National Workshop on
Capital Market Development in Bhutan.

OPENING REMARKS

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Excellencies, Dashos, Distinguished Delegates, Ladies and Gentlemen

I am truly delighted to be here in Thimphu to deliver this opening remarks at the national workshop on Capital Market Development in Bhutan. I would like to first thank Dasho Nim Dorji, Finance Secretary, the Royal Government of Bhutan, in particular the Ministry of Finance for their gracious hospitality and support in hosting this workshop here. I would also like to thank Mr. Gerald Daly, UN Resident Coordinator and Resident Representative for UNDP, the Hong Kong Polytechnic University and all my colleagues at the UNESCAP for their generous contribution in making this workshop possible.

Today, let me first start with a brief report on Bhutan's economic environment. I would then like to discuss the structural transformation that Bhutan has undergone during this past decade. Finally concluding on the issue of developing vibrant capital markets particularly in the context of Bhutan's domestic markets and green bond.

As a land locked and least developed economy, Bhutan has real and significant challenges to overcome as it moves towards achieving its long-term policy goals of Gross National Happiness and the 2030 Agenda for Sustainable Development. Geographical remoteness from global markets and other factors of economic vulnerability pose significant constraints for Bhutan's trade and development. Bhutan also has a narrow economic and export base in terms of both products and markets that makes it highly vulnerable to external shocks. Additionally, as in other LDCs, Bhutan's development is severely hampered by inadequate economic infrastructure and a nascent private sector with weak human resource assets.

Notwithstanding these deep structural impediments, Bhutan has made immense socio-economic progress that has brought it to the threshold of LDC graduation and emergence as a medium human development and middle-income state. The economy has grown rapidly and with an annual per capita income of USD 3,438 (2017) stands out impressively as the second highest in South Asia. Educational attainments in scaling up literacy and school enrollments have been accompanied by major gains in advancing health, nutrition and access to safe drinking water and sanitation. Notably, income poverty has declined from 23.2 per cent (2007) to 8.2 per cent (2017), with subsistence or food poverty considerably lower at 1.5 percent. In terms of multi-dimensional poverty, reductions were even more pronounced declining from 25.8 per cent in 2007 to 5.8 per cent in 2017.[1] These milestone achievements, I understand, have been underpinned by the unique *praxis* of GNH that pursues a more people centered, inclusive, balanced and holistic approach to development.

Of course, as we all know, progress is a never-ending journey and much remains to be done with numerous challenges for Bhutan yet to overcome. At the heart of the new set of challenges is the key issue of resource mobilization to consolidate past development gains and gain further momentum. This becomes particularly acute in the context of Bhutan's graduation from LDC status with access to development aid and concessional financing from international financial institutions becoming more difficult, not to mention the loss of highly favorable trade concessions afforded to least developed countries. The 14th Round Table Meeting in Thimphu in 2019 highlighted these resource constraints and identified a resource gap of about USD 418 million for the next five years. It was at this very meeting that the Royal Government clearly spelled out the need to look at innovative means of financing critical resource gaps, with the particular mention of green bonds.

As a part of ESCAP's ongoing efforts to help countries build and strengthen financing capacity, my department, the Financing for Development (FFD) Section at the UN ESCAP in Bangkok, has been working on the strategic issues of resource mobilization in Asian LLDCs from 2017. The utilization of capital markets and sovereign bonds in particular has been a key component of ESCAP's strategy to ease resource gaps to finance development. Bonds accounted for only 13.1 per cent of total infrastructure finance in Asia and the Pacific in 2018 and have been relatively lower in LDCs. This relatively low utilization of bonds within LDCs and LLDCs suggest the possibility that a greater uptake is possible. The utilization of capital markets in financing development around the world and the region have proven to be beneficial and stories of their successful implementation are well known and documented.

The issuance of domestic bonds in Bhutan could provide an investment avenue for local investors while also helping finance some infrastructure projects. These could be attractive to both institutional and individual investors in Bhutan as income tax I understand are not levied on certain bonds and timed deposits. Securing bonds from international and regional markets with appropriate conditions and terms to finance several development projects in Bhutan could also be explored as the appropriate legal and institutional frameworks are developed.

[1] NBS, 2018. Available at http://www.nsb.gov.bt/main/indicator.php.

The global market for Green Bonds has also been growing at a blistering pace. In 2018, over 167 billion USD of green bonds were issued and as of October 2019 has topped USD 200 billion. The forecasts for 2020 is that this will reach USD 350-400 billion (The Climate Bonds Initiative, 2019). Given Bhutan's well-known track record for environment conservation, I daresay the global markets for green bonds could be tapped if the Royal Government was so inclined to do so. For the 12th FYP, an expenditure review estimated a resource gap of Nu. 5 billion or USD 75 million to finance Bhutan's biodiversity and climate mitigation activities. The issuance of the sovereign green bonds would also make Bhutan the first Land locked LDC to issue such a debt while strengthening global perception of its innovative and pragmatic approaches to development financing.

To lightly touch on our discussions on how capital markets could be leveraged to help ease Bhutan's resource gaps, the study conducted by UNESCAP suggest possible areas that green bonds could be tapped for financing activities. An immediate area that could see significant prospect for green bond financing is in biodiversity conservation. Water resources management - including for hydropower development is another potential prospect that could attract green bond financing, particularly for small and medium sized run of the river hydroelectric projects although these could face difficulties to secure power purchase agreements. Bhutan's vision is to become a zero-waste society by 2030 and the 12th FYP also emphasizes effective waste management as a key result area. Given that waste management is perhaps less romantic and often underfunded, it could be a possible area for green bond financing. Given that the Tiwi-MakBan Climate Project Bond was able successfully secure $225 million, the opportunity for Asia-Pacific issuers to access domestic debt by leveraging the capital market becomes tangible. Additionally, projects that would not have otherwise qualified for traditional financing schemes also receive a platform to mobilize resources.

In this regard, our work here at this national workshop has far reaching consequences and provides us another opportunity to further strengthen the Asian-Pacific region's financing capabilities, particularly among the Asian LLDCs and in Bhutan.