

Although Bhutan ended its self-imposed isolation in the 1960s, fundamental development activities date back only about 20 years. Nonetheless, it has embarked on a far-reaching development strategy aimed at boosting what it calls Gross National Happiness—a holistic concept combining material well-being with an individual's spiritual, emotional, and cultural well-being.

Despite steady progress, Bhutan remains a poor country, with 31.7% of the population below the national poverty line in 2003. Inequality is high, with the top quintile consuming eight times more than the lowest quintile. At the same time, the economic base remains narrow, with hydropower accounting for some 12% of gross domestic product (GDP) and 45% of national revenues. Hydropower and its related industries have low employment elasticity, leaving the labor market unlikely to be able to absorb the 50,000 youth and 20,000 rural migrants expected to enter the workforce by 2008. The Government aims to diversify the economic base by enabling greater private sector participation in development—a central pillar of its growth, employment generation, and poverty reduction strategy.

Relationship with ADB

Bhutan joined the Asian Development Bank (ADB) in 1982 and, as of 31 December 2007, the cumulative value of loans to the country totaled \$176.1 million, with technical assistance projects amounting to \$39.96 million.

In recent years, assistance has focused on the development of infrastructure, including national roads, rural electrification, and urban development. There has also been an emphasis on vocational and technical education and reforms in the financial sector.

Grant technical assistance has been aimed at helping develop capacity for debt management and forecasting; to strengthen the Royal Monetary Authority and the National Statistics Bureau; to promote the institutional development of the Planning Commission; and to support the 2003 Bhutan Living Standards Survey, which the Government used for its 2004 Poverty Assessment Sectoral Report. In 2007, grant assistance was provided for the development of micro-, small-, and medium-sized enterprises; to prepare the power development program; to strengthen the capacity of the Department of Labor; and to strengthen the institutional capacity of public financial institutions.

Table 1. **Bhutan:**
Development Indicators

Non-MDG	
Population in millions	0.66 (2007)
Annual population growth rate (%)	1.9 (2005–2007)
Adult literacy rate (%)	...
Percent of population in urban areas	9.0 (2006)
MDG	
Percent of population living on less than \$1 a day	...
Percent of population living below the national poverty line	23.2 (2007)
Under-5 mortality rate per 1,000 live births	70 (2006)
Percent of population using an improved drinking water source	62 (2004)

... = data not available, MDG = Millennium Development Goal.
 Sources: ADB. 2007. *Key Indicators 2007*. Manila.
 ADB. 2008. *Basic Statistics 2008*. Manila.
 UNESCO. 2008. Institute for Statistics Data Centre.
 UNSD. 2008. Millennium Development Indicators Database Online.

Table 2. Bhutan: Economic Indicators, 2003–2007

Economic Indicator	2003	2004	2005	2006	2007
Per capita GNI (\$)	970	1,100	1,250	1,410	...
GDP growth (% change per year)	9.0	7.0	6.9	7.8	17.0
CPI (% change per year)	2.1	3.6	4.8	4.9	5.2
Unemployment rate (%)
Fiscal balance (% of GDP)	-10.4	1.9	-6.9	-0.8	-3.4
Export growth (% change per year)	8.9	39.7	34.5	47.2	64.5
Import growth (% change per year)	1.6	27.3	75.5	-5.6	15.1
Current account (% of GDP)	-23.6	-17.9	-30.4	-4.3	10.5
External debt (% of GNI)	81.4	85.7	79.7	77.1	

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB, 2008. *Asian Development Outlook 2008*. Manila.
World Bank, 2008. Global Development Finance Online.
World Bank, 2008. World Development Indicators Online.

Table 3. Bhutan: 2007 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	2.68	21.69	24.37

– = nil.

Cumulative Lending (as of 31 Dec 2007) : \$176.06 million
Cumulative Disbursements (as of 31 Dec 2007) : \$112.32 million

Table 4. Bhutan: Cumulative ADB Lending as of 31 December 2007

Sector	Loans (no.)	Amount (\$ million)	% ^a
Agriculture and Natural Resources	2	7.78	4.42
Education	2	14.13	8.03
Energy	3	26.90	15.28
Finance	4	21.00	11.93
Health, Nutrition, and Social Protection	1	10.00	5.68
Industry and Trade	2	3.65	2.07
Multisector	3	18.10	10.28
Transport and Communications	4	46.60	26.47
Water Supply, Sanitation, and Waste Management	2	27.90	15.85
Total	23	176.06	100.00

^a Total may not add up because of rounding.

Table 5. Bhutan: Project Success Rates

By Sector	Percentage	No. of Rated Projects/Programs
Agriculture and Natural Resources	100.0	1
Education	100.0	1
Energy	100.0	2
Finance	100.0	1
Health, Nutrition, and Social Protection	100.0	1
Industry and Trade	0.0	1
Multisector	66.7	3
Transport and Communications	100.0	2
Total	83.3	12

By Year of Approval		
1980s	50.0	4
1990s	100.0	6
2000s	100.0	2

Impact of Assistance

Under the Rural Electrification and Network Expansion project, ADB is assisting the Government's Ninth Five-Year Plan objective to electrify 15,000 households. It seeks to provide electricity not only to about 8,000 rural consumers, but also to hospitals, schools, and other public facilities.

Another major issue for Bhutan is the accessibility of its communities. The country's trunk road network is limited and unsuitable for larger and heavier vehicles and needs to be upgraded and improved. As such, the Road Network Project of September 2005 aims to strengthen part of the Trongsa–Gelephu national highway (about 140 kilometers [km] of the total 245 km), including a 16-km realignment between the Mangdichu and Wangdigang bridges. It will construct four feeder roads, including Mirchim–Bongo (17.5 km) and Tekizam–Bjena (6.5 km) in the west region, and Garbagtang–Autsho (51 km) and Khardungla–Kangpara (28 km) in the east. The national highway component includes replacing two temporary bridges with permanent structures. Technical assistance will help the Government build capacity for auditing road safety and road asset management.

ADB's Urban Infrastructure Improvement project, meanwhile, aims to improve urban areas through infrastructure development, to develop effective and sustainable management of urban services, and to foster human development through physical improvements and economic growth.

Future Directions

Consistent with the priorities identified in Bhutan's National Poverty Reduction strategy, and under the Country Strategy and Program (CSP), ADB and the Government have agreed to focus assistance on transport, power (including rural electrification), urban development, and financial and private sector development. These sectors are vital for Bhutan's socioeconomic progress.

ADB will combine investment support with other measures to build the institutional, policy, and regulatory capacities of the policy-making and executing agencies.

Operational Challenges

Although Bhutan has maintained impressive economic growth and made commendable progress toward the Millennium Development Goals, it is still challenged by its narrow economic base, low employment elasticity of the hydropower sector, inadequate involvement of the private sector in economic development, administrative limitations on the expansion of the private sector, and a rapidly growing number of educated but unemployed youth.

Hydropower generation is the mainstay of the economy, accounting for some 12% of GDP and 45% of government revenues. With the commissioning of the 1,020-megawatt Tala Hydropower project, which will increase government revenues from the hydropower sector to 60%, there is some uncertainty regarding the future amount of bilateral grant inflows as many bilateral development partners perceive that Bhutan does not need the same degree of financial support now.

The Government strongly refutes this, given that it plans to use Tala's resources for strengthening and expanding its social services. In any case, Bhutan will have to move toward progressive cost recovery in both the hard and soft sectors.

Partnership

The CSP will be implemented in coordination with other development partners to avoid duplication. Examples of effective partnerships include ADB's rural electrification loans following the Rural Electrification Master Plan developed with assistance from the Government of Japan. Similarly, development partners are using the Road Sector Master Plan developed with ADB assistance. ADB has maintained close cooperation with other multilateral and bilateral funding agencies, and with civil society organizations, to strengthen the effectiveness, quality, and sustainability of the services it provides.

Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2007, cumulative direct value-added cofinancing for Bhutan amounted to \$5.53 million for eight technical assistance projects.

A summary of procurement contracts awarded to companies and consultants from Bhutan for goods and works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/Bhutan/procurement.asp.

Table 6. Bhutan: Portfolio Performance Quality Indicators for Sovereign Lending, 2006–2007

Number of Ongoing Loans (as of Dec 2007)		
	2006 (\$ million)	2007 (\$ million)
Contract Awards/Commitments	2.60	13.41
Disbursements	4.60	8.90
Loans at Risk (%)	–	–
– = nil.		

Table 7. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2007

Country	No. of Projects	Total ADB Approvals (\$ million)
India	33	1,400.73
People's Republic of China	20	1,290.02
Indonesia	16	824.15
Pakistan	27	721.38
Kazakhstan	5	550.00
Philippines	26	448.15
Thailand	10	318.53
Viet Nam	8	300.00
Sri Lanka	13	280.08
Bangladesh	8	242.18
Other DMCs	26	438.20
Regional	36	849.57

DMC = developing member country.

Source: ADB. 2007. Statistical Database System.

About Bhutan and ADB

Bhutan is the 36th largest shareholder among regional members and the 44th largest overall.

ADB Membership

Joined	1982
Shares held	220 (0.01%)
Votes	13,452 (0.30%)

Ashok K. Lahiri is the Executive Director and **Nima Wangdi** is the Alternate Executive Director representing Bhutan on the ADB Board of Directors.

ADB's operations in Bhutan are managed through ADB's Manila Headquarters. ADB's South Asia Department provides the primary operational link to the government, private-sector, and civil-society stakeholders in its activities. The South Asia Department engages in policy dialogue and acts as a knowledge base on development issues in Bhutan. The Bhutan government agency handling ADB affairs is the Ministry of Finance.

About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). Over the last 4 years (2004–2007), ADB's annual lending volume averaged \$7 billion, with TA averaging \$218 million and grant-financed projects \$616 million. In 2007, lending volume was \$10 billion, with TA at \$243 million and grant-financed projects at \$673 million.

Contacts

ADB Headquarters

6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
information@adb.org

Ministry of Finance

Taschichho Dzong
Thimpu, Bhutan
Tel +975 2 323154
Fax +975 2 322223

Useful ADB websites

Asian Development Bank
www.adb.org

Country website
www.adb.org/bhutan

Asian Development Outlook
www.adb.org/Documents/Books/ADO/2008/BHU.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2007/