

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.