations Following the assessment and diagnostics, gaps and issues were identified, recommendations were provided to address the challenges, incorporated international best practices, provided analysis, and feedback and validations were carried out to develop the financing strategies.

**Financing Strategy:** The JP is carrying out two-prong approach to financing strategy, that is, supporting the development of innovative financing strategy (national) as well as sector-specific financing strategy such as health and RNR sector financing strategies. While the national financing strategy is planned for development in Q3/Q4 of 2023, the development of public financing policy is underway in Q1, 2023 based on the urgency and need of the government to consolidate all policies and guidelines into one broad policy document for supporting resource mobilization efforts of the government. Sector specific financing strategies for health emergencies and RNR sector has reached different stages of draft which are currently being validated and provided feedback. These financing strategies will inform the overall national financing strategies as well as support their sector-specific financing requirements. These efforts are in line with Bhutan's next plan (2024-2028), which is positioned to drive economic growth and stability as part of the smooth transition strategy from LDC category in 2023 and diversify the economy with emphasis in attracting FDIs and growth in private sector.

**Monitoring & Review:** Institution of the Joint Programme Steering Committee (chaired by the Director of Department of National Budget under the Ministry of Finance) and other key government partners and represented by heads of PUNO and RCO from the UN system. The Steering Committee as the highest programme oversight and governance body is put in place to coordinate, monitor, review and guide the implementation of the JP. At working level, members also meet on regular basis to address implementation issues as well as monitor and review the progress. Additionally, PUNOs provide technical backstopping in implementation of the joint programme.

**Governance & Coordination:** The Joint Programme Steering Committee acts as the oversight body of the JP. To support implementation, PMU is housed under Department of Planning, Budget and Performance under the Ministry of Finance, whose Director is the Chair of Steering Committee. Other members include Department of Macro-Fiscal and Development Finance and the Department of Planning, Budget and Performance under the Ministry of Finance, Dratshang Lhentshog, National Film Commission, Ministry of Health, Ministry of Agriculture and Livestock, UNDP, UNICEF and RCO. JP Steering Committee is the apex body for approval and decisions concerning design, management and implementation of the JP and meets at least bi-annually or more to review and approve annual work plans, provide strategic direction and oversight, review implementation progress and address issues. Also provide strategic direction, review reports and communication, and note budget revisions/reallocations.

## Annual Reporting on Results

**JP contributions to the Joint SDG Fund's global cost of living crisis**

## **Next steps, scaling and sustainability [400 words]**

Next steps:

1. Financing Strategy for RNR Sector to support resource mobilization will be completed in Q1, 2023. The recommendations from the report will be incorporated as part of overall financing for Bhutan's next five-year plan (2024-2028) and will inform the RNR Strategy 2030.
2. Emergency Health Financing Strategy will be completed by Q2, 2023. Currently draft version is circulated for validation and feedback with key stakeholders.
3. Public Financing Policy will be completed in Q2, 2023. The terms of reference for consultants have been completed and national position advertised for hiring in Q1, 2023..
4. Innovative financing strategy (national) will be completed in Q4, 2023 in line with the preparation timeline of government's next five-year plan. International consultants will be hired to support development of financing strategy. Terms of reference will be developed in Q2, 2023.
5. PPP Policy final revision to take place in Q1, 2023 and submitted for approval to the Cabinet by Q2, 2023, following which advocacy and awareness about the revised policy will be carried out in Q3 and Q4, 2023.
6. Development of Fiscal Risk Management Framework will be completed in Q1, 2023.
7. Development of financing strategy for pension fund management and formulation of operational management system to be completed by Q4, 2023.
8. Development of film sector strategic masterplan and resource mobilization strategy to be completed by Q1, 2023.
9. Capacity building of local government agencies on Results Based Management and institutionalize the use of Local Development Planning Manual to be completed by Q3 and Q4, 2023.

Next action for completion of JP activities: NO-COST EXTENSION OF JP:

The JP would require no-cost extension from June 2023 to December 2023 to fully complete the activities and not risk leaving the ongoing support to the government half-way. The government representative (Director, Department of Planning, Budget and Performance, Ministry of Finance) has asked for extension of JP activities to augment government/s ongoing transformation initiatives and preparation for Bhutan's next five-year plan. This was also endorsed by the Project Steering Committee meeting held on 24 January 2023. An official extension request letter from the government will be shared with Joint SDG Fund Secretariat at earliest for consideration.

Sustainability and Scaling-Up:

- Implementation plan for JP activities will be developed which will outline incorporation of recommendations.
- Collaboration with development partners and IFIs such as the World Bank and the Asian Development Bank (ADB) and with other UN agencies, funds and programmes will be sought as part of scaling up of the JP activities. For example, piloting of PPP project could potentially be taken up by the ADB. Some recommendations from the financing strategy for RNR sector could be taken up as part of Bhutan's Food Systems Pathways investment plan supported by FAO.

## **Priority Cross-cutting Issues**

### **Cross-cutting results/issues**

The JP has prioritized a total of five SDGs (SDG 1, 3, 4, 8 and 17) in the JP ProDoc of which SDG 5, Gender Equality, was selected as cross-cutting to all activities.

Gender equality and women empowerment: All assessments, consultations and capacity building related to JP activities were gender inclusive and had active participation of women. For example, during the training and capacity building on strengthening budgeting processes with the stakeholders held in September 2022 and also during the training of fiscal risk management held in November 2022, women participants constituted more than

50 percent for both the events.

LNOB: JP supported development of sustainable social security scheme for monks and nuns under Dratshang Lhentshog (Central Monastic Body), the oldest institution in the country, usually left behind from mainstream plans and identified as a vulnerable group. The study recommended setting up of a sustainable pension system, which will provide crucial social security and enhance social security during old age as the monks and nuns do not have any social security system. The study of such a pension system has also improved the understanding of the key government officials in providing meaningful social security to monks and nuns, who anchor society's spiritual and cultural ethos for harmonious living.

Youth: Bhutan's projected population of 763,249 in 2022 has relative gender parity across age groups and is youthful with more than 41% under age 24. Bhutan's Labour Force Survey 2021 outlines overall youth unemployment rate for Bhutan as 20.9% (overall unemployment rate is 4.8%), of which about 38.6% are males and 61.4% are females. Youth unemployment is also a urban phenomenon with 28.6% compared to that of rural areas (15.8%). The JP's ongoing support in revising the PPP policy that leverages on private sector financing and partnerships to revitalize the economy, and the development of a strategic blueprint for film and related industry will provide job creation and employment opportunities for youth. For example, the revised PPP policy's recommendations will increase uptakes in PPP projects, generating more job opportunities. Likewise, the comprehensive strategic roadmap for film industry will support professionalizing Bhutanese film and related industries which are currently operating largely in an informal manner and provide job opportunities for the youths.

### How did the JP apply the Gender Marker

The JP is Gender-sensitive (for example, the JP acknowledged and aimed to address gender to enhance the policy/programme, such as undertaking gender analysis to ensure policies/programmes do no harm). Evidence, data collection and analysis (e.g. gender assessments of programmes; policy briefs, costing for scale-up of social services);Capacity development (e.g. training of social workers, local governments, local communities);

### Focus on LNOB cross cutting principles

Human Rights	Persons with disabilities	Youth	Environmental and social standards
Yes	No	Yes	Yes

## Strategic Partnerships, Documents and Communications

### How did the JP facilitate collaboration with diverse stakeholders in the SDG financing space

The most strategic partnerships fostered by the JP is with the Ministry of Finance. The Ministry of Finance is assigned with additional role of development aid coordination, development finance, planning, and performance of the government as part of the transformation initiative. The JP's project unit is under the Ministry of Finance which helps in positioning the JP's activities with the overall five-year plan of the country (2024-2028) and also carrying out financing strategies to meet the development goals. This partnership also ensures sustainability of the JP activities beyond the project timeframe and enhances ownership of accelerating SDGs in Bhutan.

### Donor and Strategic events attended by JP in 2022

JP steering committee/ programme board meeting	Strategic partners/ donors event	Closing meeting/event
Yes	Yes	No

**JP contribution to SDG Financing**

Drafted a bill, strategy, and/or approved a law increasing the fiscal space for the policy focus	Produced financing, costing, diagnostic and feasibility analyses as a basis to invest or increase spending on the SDGs	Improved efficiency (cost savings) in the management of programmes/schemes	Improved effectiveness of (value for money; social impact of \$1 spent) sector investment on the SDGs	Drafted policies/regulatory frameworks or developed tools to incentivize private additional funding on the SDGs	Structured financial instruments (public, private or blended) to leverage additional funding	new instruments or blended) to leverage additional funding
Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Main capacity building activities supported by the JP that allowed people to expand their knowledge on SDG Financing and INFFs**

Capacity building activities were carried out as mostly as part of JP's assessment and diagnostics phase where consultations, surveys, training and validation workshops were conducted involving government, non-government, private sector and youth. The capacity building and advocacy activities will be further carried out in 2023 as more reports will be completed that would require sensitization and awareness with stakeholders, public and private sector.