Power sector development is a major element of the Asian Development Bank's (ADB) country partnership strategy for Bhutan. It is also in line with the strategic directions of ADB's South Asia Department, which focuses on sustainable infrastructure, climate change mitigation and adaptation, human development, regional cooperation and integration, public–private partnership, and good governance.

During the past decade, ADB has supported the Government of Bhutan in expanding rural electrification and implementing power sector reforms. By 2020, the Government of Bhutan aims for 100% rural electrification, and export of an additional 10,000 megawatts of hydropower to India.

In October 2008, ADB approved the Green Power Development Project in Bhutan, which will help the country achieve these aims.

A total of 8,767 households and facilities will have electricity sourced from hydropower, and 119 schools, health clinics, and other community facilities will have electricity sourced from solar energy.

Clean power regional trade through public–private partnership. The Dagachhu hydropower development, to be developed under the project, will be a 114-megawatt run-of-river plant, with minimal adverse environmental and social impacts. Generated power will be sold to India through the existing grid connected to India.

As the first undertaking of a commercial nature in Bhutan, the Dagachhu plant will be developed through a public–private partnership to leverage private capital and maximize the impacts of the government investment. Druk Green Power Corporation (a Bhutanese state-owned company) and Tata Power Company (an Indian private power company) agreed to a joint venture, and Dagachhu Hydro Power Corporation was incorporated as the project’s special purpose company. The Dagachhu hydropower development will be a pilot case to catalyze private participation and accelerate hydropower development, and was registered by the United Nations Framework Convention on Climate Change under the Clean Development Mechanism as defined in the Kyoto Protocol.

(continued overleaf)
The hydropower development is the world’s first showcase for cross-border Clean Development Mechanism initiative. These outputs will help create a competitive investment environment in regional power trading and clean energy development projects.

Clean, reliable, and energy-efficient power supply for the poor. The rural electrification system will provide clean and reliable power supply to rural areas mainly in seven districts of Bhutan. It will electrify 8,767 domestic households and facilities in remote central and eastern regions. In addition to the grid extension, 119 solar photovoltaic systems, using an emerging energy-efficient technology, will be installed to support electrification in isolated off-grid rural areas, especially schools, health clinics, monasteries, and other community facilities.

The project will improve the coverage of distribution and expand electricity export through clean power development in a sustainable manner.

The project will sustain the country’s inclusive economic growth by promoting regional trading and access to electricity.

The Project at a Glance

Cost and financing: Asian Development Fund, $29 million; ADB ordinary capital resources, $51 million; Asian Clean Energy Fund, $1 million; Austrian Export Credit Agency, $55.46 million; Government of Bhutan, $51.71 million; Tata Power Company, $21 million

Project approval date: 29 October 2008

Project themes: Regional cooperation, private sector development, economic growth

Status of project implementation: Ongoing

Expected loan closing date: 2013

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