Mobilizing & Managing Concessional Loans

Issues and Challenges – Bhutan’s Experiences

Debt Management Division
Department of Macroeconomic Affairs
Ministry of Finance

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Presentation Outline

1. Objectives of Public Debt Management
2. Legal Framework
3. Strategy to Mobilize Resources (Borrowings)
4. Areas of Cooperation
5. Classification and Lending Terms
6. Issues and Challenges
Objective of Public Debt Management

Primary Objectives

- Ensuring that the government’s financing needs & debt payment obligations are met on a timely basis...
- At the lowest possible cost...
- Consistent with a prudent degree of risk

Secondary Objectives

- Supporting domestic debt market development
- Maintaining an efficient market for government securities.
Legal Framework

The Constitution of the Kingdom of Bhutan 2008 and the Public Finance Act 2007 and as amended in 2012, provides broad provisions to guide public debt management:

*The Constitution of the Kingdom of Bhutan 2008*

As per Article 14 (4): “The Government, in the public interest, may raise loans, make grants or guarantee loans in accordance with the law.”

Further, Article 14 (5) states that “The Government shall exercise proper management of the monetary system and public finance. It shall ensure that the servicing of public debt will not place an undue burden on future generations.”
Legal Framework (Cont./-)

The Public Finance Act 2007 & as amended in 2012

According to Chapter II, Section 7 (d): “The level of public debt shall be contained such that it will not create undue burden on future generations and threaten national solvency.”

Chapter III, Section 15 (a) vests the Minister of Finance with powers for “Approval of borrowings and issuance of public securities subject to concurrence of the Lhengye Zhungtshog.”

The Minister of Finance may raise loans, make grants or guarantee loans in accordance with Chapter VII, Sections 124-128. The issuance of guarantee is laid down under Chapter VII, Sections 132-134.

Public Debt Policy 2016
Strategy To Mobilize Resources (Loans)

- The loans are raised after fully exhausting the possibility of obtaining the required financing in the form of grant.

- The Government ensures that the external loans are availed from concessional windows.

- Resorts to commercial borrowings mainly for investment in hydro power generation and other self-sustaining projects.
Areas of Cooperation

Borrowings from external sources started in the early 1980s mainly from the multilateral financial institutions like the World Bank (1984), ADB (1983), and the IFAD (1980)

**Asian Development Bank**: For budgetary support, urban infrastructure, road network, rural electrification, financial sector development, Dagachhu hydropower project and Nikachhu Hydropower project.

**World Bank**: For urban development, rural access, education infrastructure, forestry development and development policy credit.

**IFAD**: For agricultural and marketing promotion programs and projects.

The first bilateral loan was availed in 1974 from GoI for Chhukha Hydropower project. Since then, loans have been availed from Austria (1995), Japan (JICA - 2007), Kuwait (KFAED - 1983) and Denmark (Mixed Credit - 2004).

**Government of India** – For Hydropowers and BoP.

**Government of Austria**: For rural electrification, Basochhu and Dagachhu hydropower projects.

**Government of Denmark**: For rural telecom network expansion.

**Government of Japan** (JICA): For rural electrification.

**Germany** (Deutsche Investitions _DEG) – For Bhutan Hydropower Services Limited
## Classification & Lending Terms

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Creditors</th>
<th>Agreement Currency</th>
<th>Repayment Period</th>
<th>Grace Period</th>
<th>Interest Rate (p.a)</th>
<th>Other charges (Commitment/ Mgt. fees/ Guarantee/service charges) p.a</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Bilateral</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Government of India - Hydropower Loans</td>
<td>Indian Rupees</td>
<td>10-15 years</td>
<td>8 and 9 years</td>
<td>9% - 10.75%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Government of India - Standby Credit Facility</td>
<td>Indian Rupees</td>
<td>5 years</td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Japan International Cooperation Agency (JICA)</td>
<td>JPY</td>
<td>30 years</td>
<td>10 years</td>
<td>0.01% and 0.2%</td>
<td>0.1%; For new loans effective from April 2013, front end fee of 0.2% is applicable instead of commitment charge</td>
</tr>
<tr>
<td>3</td>
<td>Govt. of Denmark (Danish Mixed Credit)</td>
<td>EUR</td>
<td>10 years</td>
<td>3 years</td>
<td>0%</td>
<td>0.15% - 0.25%</td>
</tr>
<tr>
<td>4</td>
<td>Government of Austria</td>
<td>EUR</td>
<td>12-20 years</td>
<td>3.5 - 10 years</td>
<td>0% - 5.92%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Germany - (Deutsche Investitions- DEG)</td>
<td>EUR</td>
<td>8 years</td>
<td>5 years</td>
<td>3 months EUROBOR + Margin (4.5%)</td>
<td>Commitment fee-0.75%; Front end fee -1.3%</td>
</tr>
<tr>
<td></td>
<td><strong>Multilateral</strong></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>1 Asian Development Bank</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>ADF</td>
<td>SDR</td>
<td>16 and 24 years</td>
<td>8 years</td>
<td>1% during the grace period; 1.5% thereafter</td>
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</tr>
<tr>
<td></td>
<td>(a) Project loans</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>(b) Program loans</td>
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<td></td>
</tr>
<tr>
<td>(ii)</td>
<td>Hard-Term ADF</td>
<td>SDR</td>
<td>24 years</td>
<td>8 years</td>
<td>3.15%</td>
<td></td>
</tr>
<tr>
<td>(iii)</td>
<td>OCR</td>
<td>USD</td>
<td>25 years</td>
<td>5 years</td>
<td>6 month LIBOR + 0.20% (Dagachhu); 6 month LIBOR + 0.70% (Tangshibji)</td>
<td>0.15%</td>
</tr>
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<td>2</td>
<td>World Bank</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>IDA -Regular</td>
<td>SDR</td>
<td>30 years</td>
<td>10 years</td>
<td>0%</td>
<td>0.75%</td>
</tr>
<tr>
<td>(ii)</td>
<td>IDA -Blend</td>
<td>SDR</td>
<td>20 years</td>
<td>5 years</td>
<td>1.25%</td>
<td>0.75%</td>
</tr>
<tr>
<td>(iii)</td>
<td>IDA Small Economy Term Credits</td>
<td>SDR</td>
<td>30 years</td>
<td>10 years</td>
<td>0%</td>
<td>Commitment Fee 0-0.5% &amp; Service charge 0.75%</td>
</tr>
<tr>
<td>3</td>
<td>International Fund for Agricultural Development (IFAD)</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>(i)</td>
<td>IFAD -Regular</td>
<td>SDR</td>
<td>40 and 30 years</td>
<td>10 years</td>
<td>0%</td>
<td>1% and 0.75%</td>
</tr>
<tr>
<td>(ii)</td>
<td>IFAD -Blend</td>
<td>SDR</td>
<td>20 years</td>
<td>5 years</td>
<td>1.25%</td>
<td>0.75%</td>
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Issues and Challenges

- Bhutan’s graduation from LDC is expected to lead to withdrawal of ODA & grants by major development partners.
- Bhutan’s external borrowing is expected to increase.
- The cost of external borrowings will increase due to hardening of lending terms.
- Challenges in maintaining sustainable level of public debt.
- Absence of Medium Term Debt Management Strategy
- Lack of capacity
- Development of efficient government securities market in the country.
Thank you!