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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX**

of the Commission Implementing Decision on the financing of the annual action plan  
in favour of Bhutan for 2021

**Action Document for Promoting Inclusive, Sustainable, and Resilient Agri-Food Systems in Bhutan**

**ANNUAL PLAN**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plans in the sense of Article 23 of NDICI-Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	Promoting Inclusive, Sustainable, and Resilient Agri-Food Systems in Bhutan CRIS number: NDICI ASIA/2021/043-160 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
<b>2. Team Europe Initiative</b>	No
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Bhutan / Nationwide
<b>4. Programming document</b>	Multiannual Indicative programme (MIP) 2021 – 2027
<b>5. Link with relevant MIP(s) objectives/expected results</b>	Priority 1 of MIP : Climate Change, green growth for resilient Bhutan
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	Renewable Natural Resources encompassing: Agriculture, Forestry, Livestock, Climate Change, Food Security, Biodiversity, Natural Resource Management, AgriValue Chain and SMEs
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG : SDG 1 (End Poverty) Other significant SDGs (up to 9) and, where appropriate, targets: SDG 2 (Zero Hunger), SDG 5 (Gender equality), SDG 13 (Climate Action) and SDG 15 (Life on Land)
<b>8 a) DAC code(s) <sup>1</sup></b>	Sector 1 – DAC Code 310 - Agriculture, Forestry and Fisheries – 40% Sector 2 – DAC Code 430 - Multi Sector – Rural Development / Food Security – 40% Sector 3 – DAC Code 330 – Industry, Cottages, Agro Forestry – 20%

<sup>1</sup> DAC sectors (codes and descriptions) are indicated in the first and fourth columns of the tab ‘purpose codes’ in the following document: <http://www.oecd.org/dac/financing-sustainable-development/development-financestandards/dacandcrscodelists.htm>

<b>8 b) Main Delivery Channel @</b>	Recipient Government – 12000			
<b>9. Targets<sup>2</sup></b>	<input checked="" type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input checked="" type="checkbox"/> Biodiversity <input type="checkbox"/> Education <sup>3</sup> <input type="checkbox"/> Human Rights, Democracy and Governance <sup>4</sup>			
<b>10. Markers<sup>5</sup> (from DAC form)</b>	<b>General policy objective @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>11. Internal markers<sup>6</sup> and Tags<sup>7</sup>:</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation @ Tags: digital connectivity digital governance	<input type="checkbox"/>	<input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

<sup>2</sup> Actual contribution to targets will be confirmed ex-post based on a standardised methodology.

<sup>3</sup> This target is specific to INTPA. If the action is marked as contributing to the Education target, please make sure the target on “Social inclusion and Human Development” is also marked.

<sup>4</sup> Thematic target for geographic programmes (at least 15%) in delegated act.

<sup>5</sup> For guidance, see <https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/> (go to “Data collection and resources for reporters”, select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive).

If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the logframe matrix (in the results chain and/or indicators).

<sup>6</sup> The internal markers have been created to report on the implementation of the Commission's own policy priorities in areas where no DAC reporting tool is available. For the sake of consistency and comparability, the methodology is equivalent to the DAC markers, with three possible positions (main target, significant target, not targeted)

<sup>7</sup> Methodology for additional tagging providing granularity on internal markers is under development.

	digital entrepreneurship job creation digital skills/literacy digital services		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Connectivity @ Tags: transport people2people energy digital connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (methodology for marker and tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>12. Amounts concerned</b>	Budget line(s) (article, item): 14.020131 Total estimated cost: EUR 15 000 000 Total amount of EU budget contribution EUR 15 000 000 of which EUR 13 500 000 for budget support and EUR 1 500 000 for complementary support.			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Type of financing<sup>8</sup></b>	<b>Direct management</b> through: - Budget Support: Sector Reform Performance Contract <b>Indirect management</b> with the entity(ies) to be selected in accordance with the criteria set out in section 4.4.1			

## 1.2. Summary of the Action

Bhutan is a **carbon negative** country and has committed to maintaining climate neutrality in its Nationally Determined Contribution (NDC) under the Paris Agreement. The **Renewable Natural Resource (RNR)** sector, which comprises Agriculture, Forestry and Livestock, is considered an extremely important sector towards achievement of the SDGs as well as critically positioned to deliver on climate change mitigation and adaptation. The sector generates more than half of Bhutan's employment, 16% of GDP, around half of the country's food production needs, and protects 71% of forests, but also contributes to more than half of the country's overall greenhouse gas emissions.

Bhutan faces multi-faceted challenges particularly because of its vulnerability to climate change. Farming has further been constrained by its mountainous topography and the limited availability of arable lands, while production systems remain low yielding. Bhutan is therefore increasingly having to **import** essential food items, while **malnutrition** is responsible for 69% of Bhutan's disease burden. The subsistence nature of Bhutanese agriculture with small landholdings results in **low economies of scale**, leaving very little scope for the private sector to operate. Increasing rural-urban migration also results in increasing **feminisation** of the agriculture sector. The RNR sector is therefore a crucial nexus of tackling climate change mitigation and adaptation, as well as economic diversification, food self-sufficiency and nutrition security. The proposed action therefore aims at promoting **Sustainable Agri-Food Systems (SAFS)** in Bhutan.

The Overall Objective of this action is to reduce **poverty** in Bhutan by supporting the implementation of the RNR Sector's 12<sup>th</sup> Five Year Plan (FYP - 2018-2023) and 13<sup>th</sup> FYP (2023 to 2028). The Specific Objective of this action is to promote Sustainable Agri-Food System in Bhutan, contributing to a) fostering economic diversification and

<sup>8</sup> Art. 27 NDICI

circularity of the RNR sector, b) Sustainable management and conservation of natural resources, and c) enhanced food and nutrition security.

The proposed action is expected to increase small holder **farmers' resilience** and focusses on addressing food system sustainability. The action will also support the implementation of Bhutan's second **Nationally Determined Contributions (NDC)** submitted under the Paris Agreement in June 2021, as well as the **National Low Emissions Development Strategy (LEDS)** in the food security and forestry sub-sector. **Gender** mainstreaming is an integral part of the design, as the action aims to improve access for women to decent work in agriculture by promoting technologies which are gender friendly, empower women and promote equal participation in agri-food value chains through trainings and enterprises and promote gender responsive budgeting at national level.

The action will also intend to strengthen national capacities and drive sector policy reforms through **structured policy dialogue, effective sector coordination** and solution centric **technical assistance** activities. The key policy dialogue priorities include: progress in achieving SDGs, sustaining food and nutrition security, addressing climate change mitigation and adaptation, NDC implementation, strengthening economic diversification, mainstreaming gender and social inclusion and ensuring good governance of the sector.

The action will foster the development of a **multi-stakeholder** sector coordination framework with development partners, CSOs and private sector which will further contribute to the action objectives. The action is aligned with the **EU Green Deal, EU Farm to Fork and EU Adaptation strategies**. It will strengthen the EU-Bhutan policy dialogue and the partnership in multilateral forums particularly on climate action. It will contribute to progress of a number of SDGs: SDG 1 (end poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 13 (climate action) and SDG 15 (life on land), and consequent fulfilment of economic and social rights, and gender equality, in line with Bhutan's international human rights commitments.

The action contributes to the **EU Gender Action Plan (GAP) III**, and to its key areas of engagement "Promoting economic and social rights and empowering girls and women" and "Addressing the challenges and harnessing the opportunities offered by the green transition".

The present action proposes to allocate **EUR 15 million** (EUR 13.5 million towards Budget Support and EUR 1.5 million as complementary support) as indicated under the priority area 1 (Climate change, green growth for resilient Bhutan) of the Multi-Annual Indicative Programme for Bhutan.

## 2. RATIONALE

### 2.1. Context

Bhutan is the only **carbon negative** country in the world and has committed to maintaining climate neutrality in its Nationally Determined Contribution (NDC) under the Paris Agreement. It is a useful and important **EU ally** in multilateral fora and in helping to mobilise coalitions, particularly on the **climate change agenda**. The country attaches great importance to relations with the EU, with one of its eight embassies in Brussels. The Bhutanese Parliament has now signed a Framework Agreement with the European Investment Bank (**EIB**), which opens up possibilities for the use of EFSD+.

Bhutan is a politically, economically and socially stable country, which transitioned peacefully from absolute to constitutional monarchy in 2008, and it is functioning smoothly as a **young democracy**. The uniqueness of the Bhutanese concept of **Gross National Happiness (GNH)** and sustained progress made towards the MDGs/SDGs shows the ambition and strength of national development plans and systems, even if local capacity remains relatively low. Landlocked between India and China, Bhutan is affected by **geopolitical tensions**, between China and India, particularly in relation to the Tibetan borderlands and Himalayan frontiers. Bhutan is heavily dependent on India for their international trade.

Bhutan is expected to **graduate** from the Least Developed Countries (LDC) group by 2023, at the end of its 12th Five Year Plan (FYP 2018-2023) although there is a risk that this goal might be delayed due to COVID-19. Despite poverty reduction being priority of the country's development programmes, significant **rural-urban disparities** persist with Gini index indicating an increase in inequality during the last years. Poverty in rural areas (12%) is significantly higher than in urban areas (less than 1%). Continued EU engagement and support (which would constitute nearly 7% of the Bhutan's Ministry of Agriculture and Forests (MoAF), annual budget, as proposed) will remain important to maintain **climate-friendly development**, particularly in view of the impact of the COVID 19 pandemic.

Bhutan is confronted with **multi-faceted challenges** mainly because of 1) its vulnerability to **climate change, variability and natural hazards** and 2) its reliance on and the high importance of its **Renewable Natural Resources (RNR)** sector (comprising of agriculture, livestock and forestry), which generates more than half of Bhutan's employment, 16% of GDP, around half of the country's food production needs, protects 71% of forests, but also contributes to more than half of the country's overall greenhouse gas emissions.

Farming has been constrained by its mountainous topography, climate and human induced changes and their environmental consequences that pose challenges to farming. In addition to natural hazards exacerbated by climate change, **agricultural production/food security** is one of Bhutan's biggest challenges. It has suffered from crop loss due to unusual outbreaks of diseases and pests, forest fires, erratic rainfall, windstorms, hail storms, droughts, flash floods and landslides which occur regularly. Bhutan is heavily dependent on rivers—through **hydropower**—for their own energy needs to fuel development and as a revenue source. However, the current run-of-river hydropower plants may make Bhutan's economy more vulnerable to climate change. Rapid **urbanisation and industrialisation** pose significant environmental challenges in terms of loss of prime agricultural land, degradation of forests and over-exploitation of natural resources. Bhutan is therefore increasingly having to **import essential food items**, while **malnutrition** is also responsible for 69% of Bhutan's disease burden.

**The RNR sector, and specifically sustainable agri-food systems, is therefore a crucial nexus** of tackling climate mitigation and adaptation, as well as economic diversification, food self-sufficiency and nutrition security. The AAP 2021 for Bhutan will contribute to the implementation of Priority Area 1 of MIP by promoting a **Sustainable Agri-Food Systems (SAFS) approach** for inclusive development. The preliminary findings of the 2021 rapid **food system assessment** carried out by FAO and CIRAD has helped to identify Bhutan's main food system challenges and were considered in the preparation of this action.

The Action is aligned with priorities on **People** (food security and nutrition), **Planet** (fight against degradation and climate change, sustainable consumption and production, sustainable management of natural resources), and **Prosperity** (equal access to livelihood, economic opportunities and jobs). The Action will contribute to fulfilling the European Consensus on Development, including by adopting a human rights based approach. It is aligned with the EU GAP III, **EU Green Deal**, **EU Farm to Fork** and **EU Adaptation strategies**. It will contribute to SDG 1 (end poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 13 (climate action) and SDG 15 (life on land).

The EU is one of the largest donors to Bhutan and is the only donor providing direct budget support to the RNR sector. Therefore, the EU has a privileged place at the sector policy dialogue table and ability to gather other development partners around improved sector coordination and increased synergies. Other key actors in the RNR sector are UN agencies (WFP, UNDP, FAO, IFAD, ITC and UNICEF), World Bank, JICA and ADB. The proposed engagement will reinforce the partnership and ensure continued robust political and policy dialogue between the EU and Bhutan on areas related to the SDGs, climate change, disaster risk reduction, economic diversification as well as EU values including human rights and gender.

The action is envisioned to enhance food production and nutrition, reduce imports and increase exports without compromising on the country's climate and environmental goals. The action is also expected to contribute to increased **accountability and transparency** of government through effective service delivery. By adopting the Sustainable SAFS approach, this action will support Bhutan's fundamental shift away from the traditional sector-based approach, towards a **multi-sector** and systemic understanding of **value chain actors** and national and subnational food systems. In doing so, it will deliver on climate mitigation and adaptation measures while supporting Bhutan's carbon negative objectives.

## 2.2. Problem Analysis

### Short problem analysis:

Bhutan's agriculture sector consists of smallholder farmers with average land holdings of **less than 4 acres**. Given its mountainous terrain and rugged topography, Bhutan's **arable land** used for agriculture is a mere **2.93%** of its total area and out of which, around 1/3<sup>rd</sup> of agricultural land is on slopes greater than 50% resulting in soil losses of 8.6 tons/ha/year due to weather events. This renders agriculture land less productive and at risk of becoming unsustainable. The food production systems remain **low yielding** which necessitate Bhutan to import considerable volumes of essential food items<sup>9</sup> to meet its growing population. Furthermore, Bhutan's diet consists mainly of cereals,

<sup>9</sup> e.g., 64% of Rice, 21% of Vegetables, 55% of Meat and 80% of Fish are being imported during FY 2019/20

with an average per capita **rice consumption of 110 kg**, the highest in South Asia. Bhutan is at a crossroads of the **triple burden of malnutrition**<sup>10</sup>, with anaemia and non-communicable diseases responsible for 69% of Bhutan's disease burden. Hence, it is of paramount importance to address and support **food self-sufficiency and nutrition security** priority of the government.

Bhutan is extremely vulnerable to climate change and natural hazards. The impacts of climate change and related hazards on the sector are manifested in the form of glacial lake outbursts, flash floods, windstorms, erratic rainfall, outbreaks of new pests and diseases, increasing human-wildlife conflicts and increasing incidences of forest fires. The livelihoods of people in Bhutan are highly dependent on climate-sensitive sectors (hydropower, tourism and agriculture). Furthermore, the agricultural sector emissions constitute almost two-thirds of overall emissions in the country. Hence combating climate change calls for accelerating climate change mitigation and adaptation interventions through scaling up **climate resilient** production, conservation, research, extension and sustainable business practices in the RNR sector.

The subsistence nature of the Bhutanese agriculture with small land-holdings results in **low economies** of scale and leaves very little scope for the private sector to operate. The weak integration and aggregation of the supply chain, limited investment in the value chain market infrastructure and technologies (e.g. roads, transport, storage, value addition infrastructure) and lack of production standards have all contributed to the **low competitiveness** of the sector. In light of this, there is a need to foster an enabling framework for **private sector** and to encourage **public-private** partnerships in the country, in order to strengthen **economic diversification** of the sector.

Due to increasing rural-urban migration, many women stay behind in the villages and become primary labour in agriculture; these women face growing **farm labour shortages**. Approximately 60% of the population is employed in agriculture. Threats to agriculture yields, food security and lack of livelihood opportunities have resulted in increased (internal) migration and an increasing **feminisation** of the agriculture sector resulting in more women working in the informal sector without access to social security, particularly those living in vulnerable situations and in poverty (such as women living in remote rural areas, women with disabilities, female-headed households). Adding to that, Bhutan has a challenge of high youth unemployment (estimated at 12.3%).

Lastly, there is a need to improve the **statistical capacity** at sector level, including collection of disaggregated data, in order to strengthen the Ministry's capacity to implement evidence based policy reform, review and programme implementation. Digital tools and technologies are key enablers in improving the data quality, data analytics and data consistency in order to address the diverse information needs of the RNR stakeholders.

#### **Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:**

The main **direct beneficiaries** of this action are the 67,000 farmers and farmers' families across the 20 Dzongkhags<sup>11</sup> and 205 Gewogs<sup>12</sup> of Bhutan, engaged in agriculture, livestock, forestry, fisheries, aquaculture and other associated livelihood activities in the RNR value chains. Within this group of direct beneficiaries, the action will specifically engage and target smallholder farmers, women and youth farmers, farmer cooperatives, highlanders (indigenous tribal), community based organisations, entrepreneurs and school children.

The **Gross National Happiness Commission** (GNHC) is a key stakeholder of the action as it is in-charge of the overall planning and coordinating agency for all sectors in Bhutan. The GNH Commission will be the co-signatory of the EU-Bhutan Financing Agreement implementing the action. The **Ministry of Agriculture and Forests** (MoAF) is the custodian of the RNR sector policies, as such it is the main implementing agency of this action. The Ministry is one of the largest ministries, with 3,421 regular and 1,134 contract employees (HRD 2019), four departments<sup>13</sup>, two non-departmental agencies<sup>14</sup>, two national level training and research centres<sup>15</sup> and an overarching policy and planning division and directorate services<sup>16</sup>, with presence in all 20 Dzongkhags and 205 Gewogs. Out of 17 National Key Result Areas (NKRAs) identified in the National 12th Five Year Plan, MoAF leads the implementation of NKRA

<sup>10</sup> Wasting – 4%, Underweight – 9%, Stunting – 21% and Overweight – 33.5%

<sup>11</sup> Districts

<sup>12</sup> Villages

<sup>13</sup> Agriculture, Forestry & Park Services, Livestock and Marketing

<sup>14</sup> Bhutan Agriculture and Food Regulatory Authority (BAFRA) and National Biodiversity Centre

<sup>15</sup> Ugyen Wangchuck Institute for Conservation and Environment and Rural Development Training Centre

<sup>16</sup> Human Resource, Legal, Statistics, ICT and Finance / Audit

5 (Healthy Eco-system Services Maintained) and NKRA 8 (Food and Nutrition Security Ensured), besides contributing to the delivery of 9 NKRAs. The main issue at the stakeholder level is the **lack of effective coordination** at national and at sector level.

The MoAF will coordinate the involvement of other agencies such as the **National Environment Commission**, the **National Commission on Women and Children**, the **Ministry of Finance**, the **National Statistics Bureau** and also the **Local Government authorities**. The action will engage with the Bhutanese CSO Authority as well as with local and international CSOs present in Bhutan, for **policy reviews and dialogue** as well as for the effective implementation of MoAF policies and programmes. Engaging with private sector stakeholders is foreseen through local SMEs as well as through cottage and small industries, besides engaging with public sector companies notably with the Food Corporation of Bhutan, the Farm Machinery Corporation, the Agricultural Livestock Development Corporation and the Green Bhutan Corporation. In terms of other stakeholders, the action will engage closely within the development partner coordination mechanism led by the UN Resident Coordinator as well as the inter agency agricultural coordination led by the World Food Programme, in Bhutan. The action envisages to promote and strengthen **multi-stakeholder** coordination at sector and at national level on key national priorities (e.g. climate change).

### 2.3. Additional Areas of Assessment [For Budget Support Actions only]

#### 2.3.1. Public Policy

The country's development is managed through **Five-Year Plans** (FYP) founded on the principle of **Gross National Happiness**, aiming at citizens' wellbeing instead of quantitative GDP values. The objective of Bhutan's 12th FYP (2018-23) is strongly anchored around a '*Just, Harmonious and Sustainable Society through enhanced decentralisation*' underpinned by the principle of leaving no one behind. The key focus of the 12th FYP is on addressing poverty, reducing inequality, promoting economic growth, and mainstreaming gender, climate change and disaster in all policies and programmes. The 12th FYP identifies seventeen National Key Result Areas (NKRAs) to address these key priorities.

The Renewable Natural Resource (RNR) sector is considered extremely important under the 12<sup>th</sup> FYP, in view of its contribution to the achievement of SDGs especially SDG 1 (no poverty), SDG 2 (zero hunger) and SDG 13 (climate change), besides contributing to SDGs 3, 5 and 15. The guiding theme for the RNR sector in the 12th FYP is '*Enhancing Food Self Sufficiency and spurring RNR Sector transformation while ensuring sustainable natural resource management*'. The 12th FYP has shifted the sector focus from subsistence **to growth oriented agriculture and enterprise development**, while at the same time balancing the food security and environment conservation priorities.

The key implementation approaches and strategies identified in the 12th FYP are translated into nine Agency Key Result Areas (AKRA) focusing on enhancing 1) food self-sufficiency and nutritional security, 2) sustainable management and utilization of natural resources, 3) climate smart agriculture and disaster resilience, 4) RNR sector contribution to national economy, 5) RNR marketing and value chain, 6) livelihoods of highlanders, 7) RNR research services, 8) RNR service delivery and 9) organic farming for sustainable development.

The Royal Government of Bhutan (RGoB) has drafted the **21st century economic roadmap** (vision 2030) which articulates the overarching vision of 'Pursuing GNH in the 21st Century: A dynamic, prosperous, inclusive and sustainable economy'. The roadmap sets the goal of achieving a GDP target of USD 10 billion with an annual growth of 10% in the next 10 years. The defining characteristics of the roadmap are robust, productivity driven economic growth, an enabling ecosystem to steer the private sector and the need for **digital penetration** to bridge the technological divide.

Similarly, the draft **RNR Strategy 2040** outlines the strategic vision of the RNR sector and strategy to bring about transformational change in order to realize the full potential of the sector. The strategy underscores the importance of sustainable natural resource as the foundation of resilient socio-economic well-being and **self-reliant agri-food systems** in Bhutan. The proposed action and the promotion of Sustainable Agri-Food System approach, clearly aligns with the key sector policy priorities as highlighted in the RNR 12<sup>th</sup> FYP, 21<sup>st</sup> Century Economic Roadmap and RNR Strategy 2040.

Bhutan is the country with possibly the most ambitious **Nationally Determined Contribution** (NDC) worldwide as it is committed to permanent carbon neutrality. Its impressive forest coverage is at the cornerstone of the NDC and both climate change mitigation and adaptation and are well integrated in the 12th FYP. Bhutan has submitted its

second NDC for enhanced mitigation and adaptation actions and envisaged a Low Emissions Development Strategy (LEDS) in forest conservation and management (under the national REDD+ strategy) and in food security interventions – both are extremely important to be supported under this programme.

The overall 12<sup>th</sup> FYP (2018-2023) has a financial outlay of circa EUR 4 billion<sup>17</sup>, an increase of 38 % over the 11<sup>th</sup> FYP. With regard to RNR sector, the overall allocation for the MoAF under the 12<sup>th</sup> FYP is EUR 175 million, out of which EUR 38 million is for current expenditure and EUR circa 136 million is earmarked for capital expenditure. In term of programmes, approximately 50 % of the resource is earmarked for food and nutrition security, 15 % towards natural resource management, 14 % towards climate smart resilient development and 8 % for value chain and enterprise development. The Ministry has devised and implementing an ‘**Agricultural Stimulus Plan**’ since June 2020, in order to mitigate the impacts of COVID19 pandemic. The stimulus plan with an estimated budget of EUR 38 million for the period June 2020 to June 2021, aims to promote self-reliance by increasing the production of priority commodities as well as to reduce dependency of imports of essential foods.

The proposed action is a continuation of the EU Budget Support programme under the previous MIP, which supported the RNR sector’s 11<sup>th</sup> and 12<sup>th</sup> FYP priorities. RGoB’s execution of the previous budget support operation in the sector has delivered successful development outcomes (e.g. food self-sufficiency with respect to milk, egg and vegetable production enhanced) and with reform oriented policy measures undertaken (e.g. establishing **RNR Statistics Division**, National Climate Change Policy), ensuring all agreed fixed and variable targets are met. While there are needs to strengthen the institutional capacity of the Ministry in areas related to statistics, collection of disaggregated data, mainstreaming gender and digital tools, The quality of the systems related to statistical and monitoring system, availability of accurate data are sufficient for the credibility of the policy and for the implementation of budget support programme.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

### 2.3.2. Macroeconomic Policy

The Government in Bhutan is pursuing a stability-oriented macroeconomic policy. The Public Finance Act, 2007 and Amendment 2012 of Bhutan mandate the Ministry of Finance to coordinate government macro-economic policies and report on the state of the economy and fiscal position of the Government. The Department of Macroeconomic Affairs is responsible for macroeconomic coordination, fiscal policy, debt management and investment and corporate governance.

Fiscal revenues from **hydropower** have helped finance large investments in human capital, which led to significant improvements in service delivery and educational and health outcomes. Hydropower construction and supportive fiscal and monetary policy have contributed to solid growth and macroeconomic stability. Single-digit inflation, a stable exchange rate, and accumulating international reserves attest to its stability. However, inflation is expected to rise from 3.0% in FY2020 to 6.4% in FY2021 due to supply chain disruption and panic buying (World Bank, 2021). Nevertheless, structural challenges remain, including high public debt, an underdeveloped private sector, and a high youth unemployment rate. The current account deficit is expected to stabilise at 7.7% of GDP in FY2021 as imports contract on falling domestic demand. In FY2022, increased imports resulting from recovery in investment and private consumption would help increase the current account deficit to 10.4% of GDP. A delay in hydropower construction could cloud macroeconomic prospects in the coming years. The country is confirmed to **graduate** from its current LDC status to the Middle Income Countries group by December 2023 with a GDP per capita of USD 3,294, but ODA needs will remain important until electricity exports will reach full capacity.

**Public debt** projected for the fiscal year 2020-21 rose to 126.5 % of GDP, an increase of 8.4 % from the previous year<sup>18</sup>. However, as the bulk of the debt is linked to hydropower project loans from India, debt sustainability risks are moderate. Debt management shall be carried out prudently to ensure that the external debt stock remains at sustainable level within the thresholds prescribed in the Public Debt Policy 2016<sup>19</sup>.

Bhutan has suffered a significant socio-economic setback in 2020 due to the **COVID 19 pandemic** and respective containment measures, with the tourism sector having suffered the most. In 2019-20, growth is estimated to be negative at -0.8% as compared to 4.3% in FY2018-19 (ADB, 2021). The economy is projected to contract further by

<sup>17</sup> 1 EUR = Nu. 88

<sup>18</sup> UN’s Committee for Development Policy report, 2021.

<sup>19</sup> RGoB published the Medium-Term Debt Management Strategy, March 2021

1.8 %, in FY2020-21. Services sector output is expected to fall by 3.7% and labour shortages, high input prices, and trade disruptions will continue to affect construction, manufacturing and non-hydropower exporting industries. Bhutan's other key export sectors, including agriculture, and construction have been adversely affected by the COVID 19 pandemic due to supply side disruptions for critical inputs, labour shortages and lower external demand, especially from India. Exports and imports have decreased significantly, in line with weak foreign and domestic demand and disruptions to trade. The fiscal deficit widened to 3.2% of GDP in FY2019-20, with spending growing faster than revenues. The unemployment rate has almost doubled from 2.7% in 2019. The youth unemployment rate also increased to 22.6% from 11.9% in 2019, mainly because tourism and allied industries, manufacturing, trade, and construction sectors have been heavily affected. Due to inflationary pressures and the growth decline, poverty rate is projected to increase from 11.2% in 2020 to 12.5% in 2021. The poverty headcount rate based on USD 1.9/day is expected to result in over 12,000 additional poor people (1.6% of the population). From 2021, the Royal Government of Bhutan (RGoB) expects recovery with an estimated growth of 4.3%, provided the pandemic situation improves.

External risks continue to stem from weaker growth and higher inflation in **India**, Bhutan's main trading and development partner, and increases in global oil prices. The inflation rate is expected to increase in future with an increase in food prices in India and higher fuel prices. According to the World Bank, inflation rates between the two countries are strongly correlated. This has helped keep the real effective exchange rate (REER) stable.

Bhutan is a member of the **International Monetary Fund (IMF)** since September 1981. The IMF supports Bhutan through the Article IV consultation process on a 24-month cycle. The last report was published in October 2018<sup>20</sup>. The IMF welcomed the improvement in Bhutan's economic performance and commended the significant economic progress in recent years. The World Bank publishes its annual Bhutan Development update with the latest in April 2021.

To ensure sustained growth, management of macro-economic pressures, diversification of the economy and jobs creation will continue to be priorities. Urgent steps are required to reduce unemployment among youth with focus on improving access to tertiary education. There continues to be a need to improve fiscal management, including a comprehensive medium-term debt and cash management, tighten fiscal policy and implement revenue reforms to strengthen fiscal framework as well as accelerate Goods and Services Tax (GST) implementation with social protection measures.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

### 2.3.3. Public Financial Management

The PFM reform strategy remains sufficiently relevant and credible, with **satisfactory progress**. Good Governance is one of the four pillars of the Gross National Happiness (GNH) Index. Improving governance and accountability is one of the main agendas of the Royal Government of Bhutan (RGoB) and Strengthening Public Financial Management (PFM) is a key element of good governance. The PFM reform programme in Bhutan is based on the 2010 Public Expenditure and Financial Accountability (PEFA) and updated following the publication of the 2016 PEFA assessment. The 2016 PEFA assessments confirmed that Bhutan has **good fiscal discipline** through comprehensive coverage of budget execution, good control of expenditure commitments and oversight aggregate fiscal risk and the quality and timeliness of budget reports. The PFM Reform Strategy and Action Plan (2017-2021) continues to be the roadmap to consolidate recent PFM reforms, close gaps, improve transparency and accountability, build domestic revenue, and integrate or interface several stand-alone computerized information systems. A new PEFA assessment is planned to be concluded by 2022. Its results will inform the **PFM Reform Strategy and Action Plan for the next period**.

As such, Bhutan continues to show **strong commitment** to implementation of reforms for **strengthening PFM** in a wide range of areas including planning, budgeting, revenue administration, asset and liability management, procurement, budget documentation, public access to information, internal control, audit and legislative scrutiny. With the support of IMF, there has been progress in the implementation of the Goods and Services Tax (GST), cash-basis International Public Sector Accounting Standards (IPSAS) and moving towards an Integrated Financial Management Information System (IFMIS). The GST legislation was passed by the Parliament in January 2020 and received the Royal Assent in April 2020. However, the start date for implementation of GST has been put back to July 2022. The Department of Public Accounts (DPA) also received some IMF support to strengthening the Treasury

<sup>20</sup> <https://www.imf.org/en/Publications/CR/Issues/2018/10/30/Bhutan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46319>

Single Account (TSA) structure and improving the system of cash flow forecasting. The electronic Government Procurement (eGP) system is being implemented in three phases, with the phase II now completed. Another reform implemented is the electronic Public Expenditure Management System (e-PEMS), which is an online accounting and payment system to promote cashless and digital payments. With this system, all government payments are now processed electronically on a real-time basis. Development of APIs for connecting PFM systems is in progress. Interfaces between MYRB (Multi Year Rolling Budget) & e-GP, e-PEMS & e-GP and e-PEMS & Revenue Administration Management Information System (RAMIS) have been developed. Through the Multi-Donor Trust Fund PFM programme implemented by the World Bank, it has been ensured that the Budget Report is consistent with international good practices including gender and climate change aspects. The budget for gender related activities in 2020-21 was EUR 6.817 million. For FY 2021-22, EUR 10.18 million has been allocated for climate change- and EUR 6.817 million for gender- related activities. In addition, EUR 0.395 million has been allocated to the National Commission for Women and Children (NCWC).

The Constitution of Bhutan requires that recurrent spending should be funded from domestic revenues. The manifesto of the new government (in office since November 2018) also placed emphasis on Domestic Revenue Mobilization (DRM). Domestic revenue is estimated at EUR 404.55 million of which 64% is tax revenue and 36% is non-tax revenue. It is expected to grow by 7% during the FY2021-22, from a drop of negative (-) 8% in FY 2020-21, mainly on account of estimated growth from income taxes, followed by increased consumption taxes. Weaknesses in the domestic revenue base is being addressed by the introduction of the GST, while volatility in fiscal revenues and expenditures is tackled through the Bhutan Economic Stabilization Fund (BESF). The Department of Revenue initiated major legislative reforms to create an enabling policy environment for DRM. It includes enactment of Fiscal Incentives Act and Customs Act; endorsement of Double Taxation Avoidance Agreement (DTAA) with Bangladesh and an introduction of Ad-valorem taxation system on royalty on mines and minerals.

In conclusion, the public finance management reform strategy remains sufficiently **relevant and credible** and progress is satisfactory, including on domestic revenue mobilisation, and the eligibility criterion is met.

#### 2.3.4. Transparency and Oversight of the Budget

The Ministry of Finance (MoF) prepares the annual budget report in consultation with the budgetary agencies within the directives of the Cabinet. The budget report is discussed in detail by the economic and finance committee of the National Assembly after its presentation by the Finance Minister to the Parliament. The committee further conducts public consultations with relevant stakeholders and submits recommendations. The approved annual budget report is uploaded in the MoF website for public access and transparency. Quarterly budget situation reports are also prepared by the MoF for internal use of the various line departments.

The budget report for the period – Financial Year July 2020-June 2021 (FY 2020-21) - was approved by the Parliament in June 2020. The approved budget appropriation was EUR 840.79 million with the fiscal deficit of EUR 174.19 million, which is 7.36% of the GDP. During FY2020-21, the expenditure increased by 2% from EUR 785.8 million to EUR 801.7 million. Due to frontloading and reprioritisation of the 12th Five Year Plan activities in the wake of the Covid-19 pandemic, the capital budget was higher than the recurrent budget in 2020-21.

In 2019-20, for the first time, a **Citizen's budget report** has been published on the Ministry of Finance's website (following PEFA recommendations). Since 2020-21, in order to deepen fiscal decentralization and provide flexibility in the national budget execution, budget is provided to local authorities (Dzongkhags and Thromdes as well as Gewogs) in the form of annual grants. The Budget Report of 2021-22 for the first time included a section on **climate** co-benefits. It is also noteworthy that **Gender** responsive budgeting (GRM) is included in the National Budget Report, since the report concerning the FY 2013-14.

The Royal Audit Authority (RAA) as the Supreme Audit Institution (SAI) of Bhutan is responsible to audit and report on the economy, efficiency and effectiveness in the use of Public resources as per Article 25.1 of the Constitution of the Kingdom of Bhutan. The Royal Audit Authority (RAA) publishes Annual Audit Report (AAR). AAR are further presented to the Parliament and to the Public Accounts Committee and finally made available to the public within twelve months of the year-end.

As part of the PFM reform programme, internal controls and capacity of the accountability institutions are being strengthened. This is being done by enhancing internal audit, supporting the Accounting and Auditing Standard Board of Bhutan (AASBB), establishing professional accountancy organisation and building capacity of parliamentary committees. Staff shortage is a challenge especially in Internal Audit units, AASBB, and procurement departments.

In conclusion, the relevant budget documentation has been published and the **eligibility criterion is met.**

### 3. DESCRIPTION OF THE ACTION

#### 3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to reduce poverty in Bhutan. The action supports the implementation of the Renewable Natural Resource (RNR) Sector 12th FYP (2018-2023) and 13th FYP (2023 to 2028) and drive sector policies and reforms addressing the social, environmental and economic impacts of food system sustainability.

The action will promote the **Sustainable and inclusive Agri-Food System** approach and build institutional capacities to achieve the following Specific Objectives (Outcomes):

SO1. Economic diversification of RNR sector fostered (economic);

SO2. Sustainable management and conservation of natural resources enhanced (environmental);

SO3. Food and nutrition security enhanced (social).

The action proposes to strengthen national capacity to scale up climate resilient agro-ecological approaches and economic diversification based on circularity and sustainability principles of the RNR sector. The Induced Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

IO 1.1 Private sector participation in the RNR sector for economy diversification facilitated;

IO 1.2 Disaster resilient / climate proof infrastructure promoted;

IO 2.1 Climate resilient technologies and innovative agriculture and livestock practices promoted to enhance sustainable food production;

IO 2.2 Gender mainstreaming promoted at sector level;

IO 3.1 Inclusive and effective delivery of RNR services enhanced;

IO 3.2 Number of schools providing nutritious food through school feeding programme increased.

The **direct outputs** envisaged include:

DO1. Improved multi-layered policy dialogue and RNR sector coordination

DO2. Strengthened capacity of the MoAF for enhanced RNR sector performance

DO3. Improved policy performance assessment and monitoring

And

DO4. Fiscal space and predictability of funds increased.

The action pursues as a **principal policy objective** to strengthen sector governance and environment, as per the DAC markers. The action pursues as a **significant policy objective climate change adaptation and mitigation**, mainstream gender, integrate DRR, nutrition and bio-diversity conservation as per the DAC marker. Besides, the action also contributes to **internal markers and targets** as it promotes use of digital tools, addresses internal migration, builds climate resilient road infrastructure (connectivity) and responds to post Covid-19 recovery needs.

#### 3.2. Indicative Activities

The main activities of the present action contributing to the outcomes and outputs are:

1) Conduct **strategic inclusive policy dialogue**, with a special focus on involving women, to strengthen the sector resilience on areas related to achieving a) food & nutrition security, b) climate change adaptation, mitigation, NDC implementation and disaster risk reduction, c) sustainable management and conservation of natural resources, d) economic diversification & private sector participation and e) gender mainstreaming and inclusive development.

2) Strengthen the **sector coordination** framework by promoting formal development partner (donor) coordination as well as civil society participation representing rights of different rights-holders groups, at national level to review context and sector analysis, optimise resources and harmonize policy dialogue and maximising aid effectiveness.

3) Provide EUR 1 500 000 – for a **technical assistance component**, which will support studies, research, assessment, trainings, exposures and knowledge events. The technical assistance will strengthen the capacities of the RGoB in designing, implementing, and monitoring reforms in relation to climate resilience, private sector participation, access

to green /climate finance, gender, statistics and use of digital tools. It will support and compliment an effective policy dialogue in these critical areas and ensure climate change mitigation and adaptation policies, environmental protection strategies and plans are based on a gender analysis. The technical assistance support is expected to contribute to all the outcomes outlined under 3.1 above.

4) Contribute EUR 13 500 000 to the 12th FYP (until 2023) and the subsequent 13th FYP (until 2027) using national systems, hence facilitating fiscal space for the government to implement the RNR sector policies and programmes. The budget support is expected to contribute to the outcomes outlined under 3.1. above.

In terms of **economic diversification**, the action will adopt value chain approach and circularity principles to promote promising bankable business models in the agriculture, livestock and forestry sub-sectors. Improving the performance of state owned enterprises, piloting public-private partnership model in the sector, developing certification / labelling standards, access to finance to farmers / SMEs and engaging youth entrepreneurship are considered potential activities. Promotion of farm mechanisation, drudgery reduction technologies and use of digital tools are also considered key enablers.

In line with the 12<sup>th</sup> FYP RNR sector policy, the action will support the national production of cereals, vegetables, fruits and livestock products. Potential activities include climate smart productivity enhancement measures, agricultural expansion through conversion of fallow land, improved water and irrigation management (e.g. use of drips, sprinklers, spring shed management, alternate wetting and drying), soil conservation and nutrient management, organic agriculture and improved crop management practices. In Livestock sub-sector, action will support activities including promotion of cross breeding for improved climate resilience, promotion of biogas with stall feeding, support for feed mills to produce high quality feed, pasture and fodder production and product diversification using energy-efficient technologies associated with dairy and poultry farming.

Moreover, the action will support and complement the implementation second **NDC** including the following prioritised climate change mitigation actions: switch from synthetic to organic fertilizers, improved agricultural practices, domestic biogas production, increased biomass through increased perennial crop production, increased cattle productivity through improved feeding and reduction of continuous rice flooding. Under Forestry sub-sector, the foreseen mitigation action includes: improved forest management and conservation through community management, promotion of agro forestry, conservation of wetlands and enhancement of forest carbon stock through climate smart restoration. Sustainable approach to human-wildlife conflicts (e.g. use of solar fencing) and promotion of insurance schemes for small farmers will be piloted.

### 3.3. Mainstreaming

#### **Environmental Protection & Climate Change**

**Outcomes of the SEA screening** (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Climate change, environment and bio-diversity protection are at the core of the action, as the action aims at contributing to a carbon neutral development pathway of Bhutan, The proposed action is expected to increase small holder farmers' resilience by promoting a **SAFS approach**. It aims at scaling up climate resilient agro-ecological approaches, promoting sustainable management of natural resources and fostering green economic diversification of the RNR sector. The action focusses on addressing the food system sustainability in all its aspects: social, environmental and economic. The action will also support the second **NDC** to climate as well as the National Low Emissions Development Strategy (**LEDS**) in the food security and forestry sub-sector.

#### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that the proposed Action intends to promote gender transformative approaches when addressing climate change and environmental conservation. Gender mainstreaming is an integral part of the design, as the action focuses on addressing the increasing decent jobs for women in agriculture by promoting technologies and social security schemes which are gender friendly, empower women and promote equal participation in agri-food value chains through trainings and enterprises and promote gender responsive budgeting at national level. Gender sensitive indicators are identified in the action and will also ensure reporting on gender disaggregated data to the extent possible.

#### **Human Rights**

The proposed action will follow a rights based approach, particularly in ensuring "no one and no place is left behind", with a particular attention to vulnerable, poor and marginalised groups in all the activities. The action will reinforce

active engagement with CSOs in policy dialogue and development processes, advocating a participatory approach by engaging with all the relevant stakeholders, thereby contributing to improved transparency and governance. The small and marginal farmers, women headed farmers, agricultural labourers, indigenous people (high landers), children and youth are they main target beneficiaries of this action.

#### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that the action do not have exclusive focus on disability, at main or significant objective level. However as the action promotes inclusive development and adopts ‘no one leave behind approach’ people affected by disability will benefits from the action and will not be discriminated on any grounds.

#### **Democracy**

Bhutan transitioned to democracy (constitutional monarchy) in 2008 and democracy has continuously matured since then. The Local Government elections in 2016, the National Council elections in April 2018 and the National Assembly elections in September/October 2018 were conducted smoothly. The capacity of the legislature, as most of the members are first time parliamentarians, both at the central and local levels can be further improved for functions such as scrutiny and approval of plans, budget and audit. The proposed action will foster democratic values and further strengthen the governance of the sector at country level.

#### **Conflict sensitivity, peace and resilience**

The risk of a violent conflict originating in Bhutan is extremely low as there are no major grievances at present that could trigger a conflict. If the border dispute between China and India were to escalate it could have implications for Bhutan as some territory linked to this is also disputed between Bhutan and China. While it refrains from entering into formal diplomatic relations with China as part of its larger policy to avoid formal ties with all the P5 countries<sup>21</sup>, Bhutan enjoys good relations with both India and China therefore the risk of Bhutan being drawn into a conflict is highly unlikely. The action aims at strengthening the resilience of the farming community and promote the GNH and do no harm principles. The action does not foresee any conflict sensitive issue.

#### **Disaster risk reduction**

Considering that Bhutan is extremely vulnerable to climate change and natural hazards, the action will strengthen the resilience of smallholder farmers by adopting climate smart agricultural practices and by promoting sustainable management and conservation of forest, land and water resources. The action will facilitate last mile weather and climate services ensuring reliable information/forecasts and warnings are accessible to communities at all times, in order to mitigate the risks of disasters from natural hazards. The action will also benefit from synergies and complementarities with actions implemented under priority area 2 (Local Governance) of the country MIP, as the latter will contribute to strengthen local disaster preparedness.

#### **Other considerations if relevant**

The action contributes to the progressive achievement of SDG(s) especially SDG 1 (no poverty) and SDG 13 (climate change), besides contributing to SDG 2 (Hunger), SDG 5 (Gender Equality), and SDG 15 (Life on land). Since the action aims at promoting SAFS in Bhutan, there is a clear link established between the SDGs 13 and 15 (sustainable production and conservation) vis-à-vis SDGs 1 and 2 (addressing poverty and hunger). In Bhutan, women play an important role in agriculture and their contribution is vital to food production. Hence food security and nutrition are deeply influenced by gender in the RNR sector, making SDG 5 (Gender Equality) key to achieve Poverty and Zero Hunger in Bhutan.

### **3.4. Risks and Lessons Learnt**

<b>Category</b>	<b>Risks</b>	<b>Likelihood (High/ Medium/ Low)</b>	<b>Impact (High/ Medium/ Low)</b>	<b>Mitigating measures</b>
1-to the external environment;	The impact of the COVID-19 pandemic is bound to exert unprecedented	M	M	The Royal Government of Bhutan has managed the pandemic effectively by implementing the 2020 Economic Contingency Plan. The government has frontloaded 12 <sup>th</sup> FYP foreseen investments

<sup>21</sup> Permanent members of the United Nations Security Council

	stress on the economy (e.g. loss of revenue, dependence on external market, vaccine roll out)			to mitigate the COVID 19 impacts. It is expected that the socio-economic impact of the pandemic will continue to be managed by import substitution, domestic resource mobilization, diversification of the economy and skills development. Economic growth is expected to recover in FY2022 with strong policy responses to the pandemic, including the country's vaccination drive. The country has managed to provide first dose of vaccine to more than 90% of the adult population by May 2021 (second dose is expected to be completed in July/August)
1-to the external environment; 2-to planning, processes and systems;	Bhutan is highly vulnerable to climate change and natural hazards, which may pose significant challenges to RNR sector in implementing planned programmes.	H	M	The main focus of the action is to promote climate and disaster resilience in the RNR sector through climate change mitigation and adaptation across the RNR sector policies and programmes. The action will support government in the implementation of the NDC as well as promote multi-sectoral coordination to effectively implement the National Climate Change Policy. Wildlife-human conflict shall also be considered and mitigated
4-to legality and regularity aspects;	Bhutan is in the process of LDC graduation by December 2023 and this may lead to limited access to concessional loans and grants to the government	L	L	The ongoing development partners including Government of India, World Bank, ADB, JICA and resident UN agencies may continue their engagement and financial support beyond LDC graduation. The current action will promote donor coordination within the RNR sector to ensure complementarities and economies of scale as well as sustainability of the programmes.
1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation;	Cheap imports, weak and unorganised value chains, low economies of scale and the dominance of the public sector may limit the opportunity for the private sector to participate.	M	L	The action aims to promote an enabling environment for private sector participation and will make an attempt to pilot at least one public-private partnership initiative during the course of implementation in line with standards and principles of responsible business, and with precise objectives to maintain certain environmental, biodiversity and organic standards. The action will also promote to improve post-harvest infrastructure especially rural roads, cold chain and decentralised rural value chain infrastructure to benefit local SMEs including in remote areas with particular focus on women's participation.  All key stakeholders will be meaningfully consulted and heard, prior to activities and will participate in monitoring of the action.
2-to planning, processes and systems;	Weak institutional capacity to promote inclusion and	L	L	The action will focus on strengthening the capacity of the Ministry to mainstream gender, youth and inclusion. Specific

communication and information.	gender transformative approaches including human rights based approach.		gender responsive targets will be introduced in the variable tranche indicators. Periodic reviews and policy dialogue will ensure gender equality and equal participation as a main agenda for discussion.  Given the targeted population groups, special attention will be required to ensure equal participation of women and groups living in vulnerable situations.-Monitoring will be based on sex, age, disability and group -disaggregated data in order to strengthen non-discrimination and equal access.
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**Lessons Learnt:**

The proposed AAP 2021 for Bhutan builds on the lessons learnt from the current EU Budget Support programme on Rural Development and Climate Change Response (RDCCR), expected to be completed in 2021. The RDCCR programme has supported the RNR sector, since 2012, in the implementation of 11<sup>th</sup> and 12<sup>th</sup> Five Year Plans, with an overall objective to reduce poverty and develop sustainable rural livelihoods resilient to climate change impacts. Lessons from the implementation of the programme indicated the need to:

- strengthen the RNR sector through scaling up climate resilient approaches to production and conservation
- strengthen efforts to develop agribusinesses and increase agricultural productivity, by investing in the downstream value chain activities as well as converting fallow lands for production.
- facilitate opportunities for economic diversification through promoting private sector participation or promoting public-private partnership by engaging with the state owned enterprises promoted by the government,
- mainstream gender in the RNR sector
- strengthen the national statistic capacity to ensure credible monitoring, reporting and verification of data and data quality systems
- reinforce engagement with CSOs.

The earlier budget sector support contributed to the country’s achievement of **food self-sufficiency**<sup>22</sup> with respect to egg and milk production and progressed well with respect to vegetable and fruit production. It further contributed to a number of important policy reforms including National Climate Change Policy (2020), National Disaster Risk Management Strategy (2017), National Gender Equality Policy (2020), RNR Marketing Policy (2018), RNR enterprise and value chain guidelines (2018), the establishment of RNR statistics division (2017), the conduct of a RNR Census at national level (2019/20) and Agriculture Contingency Plan (2020/21) to mitigate the impact of Covid19 pandemic.

Objectives related to **food and nutrition security, climate resilience and economic diversification** are longer term in nature and need continued support to achieve transformational impacts. The newly proposed action aims at scaling up RGoB’s capacities ensuring national food and nutritional security, while laying emphasis on commercialisation and market intensification programmes in the RNR sector. It is expected to contribute to increased green employment opportunities and economic activities in the rural areas of Bhutan, contributing to the country’s GDP.

In addition, there is a need to revive the **donor / development partner coordination** in the country in order to ensure complementarity of similar projects and programmes as well as to jointly review the sector performance at Ministry level on an annual basis. It is also felt that engaging with UN agencies especially WFP, UNDP, FAO, IFAD, WMO and UNICEF besides the IMF, World Bank and ADB is important both for providing technical assistance as well as for pursuing the RNR sector policy reform agenda in a coherent and synergetic way. It becomes extremely challenging to implement a technical assistance project in the post-COVID19 context due to the difficulty of mobilizing international experts. Hence, engaging with country-based stakeholders including UN agencies and CSOs are important elements to be considered when planning for the delivery of the complementary support

<sup>22</sup> Food Self Sufficiency - 2019/20: Rice 33.67 %, Maize – 74.37 %, Vegetable 84.57%, Meat 44.95 %, Fish 17.62 %, Egg 100 %, Dairy – 92.29.

Importantly, a rapid Food Systems Assessment (FSA) was undertaken by FAO and CIRAD supported by EU. The FSA has carried out stakeholder dialogues in the country and identified broad food systems' challenges and opportunities. The report is being finalised at the time of preparing this Action Document. It will further inform the development and implementation of the proposed Action. The AAP 2021 has taken the SAFS approach, as the focus of the action is aiming at addressing economic, environment and social dimensions of agri-food systems in a holistic manner. Preliminary findings are already taken on board in prioritising and framing the result areas.

### 3.5. The Intervention Logic

The underlying intervention logic for this action is as follows:

The key intervention logic and theory of change of the action is thus promoting **SAFS approach** as a main driver to ensure RNR sector resilience in addressing the food system sustainability. The key assumption of the intervention logic is that the government is supportive of implementing sector reforms in adopting a sustainable agri-food systems approach in the country. The action will overcome the risks identified under 3.4 through appropriate mitigation measures.

If a) financial support to RNR sector policy implementation, b) technical assistance to government in implementing sector policy, c) policy dialogue to address key policy issues and d) sector coordination to harmonise efforts of donors, are undertaken and if the government is supportive of implementing sector reforms in promoting sustainable agri-food system approach in the country, then the **sector outputs related to enhanced food production, enhanced conservation of natural resources, increased participation of private sector and enhanced capacity of the government in effective service delivery** will be produced. This is because evidence suggests that the effective use of fiscal resources, enhanced capacity of the government and effective coordination at sector level will lead to effective implementation of sector policy objectives at country level.

If increased food production, enhanced conservation of natural resources, increased participation of private sector and enhanced capacity of the government in effective service delivery are delivered and if the government effectively manage the economic recovery from post Covid19 impacts, then the intended outcomes of the action – **enhanced food and nutritional security, sustainable management and conservation of natural resources and economic diversification of the sector** will realised. This is because increased production will meet the food and nutrition needs of the people, sustainable conservation efforts will protect the natural resources (land, forest, water etc.) from the impacts of climate change and natural hazards and economic diversification will enhance the country's revenue as well as enhance the income of the people through new employment opportunities.

If food and nutritional security, sustainable conservation and economic diversification of RNR sector are achieved and if there are no major disaster, pandemic or political risks occur, then the action will contribute to the desired impact of **reducing the poverty** of Bhutan. This is because when the people are ensured with food and nutrition and the country's natural resources are protected and the private sector caters employment, income and consumption of people will go high leading to reduced multi-dimensional poverty.

The proposed action aims to provide financial and technical support in the implementation of sector policy objectives identified in the RNR 12<sup>th</sup> FYP (2018-2023) of Bhutan. The action will also contribute to the design, formulation and implementation of subsequent RNR 13<sup>th</sup> FYP (2023-2028) of the sector. The support to the Government of Bhutan's efforts will be through a proposed sector reform contract, which includes fixed and variable tranches, as further outlined below, in section 4.3 to provide incentives for delivering results. The achievement of targets for the tranche releases will be subject to joint annual reviews. These reviews will include the policy dialogue with the Government of Bhutan and participating development partners to develop a joint understanding of achievements of results and outcomes. The action will also intend to strengthen national capacities and drive sector policy reforms and greening PFM through structured policy dialogue, effective sector coordination and solution centric technical assistance activities. Given the sector challenges and national priorities highlighted under section 2.2, the key policy dialogue priorities which are considered includes: achieving SDGs, sustaining food and nutritional security, addressing climate change / NDC implementation, strengthening economic diversification, mainstreaming gender and social inclusion and ensuring transparency and accountability. The action will foster multi-stakeholder sector coordination framework with development partners, CSOs and private sector which will further contribute to realisation of action objectives.

Indicative Logical Framework Matrix (NDICI ASIA/2021/043-160) – promoting Sustainable Agri-food systems in Bhutan

Results	Results chain	Indicators (max. 15 )	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
<b>Indicative impact of the policy</b>	To reduce poverty in Bhutan (sustainable agri-food systems)	National Poverty Rate	5.8% (2017)	<2% (2027)	Bhutan Living Standard Survey
<b>Expected outcomes of the policy</b>	SO1. Economic diversification of RNR sector fostered (economic).	1.1. No of new RNR value chain enterprises supported	1.1. 0 (2022)	1.1. 10 (2027)	1.1. Trade Statistics
	SO2. Sustainable management and conservation of natural resources	2.1. Area brought under sustainable land management (acres)*, **	2.1. 7,321 (2016)	2.1. 10,000 (2027)	2.1. RNR Statistics
		2.2. Forest area under sustainable management <sup>23</sup> *, **	2.2. 87,222 (2019)	2.2. 643,492 ha (2027)	Forestry Facts and Figures
	SO3. Food and nutrition security enhanced	3.1. Rice Self- Sufficiency *	3.1. 34 % (2019)	3.1. 50% (2027)	3.1. RNR Statistics
		3.2. Number of children – boys and girls reached by nutrition related interventions (EU RF Level 2 / GAP III)	3.2. 73,836 students (2018)	3.2. 100,000 students (2027)	3.2. Livestock Statistics
<b>Induced outputs</b>	IO1.1 Private sector participation in the RNR sector facilitated	IO1.1. Status of the public private partnership model in the RNR sector *	IO1.1. Not implemented	IO1.1. Implemented (2027)	IO1.1 Department of Agriculture Marketing Report
	IO1.2. Disaster resilient/climate proof infrastructure promoted	IO1.2. Kilometer of all-weather farm roads built **	IO1.2. 2,500 (2020)	IO1.2. 9,000 (2027)	IO1.2 Farm Atlas, RGOB
	IO2.1. Climate resilient technologies and innovative agriculture and livestock promoted to enhance food production	IO2.1. Area brought under micro irrigation schemes (acres) **	IO2.1. 875 (2016)	IO2.1. 4.1 5,000 (2027)	IO2.1. Agricultural Statistics

<sup>23</sup> The indicator measures the area of Forests land brought under sustainable forest management regime through Community Forests, Forest management Units, Local Area Forest Management Plans and CBNRM sites.

	IO2.2 Gender mainstreaming promoted at sector level	IO2.2. No of men and women leaders / master trainers / gender focal points trained on climate resilient agri-food systems ** (GAP III)	IO2.2. 0 (2022)	IO2.2. 100 (2027)	IO2.2. National Commission on Women and Children Report
	IO3.1 Inclusive and effective delivery of RNR service enhanced	IO3.1. No of farmers with access to digital government services in RNR sector disaggregated by sex, age, group *, **	IO3.1 NA (2022)	IO3.1 35,000 (2027)	IO3.1 RGOB ICT Report
	IO3.2. Number of schools providing nutritious food through school feeding programme	IO3.2. No of schools reached by school feeding programme *, **	IO3.2. 262 (2018)	IO3.2. 379 (2027)	IO1.2. Annual Education Report
<b>Direct outputs</b>	DO1. Improved strategic policy dialogue and sector coordination.	DO1.1. No of policy dialogue meetings covering each of the relevant areas (e.g. economic, environmental and social)	DO1.1. 0 (2022)	DO1.1. 5 covering at least 3 areas (2027)	DO1.1. Annual Policy dialogue reports
	DO2. Strengthened capacity of the Ministry for enhanced sector performance	DO2.1. No of TA activities (e.g. studies, assessment, policy brief and capacity building) related to climate resilience, economic diversification, gender, statistics.	DO2.1. 0 (2022)	DO2.1. 12 (2027)	DO2.1. Technical Assistance reports
	DO3. Improved policy performance assessment and monitoring.	DO3.1. Status of the implementation of the Renewable Natural Resource Policy (re FYP)	DO3.1. Mid Term Review of 12 <sup>th</sup> FYP (2021)	DO3.1. 5 (2027)	DO3.1 -Final report of 12 <sup>th</sup> FYP (2023) -13 <sup>th</sup> FYP -MTR of 13 <sup>th</sup> FYP (2026) -Annual RNR reports -EU MTR (2024)
	DO4. Fiscal space and predictability of funds increased	DO4.1. Disbursement level of the BS	DO4.1. 0 (2022)	DO4.1. €13.5 M (2027)	DO1.1 Annual Sector Assessment reports

## 4. IMPLEMENTATION ARRANGEMENTS

### 4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

### 4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### 4.3. Implementation of the Budget Support Component [For Budget Support only]

#### 4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 13 500 000, and for complementary support is EUR 1 500 000. This amount is based on the following:

Envisaging annual disbursements over a period of 4 years, the European Union would be expected to provide an average of EUR 3 375 000 annually to the RGoB, equivalent to approximately 6.75% of the annual budget of the RNR sector. It is a reduction from the previous budget support keeping in mind that the country is performing satisfactorily and is expected to increase its own domestic revenues through hydropower sales. However, the COVID 19 pandemic has had a serious impact on the economy and given the importance of the sector from an economic and employment point of view, a continued support at the scale envisaged is important to build back better. This amount is deemed appropriate to ensure a solid policy dialogue and sufficient resources to allow for the achievement of Key Performances Indicators (KPIs).

The action will also substantially leverage the investments made by other key development partners which includes: ADB (EUR 12 million), World Bank (EUR 10 million), IFAD (EUR 11 million), GCF (EUR 20 million), WWF (EUR 10 million), JICA (EUR 4 million) and UN agencies (circa EUR 5 million). The focus of the ADB, World Bank and JICA are on infrastructure development related to farm roads, irrigation infrastructure and farm mechanisation. The focus of GCF, WWF and UN agencies are towards climate resilient agriculture, bio-diversity and natural resource management related interventions, limited to 8 districts. IFAD focus is towards value chain promotion in the RNR sector in the eastern Bhutan. The EU is the only development partner providing budget support to the government at sector and at national level and hence the scope to harmonise the investments in the sector by all development partners will be possible through result oriented policy dialogue and technical assistance with RGOB and effective sector coordination with development partners.

#### 4.3.1. Criteria for Disbursement of Budget Support

##### a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the 12<sup>th</sup> FYP and in particular the nine Agency Key Result Areas (AKRA) specifically targeting the RNR sector and continued credibility and relevance thereof or of the subsequent policy (i.e. 13<sup>th</sup> FYP).
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

The specific conditions as well as the tranches to which they apply are as follows:

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- Enhance **food self-sufficiency** by improving the productivity of crops and livestock through **climate resilient technologies**
- Address **nutrition security** of adolescent girls and children by implementing school agricultural programs, **school feeding programs**, across the country.
- Enhance **conservation and management of natural resources** and biodiversity through effective watershed, land and forest management practices.
- Promote RNR sector growth by and establishing **RNR value chain enterprises** and supporting private sector participation in the country.
- **Mainstream gender** by empowering men and women leaders, gender focal persons, master trainers on gender responsive climate resilient food system in the country.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

#### 4.3.2. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Bhutan Ngultrum will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

#### 4.4. Implementation Modalities for complementary support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>24</sup>.

##### 4.4.1. Indirect Management with a pillar assessed entity

A part of this action may be implemented in indirect management with an entity, which will be selected by the Commission's services using the following criteria:

1. Proven experience and expertise in SAFS approaches, in particular in climate resilient agricultural production systems, food and nutritional security, value chain approaches, private sector reform, mainstreaming gender and evidence based statistics

<sup>24</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

2. Existing engagement in providing technical assistance support to government sector policy reform agenda in Bhutan
3. Active participation in the sector coordination mechanism
4. Having an office and staff presence in Bhutan with a view of facilitating engagement and delivery of technical support with RGoB agencies

The implementation by this entity entails the management of the complementary support described under section 3.2.

#### 4.4.2. Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

In case the preferred modality (indirect management with an international organisation) for the complementary support could not be implemented for reason outside of the Commission's control, the chosen implementation modality will be via direct management (procurement) through a service contract modality.

#### 4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.6. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>	<b>Third-party contribution, in currency identified</b>
<b>Budget support</b> - cf. section 4.3 (Objective / Outputs – 1.1 to 1.7)	13 500 000	N.A
<b>Implementation modalities</b> – cf. section 4.4		
<b>Objective/Outputs DO2</b>		
Indirect management with or international organisation - cf. section 4.4.1	1 400 000	N.A
<b>Evaluation</b> – cf. section 5.2 <b>Audit</b> – cf. section 5.3	100 000	N.A.
<b>Contingencies</b> <sup>25</sup>	N.A.	N.A.
<b>Totals</b>	15 000 000	N.A.

#### 4.7. Organisational Set-up and Responsibilities

The proposed sector reform contract will be concluded with the Gross National Happiness Commission (GNHC) on behalf of the Royal Government of Bhutan. GNHC is the overall planning, coordinating and monitoring agency for all sectors in Bhutan and hence will be the signatory of the EU supported budget support action. The Ministry of Agriculture and Forests (MoAF), is the main implementing agency of the RNR sector policies, programmes and implementation. Similarly Ministry of Finance is a key stakeholder in terms of Macro-economy and Public Finance Management.

<sup>25</sup> Consider that contracts where no financing agreement is concluded, contingencies have to be covered by individual and legal commitments by 31 December of N+1.

Joint annual reviews will take place in order to establish the achievement of agreed results, which will inform the decision-making on the actual amount of fixed and variable payment releases. The timing of the reviews will be such that the information on actual payment releases will be available in time to inform the budget preparation process. Since the budget calendar does not follow a calendar year cycle but rather the period July – June, the information on EU payments needs to be available by February each year at the latest. For that reason, the annual reviews will take place around September each year in order to allow time for processing the payment decision before informing the Government of Bhutan in February about the amounts to be disbursed. An overall programme steering committee will be established to undertake the above mentioned joint annual reviews. Such annual review are the means to conduct strategic policy dialogue on sector policy reforms as well as on PFM, Macroeconomy, Accountability and Budget transparency. The annual review will include and engage with development partners and CSOs in order to ensure effective monitoring and review of the implementation of sector policies and programmes at country level.

It is also proposed to conduct sector policy dialogue with the Ministry of Agriculture and Forests along with other development partners to jointly review the sector and sub-sector performance, at an annual interval, prior to the programme steering committee meeting, outlined above. Sector policy dialogue will strengthen the donor coordination, identify challenges in the sector, channelize demand driven technical assistance both from EU and from other development partner sources and ensure synergies and complementarities of different actors.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## 5. PERFORMANCE MEASUREMENT

### 5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

Within the RGoB, the reform monitoring is carried out by the GNHC at national level using the Planning and Monitoring System (PlaMS). Besides, Multi-Year Rolling Budget System (MYRBS) of the Department of National Budget and Public Expenditure Management System (PEMS) of the Department of Public Accounts within the Ministry of Finance are involved in planning and monitoring of the budget. The performance of the ministries as well as autonomous agencies is monitored directly by Prime Minister Office and the Cabinet through Annual Performance Agreement (APA) with the agency. The reports of performance assessment, annual public expenditure and sectoral statistics are all published and available online. The 12th FYP (2018-2023) is based on a Results Based Planning (RBP) framework and Key Result Areas (KRAs) have been identified at the National, Agency, Dzongkhag, Thromdes and Gewog levels. RGoB conducts midterm of the FYP and also engage and consult wider stakeholders in designing the FYP every five years. The midterm review of 12th FYP is due in FY 2021/22. At the sector level, the MoAF has an independent RNR Statistics Division, which is responsible for periodic collection of data and reporting of RNR statistics annually.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the

action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the Logframe matrix (for project modality) or the partner's strategy, policy or reform action plan list (for budget support).

Monitoring and evaluation will assess gender equality results and the implementation of the rights based approach working principles (applying all human rights for all; meaningful and inclusive participation and access to decision-making; non-discrimination and equality; accountability and rule of law for all; and transparency and access to information supported by disaggregated data). Monitoring and evaluation will be based on indicators that are disaggregated by sex, age and disability when applicable. In order to monitor development and equal access, data/indicators will be disaggregated even further when applicable (f. ex. by minority group).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

- Importance has been given in the action to strengthen the statistical capacity of the Ministry through the technical assistance component
- Evidence based policy design and implementation has been given importance in the policy review
- Sector coordination framework helps to identify the data gaps and will reinforce the importance of statistical and credible monitoring system

## 5.2. Evaluation

Having regard to the nature of the action, a mid-term and final evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for problem solving, learning purposes, in particular with respect to providing recommendations for necessary adjustments of the action and to informing the preparation of potential further support to the sector.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the lessons learnt will further feed into shaping up of RNR sector / RGOB and EU policy objectives.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 3 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination<sup>26</sup>. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

## 5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

<sup>26</sup> See best [practice of evaluation dissemination](#)

## 6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

## APPENDIX 1 REPORTING IN OPSYS

An Intervention<sup>27</sup> (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.

Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: ‘a given contract can only contribute to one primary intervention and not more than one’. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a ‘support entities’. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention is defined in the related Action Document and it is revisable; it can be a(n) (group of) action(s) or a (group of) contract(s).

Tick in the left side column one of the three possible options for the level of definition of the Primary Intervention(s) identified in this action.

In the case of ‘Group of actions’ level, add references to the present action and other action concerning the same Primary Intervention.

In the case of ‘Contract level’, add the reference to the corresponding budgetary items in point 4.6, Indicative Budget.

<b>Option 1: Action level</b>		
<input checked="" type="checkbox"/>	Single action	Present action: all contracts in the present action 1. Promoting Inclusive, Sustainable, and Resilient Agri-Food Systems in Bhutan 2. Technical Assistance to support the action 3. One Framework contract to carryout evaluation
<b>Option 2: Group of actions level</b>		
<input type="checkbox"/>	Group of actions	Actions reference (CRIS#/OPSYS#):
<b>Option 3: Contract level</b>		
<input type="checkbox"/>	Single Contract 1	
<input type="checkbox"/>	Single Contract 2	
<input type="checkbox"/>	Single Contract 3	
	(...)	
<input type="checkbox"/>	Group of contracts 1	

<sup>27</sup> [ARES \(2021\)4204912](#) - For the purpose of consistency between terms in OPSYS, DG INTPA, DG NEAR and FPI have harmonised 5 key terms, including ‘action’ and ‘Intervention’ where an ‘action’ is the content (or part of the content) of a Commission Financing Decision and ‘Intervention’ is a coherent set of activities and results which constitutes an effective level for the operational follow-up by the EC of its operations on the ground. See more on the [concept of intervention](#).