

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2001-2003)**

BHUTAN

December 2000

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for [Bhutan](#) covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of [Bhutan](#), and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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CURRENCY EQUIVALENTS

(as of 30 November 2000)

Currency Unit	–	Ngultrum (Nu)
Nu1.00	=	\$0.0213
\$1.00	=	Nu46.84

The Bhutanese ngultrum is pegged to the Indian rupee at par.

ABBREVIATIONS

ADB	-	Asian Development Bank
ADTA	-	advisory technical assistance
BDFC	-	Bhutan Development Finance Corporation
BTF	-	Bhutan Trust Fund
COS	-	country operational strategy
CPRM	-	country portfolio review mission
DOP	-	Department of Power
DOR	-	Department of Roads
EA	-	executing agency
EIA	-	environmental impact assessment
ESAS	-	Eastern South Asia Growth Subregion
ESW	-	economic sector work
FY	-	fiscal year
GDP	-	gross domestic product
GEF	-	Global Environment Facility
GTZ	-	German Development Cooperation
HDI	-	human development index
IMF	-	International Monetary Fund
IPF	-	indicative planning figure
JICA	-	Japan International Cooperation Agency
MW	-	megawatts
NEB	-	National Employment Board
NEC	-	National Environment Commission
NES	-	National Environment Strategy
NTTA	-	National Technical Training Authority
PPTA	-	project preparatory technical assistance
RBP	-	Royal Bhutan Polytechnic
RIM	-	Royal Institute of Management
RMA	-	Royal Monetary Authority
RSEB	-	Royal Securities Exchange of Bhutan
SAARC	-	South Asia Association for Cooperation
SAGQ	-	South Asian Growth Quadrangle
SDP	-	Sector Development Program
SNV	-	Netherlands Development Organization
TA	-	technical assistance
UN	-	United Nations
UNCDF	-	United Nations Capital Development Fund
UNDP	-	United Nations Development Programme
UNFPA	-	United Nations Population Fund
UNICEF	-	United Nations International Children's Emergency Fund
WHO	-	World Health Organization

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

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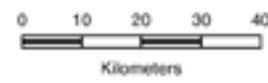
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89°30'E

91°00'E

BHUTAN

-  National Capital
 -  District Capital
 -  City/Town
 -  Road
 -  District Boundary
 -  International Boundary
- Boundaries are not necessarily authoritative.



28°00'N

28°00'N

27°00'N

27°00'N

89°30'E

91°00'E



BHUTAN

I. Country Performance Assessment

A. Economic Performance Assessment¹

1. Since Bhutan's emergence from virtual isolation from the rest of the world in the early 1960s, the country has witnessed considerable transformation from an economy based on subsistence agriculture to a growing economy with diversification and modernization as well as major improvements in social indicators, communications, governance, and standard of living. These changes have occurred with relatively few adverse effects on the environment or the country's cultural heritage. While work under a series of five-year plans helped establish basic infrastructure in the economy, it was not until the 1980s with the commissioning of the Chukha hydropower plant (336 megawatts [MW])² in 1986 that a diverse economy really began to emerge. With the advent of hydropower in the country—and the manufacturing enterprises benefiting from low-cost power—gross domestic product (GDP) grew by nearly 8 percent a year in real terms during the second half of the 1980s. While real GDP growth has slowed somewhat since, it averaged 5.6 percent a year during 1990-1995 and 6.0 percent annually in 1996-1999. These recent rates, while relatively good in themselves, should accelerate over the medium term with the completion of the Dungsum cement plant, the Basochu hydropower project (adding 22.2MW in 2001 and a further 36.2MW in 2003/4), the Kurichu project (60MW) in 2001, and the Tala project (1,020MW) in 2004. However, inadequate social and physical infrastructure including shortage of skilled and unskilled labor and lack of an efficient road network to markets remain major constraints to further development of the country in the longer term.

2. Developments in the industry and services sectors have overstripped those in agriculture, with the share of agriculture in GDP declined from 53 percent in 1981 to 37 percent in 1999; that of industry, led by manufacturing, electricity, and construction growth, rose from 17 percent to 34 percent; and that of the services sector remained at about 29 percent in 1999. The agriculture sector, while still dominated by subsistence production, has also become somewhat diversified since the early 1980s, and remains by far the country's main source of employment. The Government estimates 85 percent of the population reside in rural areas even though only 8 percent of the country's land area is under cultivation. Rice, maize, and potatoes are the main food crops grown, largely for home consumption. Export crops now gaining significance include medicinal plants, lemongrass, cardamom, and specialty mushrooms. Fruit-growing is also increasing importance: mostly apples and oranges, but including peaches and strawberries, for both domestic consumption and export, primarily to Bangladesh. Livestock—principally, cattle, yak and pigs—also makes important contribution to smallholder diets and incomes although, in some areas, overgrazing has imposed a strain on the fragile mountain environment.

3. The growth of the industry sector comprising mining, manufacturing, electricity, and construction has slowed in recent years, particularly in the electricity subsector; however, the rate of growth in manufacturing remains buoyant. The sector is dominated by a few large firms, State-owned or recently privatized, and supported by myriad small and cottage enterprises, and some

¹ Appendix 1 (Country Performance Indicators) provides information on key economic, social, and environmental indicators.

² Expanded to 360MW in 1999.

medium-size firms in handicrafts, handmade paper, food processing, wood products and construction activities. Currently, most manufacturing output and exports are from a narrow range of products—cement, ferro-alloys, calcium carbide, processed foods, and particle board—which tend to be produced with energy—and capital-intensive methods and dependent on skilled and unskilled expatriate labor from neighboring countries.

4. The Government is firmly committed to the growth of private sector activity. While several institutional, policy, and labor constraints to this growth remain, the Government has been active in privatizing State-owned firms, promoting institutional and legislative reform, and supporting the upgrading of domestic skills. However, industrial policies, particularly with regard to foreign investment, remain somewhat ambiguous but they are now being looked into. Thus, while sectoral diversification, deepening, and privatization have undoubtedly occurred, the sector is heavily concentrated on a narrow range of products; highly dependent on expatriate labor; restricted by the small, fragmented domestic market and a narrow range of readily accessible export markets; limited by poor, expensive transportation; and constrained by national sensitivities concerning resource exploitation (especially for tourism and logging) and by caution with respect to foreign investment and the employment of foreign labor. The main challenge facing the Government, therefore, is how to realize its commitment to promote private sector activity in the face of such constraints.

5. In common with its approach to development policy generally, the Government has managed—and continues to manage—the economy prudently. In practice, however, it is fiscal policy rather than monetary policy that has to play the key role in the macroeconomic management of the economy. In terms of monetary policy, the Government has limited scope to exercise independence, given that (i) the Bhutanese ngultrum is pegged to the Indian rupee at par, which requires a relatively close link between the interest rates of the two countries; (ii) a large stock of Indian rupees circulates freely and widely in Bhutan even though, technically, the ngultrum is the only legal tender; and (iii) trade between Bhutan and India is virtually free of restrictions, which means that Bhutanese price movements closely reflect those of India. Moreover, India receives over 90 percent of Bhutan's exports and supplies some 70 percent of its imports.

6. While monetary expansion (M2) has been significantly faster than nominal GDP growth for several years, this has not been reflected in a rise in domestic inflationary pressure³ but in the increasing monetization of the economy. Moreover, large overall balance of payments surpluses and aid inflows,⁴ have led to a buildup in official foreign exchange reserves, which was equivalent to more than 19 months of merchandise imports at the end of FY1999. At the same time, limited domestic investment opportunities have led to a sizable accumulation of excess liquidity in the domestic financial system which, notwithstanding the limits to Bhutan's independence of monetary policy, could possibly be moderated by adopting a rather less rigid and more market-sensitive interest rate structure, and by encouraging greater competition between the two commercial banks. The key questions for the Government in the financial sector for the future are how to address the issue of excess liquidity in the financial system and how to improve financial intermediation so as to encourage private sector operations.

³ Bhutanese annual inflation levels have been 7-9 percent since 1995, and 9-10 percent in the 1985-1995 period, similar to the Indian levels.

⁴ In the past five years, for example, grant inflows have been some 5 percent higher than capital expenditures and have formed about half of total government revenues.

7. The Government's prudence in fiscal policy is evidenced by its attempt to cover its current expenditures with domestic revenue and to finance capital expenditures with grants and soft loans. Current expenditures as a proportion of GDP have been relatively stable over time, despite the significant expansion in the provision of free health and education and the rise in civil service salaries in the past few years. While current deficits (excluding grants) have been the norm in the past, generous grant assistance—mainly from the Government of India—has bolstered the limited domestic resources and served to finance the domestic deficits. With increased domestic revenues emanating from domestic tax and nontax sources and especially from the corporate taxes and profit transfers of the Chukha plant, the latter now representing over 40 percent of domestic revenues, the Government has been able to increase the country's fiscal self-reliance. Since FY1996, the Government has been able to meet current expenditures from domestic sources of revenue, although it is still heavily dependent on assistance from India and other sources for its capital expenditures. While external assistance has been more than adequate to cover capital expenditures in most years, thereby contributing to rising exchange reserves, major increase in capital expenditures for hydropower projects in recent years has led to an overall budget deficit of 2.4 percent of GDP in 1997 and 2.3 percent in 1999.

8. Notwithstanding the general prudence of the country's fiscal management, fiscal issues and risks remain: (i) the dependence of government revenues on the export of energy to India and thus on the volume of sales and the negotiated export price; and (ii) the narrowness of the domestic revenue base (its broadening through the introduction of a personal income tax and increased power tariffs and user charges to cover rising recurrent expenditures for maintaining physical and social infrastructure is being considered). The Government would need to address these issues as the country's large and increasing foreign exchange reserves could potentially serve to slow further inflows of aid or to lead to a hardening in their terms.

9. Throughout the 1980s and the first half of the 1990s, Bhutan had relatively large, fluctuating deficits on its merchandise trade account and its current account with both India and third countries. This situation persists with third countries but with India, Bhutan ran a trade surplus in 1996-1998 following the rise in electricity export prices in 1996. However, this trend reversed in 1999 with a trade deficit at 4.6 percent of GDP with India. Current account deficits continued both overall and with India. Bhutan imports a wide variety of consumer goods, including certain basic food items, petroleum products, and virtually all capital goods. As noted earlier, it is successfully increasing its exports not only of electricity to India but of a variety of other goods to third countries—notably Bangladesh, Netherlands, Singapore, and Thailand—to earn convertible currency. Deficits on the current account of the balance of payments have persisted; however, official capital inflows, mostly to cover infrastructure investment, have exceeded them.

10. Tourist receipts are also increasing. Contrary to popular perception, tourist arrivals are not subject to numerical restriction. As a result of high mandatory expenditure levels for tourists of \$200 per day in the high season and \$165 per day in the off-season, the number of tourist arrivals remains modest but increasing.⁵ At the same time, tourist facilities—hotels, motor vehicles, trekking opportunities, and domestic tour companies—are increasing fairly rapidly not only in Thimphu but also in other regional towns.

⁵ Tourist arrivals increased by 1,000 to 7,000 in 1999 compared to previous year.

11. Both the debt-to-GDP ratio and the debt service ratio remain manageable. The debt-to-GDP ratio has been falling in recent years with the repayment of the national airline's commercial loans and the concessional loans from India and Kuwait. This trend will reverse in the coming years as the share of loan financing from the new power projects being constructed will be greater than that from the Chukha project. The convertible currency debt is beginning to rise as a result of increased lending from multilateral development agencies, including ADB. At the same time, the debt service ratio stands at about 15 percent of merchandise exports, mostly to service nonconvertible debt obligations.

B. Poverty Assessment

12. As with several other economic indicators in Bhutan, reliable data on incomes are not available. The United Nations (UN) classifies Bhutan among the least developed countries, ranking 142nd out of 174 countries in its human development index (HDI) for 1998 (published in 2000).

13. However, the quality of life in Bhutan seems higher than might be inferred from this HDI ranking. This ranking is based on the UN estimate of Bhutan's population (over 1.8 million) rather than the Government's official estimate of 650,000. Indeed, after allowing for these data adjustments, the United Nations Development Programme (UNDP) office in Thimphu concluded that the HDI index for 1996 would have ranked Bhutan 130th out of 175⁶ countries instead of 155th in the official *Human Development Report*. Reflecting official data and using the UN's HDI classification methodology, Bhutan's Planning Commission Secretariat calculated that the HDI increased from 0.325 in 1984 to 0.521 in 1994 which, if accurate, would be a significant achievement. Either of these revisions would place Bhutan in the "medium human development" country group rather than the "low human development" group, a relatively rare distinction for an otherwise "least developed country."

14. The estimated \$586 GNP per head in 1998 is based on the Government's official population estimate and is considered a more accurate reflection of reality. However, while higher than in some other countries, this basic GNP level of \$586 per head in Bhutan is still low: some \$1.60 per head per day. In this sense, therefore, income poverty is widespread.

15. The *Household Income and Expenditure Survey* (1992) revealed that the highest household decile received 36 percent of total income, while the lowest 50 percent received only 13 percent. With a Gini coefficient of 0.563, the survey indicated income inequality as well as low average monetary incomes. Similarly, the *National Nutrition Survey* in 1996 indicated that some 38 percent of children under five were malnourished (weight-for-age) and that 56 percent were stunted (height-for-age). Malnutrition is also a problem for at least 18 percent of women of childbearing age, and iron-deficiency anemia for some 60 percent of pregnant women. While reduced, the incidence of iodine deficiency is still a cause of goiter in about 14 percent of schoolchildren. The immediate causes of malnutrition are a combination of low dietary intake, inadequate child care, and the high incidence of infections, each partly caused by ignorance of proper practices and requirements rather than by lack of food per se.

16. These data are a cause for concern. However, while the *Income Survey* might reflect the situation with respect to monetary incomes and inequalities fairly accurately, one needs to

⁶ See UNDP. 1998. *Bhutan: Development Cooperation. 1996 Report*. p. 16.

study their precise impact on the life of an ordinary Bhutanese carefully. Improving access to potable water, sanitation, and free education and health facilities in Bhutan, together with a highly developed tradition for cooperation and labor-sharing—particularly in house-building, village road maintenance, grazing, irrigation, planting, and harvesting—alleviate the more pernicious manifestations of low incomes and inequalities. Cultural traditions, such as the close-knit family and village and the Government's social policies over many years, serve many of the people's basic needs.

17. Even though Bhutan is classified as a "low income food deficit country," its form of low-productivity subsistence agriculture is still generally sufficient to provide for household food security in most regions of the country. This appears to be related to the small size of the population and relatively equal distribution of landholdings. Coupled with this, the extended family and village systems provide security for the most vulnerable groups, and a system of lending/borrowing food during the off-season helps the poorer families, as do the Bhutan Food Corporation's "fair price" shops and the individual's access to wild forest produce.

18. Thus, while life in much of the country's rugged terrain can be harsh, particularly in the more remote rural areas and in winter, many of the characteristics of poverty found in other parts of South Asia and in Africa—and even among people of similar income levels—are not evident. The divide between rich and poor in Bhutan, therefore, does not show itself as being as wide as in several other developing member countries. There is no starvation, although there are seasonal food shortages, malnutrition, and micronutrient deficiencies; there is no urban begging, even though incomes are low and individual access to many consumer goods correspondingly restricted; housing conditions are generally good, although these are being stretched by rural to urban migration and are often substandard for those living as squatters on the edges of Thimphu and Phuentsholing and for road maintenance crews; and, while there are vulnerable and disadvantaged groups, these are not exploited in ways so commonly witnessed elsewhere. Nevertheless, rural living in particular is arduous, requiring long, laborious hours of work for small returns, while the limited road network often requires several hours' walk to reach health and education facilities, to buy supplies, or to transport meager farm surpluses to market. On the other hand, the yields of food crops have increased and new, higher value crops such as fruit and vegetables have been introduced to enrich diets and, where transportation permits, increased incomes. If the population continues to grow rapidly, however, the social situation and domestic perceptions of poverty could change.

19. Although data limitations preclude a definitive analysis of poverty, the overall picture cautions against making hasty interpretations and policy prescriptions that could be ill-suited to the particular context of Bhutan. Bhutan has what amounts in effect to a welfare state that, to the extent that can be sustained financially, mitigates many of the depressing effects otherwise associated with low incomes. On the other hand, the situation should not deter one from addressing the need to raise average incomes. The strategic challenge for ADB, therefore, is how to help raise income levels and, at the same time, to help strengthen the Government's success in addressing wider social issues through increased sustainability, coverage, and quality of social services.

20. Reducing poverty in these circumstances requires continued economic growth, together with the continued spread of health, education, and other facilities to encourage the inclusion of all groups in potential benefits, supported by targeting special assistance at those groups regarded as particularly vulnerable or disadvantaged. ADB would seem to be better equipped to

support poverty reduction in Bhutan by promoting economic growth and social inclusiveness through interventions in physical and social infrastructure, private sector development, employment creation and improved economic management rather than targeting the especially vulnerable groups (many of whom live in very remote areas).

C. Assessment of Socio-Environmental Performance

1. Gender Issues

21. Bhutanese women comprise 48 percent of the population and play a major role in the development of the country. They do not suffer from gender discrimination, as they have equal status with men and enjoy the same level of freedom under the law. Indeed, property inheritance laws are particularly favorable to women, and most households are headed by women. Women's participation in decision making at community meetings is as high as 70 percent. The percentage is lower at district and block levels, but participation is being actively promoted at those levels and is increasing. Representation in the National Assembly and employment in government service have a high percentage of men but these imbalances were mostly due to low girl's school enrolment in the past, when education facilities were often located far from their place of domicile. These imbalances have been slowly improved through the vast expansion of school facilities all over the country particularly in the 1990s. However, some gender imbalance exists in the secondary school enrolment rates. In terms of vocational and tertiary education, there is still marked imbalance.

22. Despite the absence of gender discrimination in Bhutan, and the approximate and improving balance found in many areas of social life, there are a number of issues that impact severely on women. They include high fertility rate, high maternal mortality rate, high infant and child mortality rates, and the gender gap in the adult literacy rate. These have improved enormously since the mid-1980s, but they remain poor. The impact of these problems is particularly severe among the smaller, more remote communities, where isolation provides an extra dimension to the difficulty of resolving them.

2. Human Development

23. In parallel with an impressive performance in terms of economic growth and diversification, major strides have been made in human development indicators, although from depressingly poor initial levels and to levels that have to be improved further. In the case of health indicators, life expectancy rose from 35 years in 1961 to 46 years in 1977, and to about 66 years in 1998. Similarly, between the mid-1980s and the mid-1990s, the infant mortality rate and the maternal mortality rate were reduced from 102 to 71 per 1,000 live births and from 7.7 to 3.8 per 1,000 live births, respectively, while the under-5 mortality rate fell from 162 to 97 per 1,000 live births. In addition, while the crude birth rate remained high at close to 40 per 1,000 population over the same period, the crude death rate was reduced significantly by more than half to 9.0. Major advances in immunization to 90 percent of the children have virtually eliminated neonatal tetanus, polio, and diphtheria. Malaria and leprosy have been brought under control, although malaria remains a problem in the southern part of the country. The program to iodize salt has significantly reduced iodine deficiency. The most common causes of

morbidity today are acute respiratory infections,⁷ followed by diarrheal diseases (formerly the most common), skin infections, and tuberculosis.

24. These positive developments were brought about by providing increased access to health facilities (hospitals, basic health units, dispensaries, and outreach clinics); boosting the number of doctors, nurses, and auxiliary health personnel; and improving access to potable water and sanitation. By the mid-1990s, 90 percent of the population had access to free basic health care (up from 65 percent in 1987); 58 percent of the rural population and 70 percent of the urban population had access to safe water supplies (from 31 percent in 1987 and expected to reach 95-100 percent in the next five years); and 80 percent of the rural population had access to means for safe excreta disposal. Moreover, piped sanitation systems either have been completed or are under construction in Thimphu and Phuentsholing. Although housing is generally considered adequate in Bhutan, urban slums and substandard housing have increasingly become a concern due to the rapid growth of the urban population.

25. The main issues facing the country's health authorities are the scarcity of skilled personnel for service delivery and for undertaking promotional and preventive programs, and sustainable long-term finance to support a highly dispersed and expanding health care system that seeks to provide improved services to widely scattered communities (see also paras. 69-70). Difficulties faced on both fronts, as indeed in many other areas of national development, will be made more acute if the population growth is not brought under control. The success achieved in reducing the mortality rate between the mid-1980s and mid-1990s was not matched by a similar decline in fertility, with the result that population growth rate by the mid-1990s had actually increased from 2 percent in 1984 to 3.1 percent in 1994. The Eighth Plan accords high priority to population planning, aiming to reduce the growth rate to 2.1 percent by 2002, 1.6 percent by 2007, and 1.3 percent by 2012. Various aid agencies, such as United Nations Fund for Population Activities (UNFPA), World Health Organization (WHO), and United Nations International Children's Education Fund (UNICEF), are providing substantial assistance in this area, focusing on reproductive health care and family planning as well as on improving the population database and information system. The Government aims to achieve a replacement rate of two surviving children per woman by 2012 by (i) increasing the contraceptive prevalence rate, currently 24 percent but rising; (ii) expanding education programs, targeting not only girls and women but also boys and men; and (iii) changing traditional attitudes with respect to the benefits of small families, particularly in an economy where population growth is often popularly seen as a solution to perennial domestic labor shortages.

26. As in health, considerable progress has also been made in education over the past 20 or more years. Considering that fewer than 450 children attended secular primary schools in the late 1950s and that the country had no secondary schools at that time, educational achievements in Bhutan have been impressive. The education system in 1999 consisted of 254 primary and community schools, 51 junior high schools, 21 high schools, 7 private schools, and 10 other institutions providing specialized education as well as tertiary and vocational training (including one degree college). Since 1977 alone, the number of teachers has trebled and the number of educational establishments has doubled.

27. The Government provides free education to the people in Bhutan. The primary school enrollment ratio had reached 72 percent (over 100,000 children) by 1999—up from 12 percent

⁷ Probably attributable to the use of wood for heating and cooking in traditional homes with little ventilation.

in 1980 and from 25 percent as recently as 1990—which suggests that a 95 percent ratio may be reached in 2002 and universal primary enrollment soon after that. Girls now comprise some 45 percent of primary schoolchildren, or over 60 percent of the gross enrollment ratio, and they tend to have lower dropout rates than primary school boys. Aside from such quantitative improvements, both the quality and the internal efficiency of primary education have improved. A curriculum known as the New Approach to Primary Education, introduced in the mid-1980s and extended to all primary schools in 1993, seeks to provide a curriculum based on Bhutanese values and circumstances and to develop skills that are useful to those who leave school at the end of their primary education. The survival rate in primary school increased from 35 percent in 1987 to 64 percent in 1998. As a result of these improvements, the adult literacy rate rose from 17 percent in 1977 to 23 percent in 1980, 38 percent in 1990, and 54 percent in 1998. However, the adult rate is only 28 percent for women, and is particularly low – even 10 percent – in some of the more remote rural areas. The situation is being addressed through nonformal education programs.

28. Secondary education has also expanded rapidly, although a shortage of trained, competent teachers at these higher levels remains a major constraint to faster growth. Even so, the Government has built new secondary schools, recruited expatriate teachers (mainly from India) and, importantly, expanded boarding facilities (now covering 23,366 students) as an inducement to rural students generally and to girls in particular. The gender balance is about 53:47 in favor of boys in junior high schools, 57:43 in high schools, and 52:48 in private schools. At tertiary and vocational levels, males dominate.

29. Notwithstanding the major improvements in basic education facilities, the country faces an acute shortage of skilled and semiskilled workers. The problems thus far have been that the technical and vocational training system has not been demand-driven, the quality of training provided has not been up to the required standard, the institutions offering training have been weak, and job seekers with even basic educational qualifications have been reluctant to accept training for many vocational occupations or trades. The problems are being addressed as a matter of urgency by the Government, with the assistance of ADB and other aid agencies. But inadequate technical skills will continue to be a major barrier to reduced dependence on expatriate labor, to industrial growth, and to the local, productive absorption of an expanding population.

3. Environment

30. The exploitation of the country's rich natural resource base has been at the core of the Government's developmental thrust. Owing to government efforts over time, so far the resource base has remained largely intact. However, environmental problems and natural resource degradation processes are increasing because of high population growth, rapid urbanization, and economic development. Major environmental concerns relate to (i) the high rates of population growth resulting in increasing pressure on the natural resource base, especially on land resources (with negative impacts in terms of land degradation and soil erosion as all arable lands are currently utilized and new marginal lands are being brought under cultivation); (ii) additional risks of land degradation and diminished regeneration capacity of pastures and forests, due to higher demand for livestock products and possible increases in overgrazing; (iii) higher deforestation risks, due to population growth and related demands in terms of fuelwood, materials, and nonwood forest products; (iv) increased risks of soil erosion due to rapid and improper road network development; (v) high rural-urban migration flows and increasing

pressure on the already poor urban infrastructures and adjacent land resources, especially in terms of inadequate solid waste management and sanitation systems; (vi) possible negative effects on the environment and cultural integrity that could result from rapid and unplanned tourism development; and (vii) additional possible negative impacts due to industrialization, water resources development (including hydropower), and the indiscriminate growth of mining activities.

31. Recognizing the need to achieve sustainable development, the Government established the National Environmental Committee in 1989 (renamed the National Environment Commission [NEC] in 1992) with a broad mandate in environmental planning and management: overall responsibility for the introduction of regulations, standards, and administrative procedures to control pollution, preserve natural resources, and achieve sustainable development. Accordingly, in the past decade, the Government⁸ undertook a number of activities, including the preparation of the National Environment Strategy (NES)⁹ and the implementation of a program for institutionalizing and strengthening the environmental assessment process in the country.¹⁰ Various line agencies have started to revise rules and regulations in their areas of responsibility to incorporate the different environmental requirements, including environmental impact assessment (EIA) procedures. Another piece of environmental legislation, the Forest and Nature Conservation Act, was approved in 1995.

32. More recently, the Government embarked on a comprehensive exercise to further upgrade its environmental management capacities by establishing additional environmental institutions and administrative mechanisms to prepare for the introduction of the required regulatory and strategy/policy implementation framework. Major efforts are now focusing on (i) the rapid formulation of the National Environmental Action Plan to implement the recommendations of the NES; (ii) effective implementation of the recently adopted Environmental Impact Assessment Act; (iii) adoption of a comprehensive (umbrella) environmental act (the National Environment Protection Act); and (iv) the gradual but firm introduction of policy measures and institutional programs to improve the enforcement of environmental regulations, environmental monitoring, interagency coordination, and the overall mainstreaming of environmental concerns into the economic planning and investment decisionmaking process, also through the adoption of market-based instruments.

33. While economic development in Bhutan will continue to be based mainly on hydropower, wood, agriculture, minerals, and services, major development constraints relate to (i) potential competition for alternative land and water uses; (ii) topographical factors increasing the cost of power, transport, and communications; and (iii) limited access to and supply of raw materials located in remote areas. In consideration of such key environmental constraints, there is a strong need to incorporate and integrate environmental management criteria in the overall

⁸ In particular, NEC and the Forestry Services Division of the Ministry of Agriculture.

⁹ "The Middle Path" National Environment Strategy (NES), issued in 1997 and adopted by the Government in December 1998. In short, the NES identified three major avenues to achieve sustainable economic development, namely: (i) expanding hydropower, (ii) increasing agricultural self-sufficiency, and (iii) developing the industrial base. The main challenge for the country is how to realize its ambitious development strategy in an environmentally sustainable way, as the NES clearly maintains that the development of these sectors will not be beneficial to the long-term welfare of the country unless development processes are environmentally sound, socially acceptable, and economically efficient. In this context, a National Environmental Action Plan is expected to be formulated soon.

¹⁰ The Environmental Impact Assessment Act, approved in 1999, includes detailed guidelines and procedures, such as environmental screening guidelines for major sectors and selected environmental quality criteria/standards.

development planning, decision-making, and industrial policy formulation process. In this context, the setting of appropriate environmental quality standards together with the corresponding effluent and emission standards, the establishment of adequate institutional/administrative procedures to enforce environmental regulations as well as the efficient implementation of the EIA system, are among the main steps required. Current environmental management capacity-building activities in this area are in the right direction.

D. Governance: Sound Development Management

34. For many years, Bhutan has accorded high priority to the development of its administrative institutions and system of governance. Since the 76th session of the National Assembly concluded in July 1998, a new system of government was established. The King remains the Head of the State but he is no longer the Head of the Government. The latter position is now being rotated on an annual basis among the members of the Cabinet of Ministers (six of them) who are nominated by the King and elected by the National Assembly. In the opinion of most observers, the Government deserves much credit for the achievements made. The civil service is staffed by dedicated and committed officers and led by ministers and other senior staff who exhibit professionalism and understanding of a high order. Refreshingly, and generally agreed by all, there is little if any corruption in the civil service and administrative hierarchy. In the few cases where corrupt practices surfaced in the past, corrective actions were swift and severe. Moreover, discussion on policy and governance issues with government officers, even on issues that might be regarded as politically sensitive, can be conducted openly and directly, without the need for euphemism or the fear of causing offense.

35. Mindful of the possibilities for corruption that could accompany economic growth and resulting social changes, a series of seminars was held to raise public awareness of the different forms of corruption, particularly the potential nature of the problem in the country, the control mechanisms, and preventive measures. These efforts also advocate the need to focus on people and to recognize that the Ministry of Finance, Ministry of Trade and Industry, the media, the judiciary, the education system, the business community, and the Royal Audit Authority each have a role to play in curbing unethical, "rent-seeking," and irregular activities. Indeed, the theme for the commemoration of the King's Silver Jubilee in 1999 – efficiency and effectiveness in governance, prevention of corruption in Bhutanese society, and uplifting of the morale of civil servants – testifies to the Government's commitment to good governance.¹¹

36. Specific recommendations were proposed including measures to prevent corruption and abuse of authority. These includes (i) realignment and clearer definition of authorities and responsibilities in the administration; (ii) introducing a standard administrative structure of all ministries; (ii) bifurcation of 3 ministries into 6: ministry of communications into ministry of construction and ministry of communications and information; ministry of health and education into ministry of health and ministry of education; and ministry of trade and industry into ministry of trade and industry and ministry of energy and water resources; and (iii) preparation for establishing ministry of labor and ministry of law. While full implementation of these initiatives will be expected by the end of FY2002 (the end of the current Eighth Five-Year Plan). The preparation for introducing a personal income tax and a three-year rolling budget are also commendable.

¹¹ See also Royal Government of Bhutan. 1999. *Enhancing Good Governance – Promoting Efficiency, Transparency, and Accountability for Gross National Happiness*. November.

37. In addition, the Government is pursuing to reconstitute the planning and monitoring structure and process. In this context, the Government has recently concluded mid-term review of the Eighth Plan (FY1997-FY2002), which has estimated 30 percent overall physical achievement of original targets. Human and financial resources are identified as key impediments to achieve the envisaged targets. Policy issues in various sectors to support respective sector development and objectives were also discussed. The recommendations of the mid-term review were translated to necessary guidelines and directives to expedite project implementation and realization of plan objectives and targets.

38. Development efforts in Bhutan have also usually been the result of an "inclusive" process, involving the participation of many elements of society. This is exemplified by the continuing efforts of the King to visit all districts in the country, often on foot or pony, to discuss with villagers and local officials the development needs and initiatives of the different parts of the country to ensure that the latter's views are reflected in the process of governance. Moreover, moves in recent years toward the decentralization of government and development planning to district and block levels are further raising the involvement and commitment of local government officials and local people in the planning and decision processes, and have contributed positively to popular participation, transparency, accountability, information flow, and good governance.

E. Implementation Assessment

1. The Portfolio

39. Bank operations in Bhutan started in 1983. As of December 1999, the Bank had provided 15 loans totaling \$75.2 million and 66 TAs (47 advisory and 19 project preparatory) in an amount of \$24.5 million. During 1999, one loan was approved and one loan was closed on 31 December 1999, both in the energy sector. Bhutan began 2000 with five ongoing loans amounting to \$29.4 million with \$16.0 million available for disbursement in the portfolio (see Appendix 2). The loan approved on 25 November 1999 was declared effective on 14 January 2000. With the approval of 5 new TAs during 1999, there are now 13 ongoing TAs (9 advisory and 4 project preparatory) amounting to \$6.6 million. In terms of project performance classification, all ongoing loans are classified as satisfactory in both implementation progress and achieving development objectives. In 1999, while the performance in contract awards of \$1.7 million fell short of projected \$2.7 million mainly due to the delay in loan effectivity of the loan approved in 1998, the disbursement of \$2.1 million for the year, however, exceeded the target of \$1.9 million.

40. As ADB increased the exposure from one loan of \$5 million a year to a loan every year up to \$10 million since 1997, the loan portfolio has become "younger" overtime. The fluctuation in the contract awards and the disbursement performance overtime reflects mainly the changing maturity of the portfolio, which consists of a small number of loans. The overall undisbursed loan amount in the 2000 portfolio was \$22.5 million including the newly effective loan, about 77 percent of the net effective loan amount of \$29.4 million. This reflects a "younger" portfolio compared with less than 57 percent of net effective loan amount at the beginning of 1999.

41. The performance in loan effectivity has also fluctuated substantially from one project to another ranging from more than 3 months to less than a day after loan signing depending on

the conditions required prior to declaring the respective loan effective. Establishment and maintenance of project implementation structure has been satisfactory, as most of the project implementation offices were established prior to the approval of the loans. Advanced procurement and recruitment of consultants were also useful to reduce the average time taken in recruitment of consultants from the date of loan approval to the date of first contract award. However, the utilization of the imprest accounts as reflected by its turnover ratio was slow and the executing agencies (EAs) still have skepticism in operating the account due to the depletion of account balance as a result of currency depreciation between the time of replenishment and liquidation. Submission of audited accounts and financial statements were satisfactory. Requirement for loan extension was also reduced overtime. Compliance of loan covenants and assurances on social and environmental measures have been satisfactory.

42. Three loans have been post-evaluated with one unsuccessful, one generally successfully, and one partly successful. The unsuccessful multiproject loan, which was the first Bank loan to Bhutan, suffered from too many subprojects in different sectors as well as other implementation problems. Out of six subprojects under the loan, only four met their objectives. The Highland Livestock Development was rated generally successful. The project has contributed to increased production especially in milk output, and farmers' income more than doubled in nominal terms. The credit line to Bhutan Development Finance Corporation (BDFC) was rated partly successful. The project provided foreign exchange financing to industry, and broadened the industrial/business base, which in turn helped create jobs, support ancillary business, introduce new technology to Bhutan, and provide foreign exchange earnings/savings. However, BDFC failed to attract sufficient private sector investment as envisaged during project formulation and develop into an efficient development finance institution. BDFC continues to rely on capital injection from the Government from time to time, including the recent issuance of government bonds amounting to Nu50 million.

43. A post evaluation report was also prepared for four TAs provided to the Ministry of Finance to enhance its capabilities to effectively plan and monitor the public sector resources. ADB assistance was able to substantially improve efficiency in day-to-day operations through computerization of budget and accounting system. However, these TAs were rated partly successful only because the TAs did not fully develop the necessary institutional capacity to sustain and effectively undertake public expenditure management. Under UNDP's assistance, the Government has prepared a development framework for effective aid coordination and identified requirements in terms of necessary human resources and institution development. Within this framework and analysis, the Government has identified the priority of addressing the basis of preparation of accounts, use of information technology, shortage of skilled staff, and different reporting requirements among donor agencies. The Government of the Netherlands has provided assistance to improve the financial management of the public sector through the revision and updating of the 1988 Financial Manual. ADB is planning to further support these efforts through an ADTA in Public Sector Resource Management in 2000.

2. Issues in Project Implementation

44. Although the implementation of ongoing ADB-financed projects in Bhutan has improved, there are still a number of issues that are impeding project implementation. These include (i) rather limited involvement of EAs at early stages of project cycle, in particular during the designing of TAs; (ii) slow utilization and liquidation of imprest accounts; and (iii) transfer of project staff due to extended overseas training and the possible implication of the ongoing

reorganization of ministries. ADB's Country Portfolio Review Mission (CPRM) in November 1999 agreed with the Government on a time-bound action plan to improve portfolio performance through enhancement of ownership throughout the project cycle including the feasibility study stage of project formulation. The agreed action plan includes performance indicators, responsible agencies and target date to address key issues: (i) needs assessment in TA formulation; (ii) TA consultants selection and engagement; (iii) performance of consultants; (iv) TA status of disbursements; (v) transfer of staff due to reorganization of ministries; (vi) adequate budget allocation for projects; (vii) timely submission of audited financial statements; (viii) imprest account denominated in US dollars; (ix) ADB review missions; and (x) project performance rating. The action plan is being implemented satisfactorily and will be monitored and updated as necessary during respective ADB missions prior to the next CPRM, which is currently planned for November 2000. Successful implementation of the action plan requires continued partnership and commitment from the project staff of both the EAs and the ADB.

II. Country Operational Strategy (COS)

A. The COS

45. The objective of the previous COS, which was prepared in July 1991, was to assist Bhutan's efforts to diversify the economy, with emphasis on strengthening the capacity for economic management and development administration; improving physical and social infrastructure; promoting private sector development; and protecting the environment. To avoid unduly straining Bhutan's administrative and debt-servicing capacity, ADB has limited its loan assistance to relatively small magnitudes. It has primarily played a catalytic role in mobilizing additional resources and cofinancing, particularly on grant terms, using technical assistance for the preparation of development projects, and supporting necessary institutional development. The ADB's strategy fully recognizes Bhutan's strong commitment to preserving its environment and all Bank assistance is compatible with this objective.

46. A new COS, which was formulated in close consultation with the Government, has been finalized in 2000 after discussion at the Board.¹² The new COS aims to support poverty reduction in Bhutan by promoting economic growth and social inclusiveness. Although the low Bhutanese income generally reflects widespread income poverty, the kind of abject poverty seen in some parts of Asia as a result of such low incomes is not evident in Bhutan. The Government's social welfare policies over many years have resulted in relatively widespread social well-being. Therefore, the main thrust of poverty reduction efforts under the COS is to enable the Government's commitment to be realized under the strategic theme of *improving the quality of life for all*.

47. To make a small program effective, ADB has to be selective and not try to spread available resources too thinly or to dissipate them through supporting too many objectives. ADB's overarching objective of poverty reduction¹³ will be addressed through the income and employment generation impact of private sector-led development, brought about by an improved policy setting and more efficient financial intermediation. This will be complemented

¹² Government clearance of the new COS was obtained on 23 March 2000 and informal Board discussion was held on 14 June 2000.

¹³ See ADB. 1999. *Fighting Poverty in Asia and the Pacific: the Poverty Reduction Strategy of the Asian Development Bank*, R179-99, October.

more specifically by ADB interventions to (i) reduce physical infrastructure constraints; (ii) develop domestic skills' base; (iii) improve urban environment; and (iv) support sustainable provision of quality social services. The new COS does not differ fundamentally from the previous one; in fact, it seeks to maintain continuity with it, especially with those thrusts that are considered to have as a positive development impact.

B. Progress in Implementation

48. The previous COS has provided a good basis for the Bank's operational program in Bhutan and for coordinating its work with other donor agencies in the country. Considering the country's limited debt-servicing capacity, the Bank has had to be highly selective in its interventions. The Government has also been careful in submitting projects for loan assistance to the Bank, and has been constantly exerting efforts to use aid effectively.

49. The lack of necessary data on poverty has precluded a definitive analysis of poverty for Bhutan. In order to effectively implement ADB's poverty reduction strategy and the new COS, the Government is undertaking a joint poverty assessment with ADB¹⁴ in close consultation with all stakeholders to establish a benchmark profile for formulating, monitoring, and evaluating future interventions in poverty reduction. Given the COS preparation represented the first-ever formalized discussion on what is poverty in the Bhutan context, and more importantly, secured Government's commitment to address the notion of poverty, ADB has undertaken a lead role among other donors, which have expressed their full support, to initiate and continue the dialogue with the Government on poverty reduction. As such, the development of the Government's necessary institutional capabilities to generate reliable and timely data for monitoring and evaluating impacts of development activities on poverty reduction is a crucial dimension among the priorities identified in the new COS.

C. Poverty Reduction Partnership Agreement

50. The joint poverty assessment will be discussed at a workshop to be organized by the Government. This is to ensure a wide range of stakeholder participation in the process. Based on the poverty assessment and analysis together with the outcomes of the workshop, a country specific poverty reduction strategy will be adopted to guide the future ADB operations in Bhutan. The Partnership Agreement for Poverty Reduction between the Government and ADB will be finalized early 2001 to (i) set out a long-term vision of poverty reduction; (ii) define immediate and medium-term goals; (iii) determine concrete short-term actions; and (ii) monitoring and evaluation arrangements, which would effectively guide the allocation of ADB's resources and future interventions.

III. Sector Strategies

A. Agriculture

1. Agriculture and Rural Development

51. In view of the very large proportion of the population in rural areas and of the increasing issues associated with rural-urban migration, developing private sector activity in the rural areas

¹⁴ TA No. 3443-BHU: *Poverty Assessment and Analysis*, for \$100,000, approved on 19 May 2000.

of Bhutan represents an important opportunity for raising incomes nationally, for dispersing economic activity, and for addressing the income dimension of poverty reduction. The coverage of rural financial services has improved over the years. However, the rugged topography of Bhutan has constrained the expansion of agricultural production, and considerable efforts have been devoted to increasing the productivity of existing croplands. The constraints to productivity improvement and agricultural diversification are poor soil quality, fragmented farmland, limited technical know-how and weak institutions and market infrastructure.

52. ADB has provided 19 TA grants amounting to \$7.7 million, including the Irrigation Action Plan in 1993 and the Irrigation Program Strengthening in 1997 and 2 loans totaling \$7.8 million for Chirang Hill Irrigation and Highland Livestock Development. The Government reiterated to the ADB's Country Programming Mission in March 2000 that adequate grant assistance is available for agriculture sector development in the next few years. As such, the Bank is not planning any assistance in the agriculture sector for the next three years. However, improving the physical infrastructure both within and running through rural Bhutan could provide (i) a potent force for market integration and the release of spontaneous private initiatives; (ii) improved access for tour groups, and a fillip for the employment generating services and handicraft industries that cater to them; and (iii) in the case of power transmission and distribution, a means for developing local agroprocessing and generating alternative employment. In turn, this would help to promote balanced regional development, an important consideration of the Government. Emerging rural income and employment opportunities may also contribute to a slowing in the pace of rural out-migration.

B. Infrastructure

1. Energy

53. Bhutan is endowed with considerable hydropower resources whose exploitation has supported the growth of energy-intensive industries, expansion of the Government's revenue base, and a rise in exports. Parallel to the expansion of the domestic transmission and distribution system, the key objectives in the energy sector are (i) financial viability and sustainability of power operations through the corporatization of the Department of Power (DOP); (ii) revision of the tariff structure; (iii) private sector participation in the construction of power facilities and, potentially, in their ownership; and (iv) expansion in power generation for export.

54. ADB approved the first loan for Rural Electrification in the sector in 1995 together with a TA for Institutional and Financial Development of DOP. The loan was closed on 31 December 1999. A Sustainable Rural Electrification Project together with a TA for Corporatization of DOP approved last year in Bhutan was the first infrastructure project at ADB with classification of poverty reduction as primary objective. Close monitoring and supervision is necessary to ensure that the desired development impact is realized. Efforts in the energy sector to reduce poverty will continue through rural electrification and good governance in planning and management. This is done through commercialization and corporatization of the DOP. In addition, the ADB is preparing the groundwork for private sector participation in developing power generation plants. This is one of the most promising sectors for subregional cooperation. While ADB remains the lead multilateral donor in the sector, coordination with other bilateral donors financing construction and/or feasibility studies of generation plants will be essential.

55. Feasibility studies for large hydropower projects are currently undertaken with donor assistance: Punatsangchu Hydropower Project of 874MW financed by the Japanese International Cooperation Agency (JICA) and Mangdichu Hydropower Project of 360MW financed by the Government of Norway. This would require a large investment including cofinancing. ADB has included an ADTA in 2001 to help mobilize private sector participation in hydropower development. A Power Sector Review is also included in 2002 to assess the achievement and progress of the power sector reforms including the development impact of pro-poor interventions and necessary improvements to further enhance efficiency in the power sector. Based on the findings and recommendations of the sector review, a PPTA for rural electrification network expansion is planned for 2003 to prepare a possible ADB investment.

2. Transport

56. In the transport sector, the focus is on the maintenance of the road transport network. The Government's objectives in the sector are to develop a sustainable and regionally balanced transport system that is safe, convenient, and economical, to maintain past investment, and to develop road construction capabilities in the private sector. Other alternative modes of transport like ropeways and domestic airlinks etc. were explored in previous studies financed by UNDP. The main issue revolves around the economic and financial viability of investments in these modes of transport. Lack of an efficient road network to markets has been constraining development of both agriculture and industry. The establishment of a road network that connects production bases and markets, especially to foreign markets, will enhance significantly the development of agriculture and industry. However, due to formidable natural constraints that make road construction extremely expensive when incorporating the costs of sustaining the delicate environment balance, limited institutional capacity, and relatively light vehicle traffic, the focus of the Government has been on maintenance of existing roads instead of construction of new roads.

57. The Government of India has played a major role in road construction and maintenance in Bhutan. Bank's assistance in the road subsector will continue to focus on main roads and highways with close coordination with donors to ensure consistency and no overlapping of activities. The Bank's policy dialogue has focused on: (i) institutional strengthening of the Department of Roads (DOR) to improve maintenance management; (ii) more efficient allocation of budgetary funds for road maintenance; (iii) development of the domestic contracting industry; and (iv) improvement in cost recovery. A performance audit is being undertaken for the recently completed ADB-financed East-West Highway Maintenance Project and two ADTAs, which helped to address the above issues. Lessons learnt from past assistance will be incorporated in the proposed loan for Road Improvement.

58. While ADB's assistance will continue to focus on the rehabilitation and maintenance of the main highway network, as well as on transport network planning and management, the World Bank is involved in the development of feeder roads, which complements ADB's efforts without duplication. Past ADB interventions have been instrumental to gradually develop capacity of local contractors. ADB's support for the formulation of a master plan of road transport is an important initiative to consolidate the progress made in strengthening the road maintenance system and the road network as a whole. In addition, intersectoral linkages are most evident in road improvement particularly in enhancing accessibility to health, education, and other social services, which has the potential of generating substantial social benefits.

59. ADB assistance also includes an ADTA in 2000 for Road Planning and Management Strengthening, which will help in (i) planning and financing of the road sector; (ii) technology transfer; and (iii) legislation for roads and road transport. A Road Sector Master Plan will be prepared particularly on main and feeder roads with potential for private sector participation and subregional cooperation. Based on the findings of the study, a loan for Transport Network Improvement is included for 2003 with PPTA in 2002. ADB is also planning a Transport Sector Review in 2003 to assess the poverty impact and achievements in sector development objectives in past interventions and identify necessary policy, institutional, and investment requirements to further develop the sector particularly in enhancing private sector development and subregional cooperation.

3. Finance

60. Over recent years, substantial expansion of the financial sector and monetization of the economy have been achieved. Since 1980, the financial sector's contribution to GDP in real terms increased by an average of 12 percent per annum compared to GDP growth of 6.4 percent annually. Accompanying this rapid growth, several financial institutions have been established. Today, in addition to the Royal Monetary Authority (RMA) which fulfills the role of a central bank, there are four major financial institutions. In order to adequately regulate banking institutions in the country, the Government enacted the Financial Institutions Act in 1992 and RMA introduced its Prudential Guidelines in 1995. Despite these developments, there are still weaknesses and inefficiencies in the financial sector, which hinder efficient allocation of resources as well as savings mobilization.

61. The Bank's strategy for supporting financial sector development involves several thrusts: (i) promoting private sector participation in the banking sector; (ii) deregulating interest rates through abolition of interest rate ceilings; (iii) strengthening the banking supervision function of Royal Monetary Authority (RMA); and (iv) initiating the development of an incipient capital market to provide diversified sources of financing.

62. ADB has been the major donor in the sector since our first intervention in the sector back in 1988. Past and ongoing interventions focus on increasing the market orientation and efficiency of the financial institutions and the financial sector as a whole. The sector development program approved in 1997 aims to support the Government's efforts to provide an enabling environment for private sector development through enhancing financial sector intermediation. The World Bank is planning to extend its "knowledge-based" assistance to formulate a financial sector strategy, which will be undertaken in collaboration with ADB's financial sector review programmed for 2001. Efforts are also being made to collaborate with all concerned stakeholders to pursue the exercise.

63. The ADB has provided the first policy-based lending to the country to establish the necessary policy environment in the financial sector to facilitate private sector development. The first tranche was released in 1998 and the release of second tranche was not possible by 20 December 1999. Good progress has been made in complying with the second tranche release conditions. Release of the second tranche can be expected in August 2000. However, the credit line of \$4.0 million has been utilized very slow since 1998, which is affecting the overall country portfolio performance. The Government is assessing the possible utilization of the credit line before loan closing of June 2002 and cancellation of the residual.

64. ADB has provided other support to the financial sector of Bhutan, including the establishment of the second commercial bank, Bhutan National Bank; BDFC; and the Royal Stock Exchange of Bhutan (RSEB). Bank assistance is also underway to establish a pension fund and to strengthen the banking supervision function of RMA. Future assistance in the sector will build on the progress, achievement, and lessons learnt in ongoing and past assistance. Based on the Bank's post evaluation findings and recommendations on past assistance to BDFC's industrial lending operations, necessary restructuring of BDFC to establish financial viability and sustainability in its overall operations will be supported under an ADTA included in 2002 after the Financial Sector Review in 2001. The Financial Sector Review will assess the achievements and requirements to further develop the sector and support private sector development, particularly in the formulation of the long-term human resources and institutional development framework. Subject to the findings and recommendations of the Review and progress of ongoing assistance, ADTAs for Institutional Development of Royal Insurance Corporation of Bhutan and Strengthening of RMA are planned for 2001 and 2002 respectively.

C. Social Infrastructure and Environment

1. Basic Skills

65. Enrolment at all levels has grown at an impressive rate over three and a half decades. For instance, the gross primary enrolment rate was estimated to have reached 72 percent in 1995 from a level of just 12 percent in 1980. Having achieved significant improvement in the country's basic education system, the emphasis in the sector is gradually shifting to skills development. The acute shortage of trained personnel at all skill levels, however, has been a major impediment to national development in Bhutan. To overcome this constraint, the country has to rely on expatriate personnel. The Government has realized that dependence on expatriates is only a temporary solution. Developing indigenous human resources to improve the efficiency and productivity of public and private agencies is the long-range development objective. Bhutan's vocational training system, however, is inadequate, and there is a severe mismatch between the demand and supply of skilled workers in terms of quality and aspirations. The Government has introduced a policy to include vocational elements in the education system, in an effort to make education more relevant.

66. ADB has provided assistance for the establishment of the Royal Institute of Management (RIM) and the Royal Bhutan Polytechnic (RBP) under a loan for Technical and Vocational Education and Training project. Based on the recommendation of Bank assistance, the National Technical Training Authority (NTTA) was established to strengthen the capabilities in providing necessary skills training to meet the market demand. Efforts under all existing technical institutes will be consolidated to achieve this objective under the NTTA. National Employment Board (NEB) was recently established and may eventually become the Ministry of Labor. It will be necessary to develop mechanisms to link closely training requirements with employment opportunities. An ADTA is planned in 2000 to assess and develop the necessary institutional requirement of NTTA.

67. ADB will be to continue to address the country's need for basic skills in order to achieve a better balance in the supply of available skills and the demands of the labor market. This is an important measure to address one of the major constraints for private sector development. Efforts include the creation of demand-driven structures for technical and vocational education

training, namely by: (i) strengthening the currently weak but improving institutional capacity; (ii) addressing to the extent possible the negative perceptions of manual work; (iii) improving the quality of technical and vocational training; and (iv) widening access to training facilities and programs particularly the rural population and women even in urban areas.

68. The challenge of ADB's proposed intervention is to have a national impact on incomes and the skills' situation, pursue ways to reach more people—particularly women—and to do so in cost-effective as well as responsive ways to meet the needs of the market. Ongoing and related activities to support skills development, which were financed by Government of Denmark and UNDP through Ministry of Trade and Industry and Bhutan Chamber of Commerce and Industry as well as the World Bank and the Swiss Development Cooperation (SDC) under the Secondary Education Project, will need to be closely coordinated. German Development Cooperation (GTZ) and Netherlands Development Organization (SNV) are also providing assistance to further the development of basic skills in the country. Based on the findings and recommendations of the ongoing PPTA on basic skills development, a loan is envisaged for 2001. Possible parallel financing particularly with GTZ will be explored.

2. Health

69. In the last 15 years the health status of the population of Bhutan has improved substantially (see also para. 23). Most of this improvement is the result of a significant increase in access to primary health care services, which was made possible by the establishment of 145 basic health units widely disbursed over the country. Immunization coverage among children is over 90 percent, a remarkable feat given the country's terrain and significant rural population. Similarly, the contraceptive prevalence rate has increased from 18 percent in 1994 to about 37 percent in 1998. Health indicators such as infant and maternal mortality have dropped, but remain high by regional standards. Despite the extraordinary accomplishments, the Bhutanese health care system faces some serious challenges. The 1994 National Health Survey found a population growth rate of about 3 percent per year and a total fertility rate of 5.6 children per couple.

70. An important element of the new COS is to promote financial sustainability and national self-reliance of public service. While the Government has made excellent progress in health care, there is a need to put the long-term financing of health services on a sustainable footing, and to improve the quality of care as well as the efficiency with which it is dispensed. ADB's proposed intervention of Health Care Reform Program in 2000 would help introduce crucial sector reforms to meet the current costs of improved services, reduce the fluctuations in the annual allocations of essential drugs and vaccines, and encourage the introduction of new vaccines and drugs on a sustainable basis. The scope of ADB's involvement will be consistent with the sector development framework and not overburden the capacity of the Department of Health and complement the activities of other donors, particularly the Health Sector Programme Support II from Denmark, as well as other health sector assistance from Government of India, Japan International Cooperation Agency (JICA), UNICEF, UNFPA, and the WHO. In addition, the proposed program will support establishing a Health Trust Fund that would provide an effective indirect means of addressing the health indicators through improved governance particularly in sustainable health care financing as well as supporting poverty reduction. Further assistance to meet institutional requirements for improving health services efficiency is programmed for 2001.

3. Urban Development

71. Thimphu (the capital) and Phuentsholing (the commercial center) with some smaller district center towns are already experiencing rapid population growth (e.g., 7-10 percent growth per annum in Thimphu). Urban problems are conspicuous in large urban centers, including shortage of low-income housing, squatting on vacant government land, unplanned conversion of agricultural land without proper urban infrastructure, inadequate water supply, and sanitary/environmental problems due to inadequate solid waste, wastewater, and storm water disposal systems.

72. While urban planning was introduced during 1983-1987, it remains rudimentary due to shortage of experienced staff, an underdeveloped enforcement mechanism, and inadequate budgetary provision. The Government recently established the autonomous Thimphu City Corporation with the authority to impose and retain user charges for the provision of municipal services. This new institution needs to be fully developed with clearly defined responsibility and authority and with capabilities to undertake urban management effectively. Land management is underdeveloped, causing irregular development in the peripheral areas of large urban centers. The Government has recognized these issues and has adopted policies designed to develop regional growth centers, devolve authority to local levels, and provide needed urban infrastructure to the expanding urban population in Thimphu and Phuentsholing. Under the Eighth Plan, the Government plans to achieve a balanced and sustainable system of settlements, which would incorporate the growth center strategy. The Government has recognized the problem of rural-urban migration and has taken a comprehensive approach, namely: (a) population, family planning and employment; (b) investment in rural areas to retain people in rural areas by creating job opportunities; (c) development of secondary towns; and (d) efficient management of the two major cities of Thimphu and Phuentsholing. The Bank will assist the Government in achieving orderly urbanization on a sustainable basis through development of urban management systems and provision of project finance.

73. ADB's urban development focus is on improvement in infrastructure. A loan was approved in 1998 to improve drainage, roads, footpaths, parking areas, river protection works in Thimphu and Phuentsholing. Under the Bank's ongoing TA on capacity building in the urban sector, one of the major activities to be undertaken was the preparation of a draft housing sector policy document. This draft policy was completed in March 1999, and it provides an overall framework for further development by the Government of its final national housing policy statement. The policy document will guide the future development of the country's housing sector, including the subsequent preparation of housing programs, and will provide the focus for possible external support by donor agencies.

74. ADB has provided assistance to support urban infrastructure development in close coordination with Denmark. Issues were also identified and focussed on the need to develop a housing policy that can be shown to be financially sustainable. They include provision for the development of affordable housing; for full cost recovery, with limited subsidies only for low-income groups; for the identification of medium-term land requirements and the development of a land bank for future housing needs, especially in Thimphu and Phuentsholing; for the creation of long-term finance mechanisms; and for private sector participation in the provision of housing. Denmark is currently providing assistance to the Government to finalize and implement the draft housing policy as well as a pilot housing schemes for low-income households in urban areas. Based on the outcome of this pilot program and the implementation

of the housing policy, the provision of loan assistance for housing development could be considered by ADB and, if it transpired, would represent an important aspect of ADB's strategy to assist low income groups and to reflect ADB's overarching objective of poverty reduction. A PPTA is tentatively planned for 2002 with a loan in 2003. The Government reiterated the priority of urban housing development and ADB would consider advance the TA and loan assistance to 2001 and 2002 respectively whenever they are appropriate.

4. Environment

75. Bhutan has a rich and largely intact natural resource base, but environmental problems are slowly emerging with soil erosion, land degradation and urbanization. Apart from NEC, the Government, recognizing the need to achieve sustainable development, also established the Bhutan Trust Fund (BTF)¹⁵ in 1991 to finance field activities for environment conservation. The BTF has performed well financially and is conscientiously managed by a secretariat in Bhutan and offshore fund manager. Over the last two years, disbursements from the BTF and field activities have increased.

76. Under Bank assistance,¹⁶ the Government's EIA capabilities were strengthened. The Government was also able to establish the environmental guidelines for key sectors. While the guidelines for six key sectors have been completed, the necessary environmental guidelines for the urban sector are still lacking. The Government is utilizing its own resources to complete the environmental guidelines for the urban sector, which is considered a priority for the Government. The Government also confirmed that adequate donor resources particularly from the World Bank, Government of Denmark, and UNDP are currently available for the sector.

D. Governance Dimensions of ADB Operations

77. The Government is according high priority to the development of its administrative institution and system of governance. Therefore, while Bhutan is still in need of support to strengthen institutional capacity and the legislative framework in various areas, it is technical support that is required, not a change in attitudes or civic values. This is an important distinction. ADB appears better equipped to deal with the former than the latter. Past and ongoing Bank assistance has contributed to improvements in capacities in public sector management. A series of TAs have been provided the Ministry of Finance to enhance its capability to effectively plan and monitor the public sector resources. A TA has also been provided to the Central Statistical Organization to fill up critical data gaps and to produce better quality, comprehensive, and timely statistics. In the areas of procurement and contracting, a TA has assisted the Government to streamline rules and regulations, prepare model bidding documents, standard bid evaluation reports and contract documents, and establish a contractor registration and classification system. Further, under loan projects in the transport sector, ADB has assisted the Government to improve management of construction and maintenance of roads through promotion of local private construction companies. While these TAs have contributed to the strengthening of the Government's development management and project management capacities, continuous efforts are necessary to sustain necessary improvement.

¹⁵ As of December 1999, the BTF has accumulated capital contributions up to \$29 million, of which \$21 million from contributions of Global Environment Facility, World Wildlife Fund, and Governments of Bhutan, Denmark, Finland, the Netherlands, Norway, and Switzerland and \$8 million from accrued unspent investment income.

¹⁶ TA No. 2531-BHU: *Strengthening EIA Capabilities and Preparation of Environmental Guidelines*, for \$350,000, approved on 13 February 1996.

Further institutional development and capacity building of the development administration will be an important dimension of ADB's future operations. Strengthening of the capacity to generate and utilize reliable and timely data is an important element in this. ADB is currently assisting the Government to undertake a first-ever poverty assessment and analysis in Bhutan, which will help to establish the framework for further enhancement of the necessary institutional requirement to effectively plan, monitor, and evaluate poverty interventions for the country. In addition, ADB will provide technical assistance to (i) promote effective public sector resource management; (ii) enhance capacity for project performance evaluation; (iii) improve the policy development framework for the financial sector; and (iv) strengthen the statistical systems in the country.

E. Gender Dimensions of ADB Operations

78. The Bank's assistance in the past had not addressed gender issues directly because of the limited incidence of gender discrimination in the country. The laws of the country provide women with equal status and freedom as men. However, participation of women in economic activities has not yet been adequately addressed. The Bank's future assistance to the country, particularly the proposed basic skills development project, will address gender issues with emphasis on skills development for girls. The proposed Health Sector Care Reform Program in 2000 includes measures to ensure female health workers at basic health units to attend to female patients. A County Briefing Paper on Women is being finalized to assess gender issues in the country and to identify how the ADB could further promote Bhutanese women's role in development through policy support and capacity building. A Social Sector Profile has also been prepared to present an overview of social sector issues in Bhutan. The Profile examines the constraints and opportunities in health and nutrition, education and training, water supply and sanitation sectors; and identifies ADB's strategy for future assistance in the relevant sectors.

F. Private Sector Development

79. A private sector development strategy, which has been incorporated in the new COS, emerges from addressing the acknowledged constraints faced by the country's private sector. The private sector development strategy will target at the promotion of private sector investment through:

- supporting an improved policy setting and more efficient financial intermediation;
- improving road transport and expanding power transmission and distribution; and
- strengthening vocational, technical and basic skills.

80. In addition to the public sector interventions, ADB will explore opportunities in close consultation with the Government to utilize ADB's private sector operations to play a catalytic role in enhancing private sector development through modalities in loans, equity investments, and guarantee facilities engaged directly with the private sector. Areas of interest include hydropower development and transport facilities. As such, the finalization and implementation of the proposed Foreign Direct Investment Act will be a crucial element in providing the necessary framework to further this development.

81. The Bank approved a sector development program (SDP) in 1997 to facilitate financial sector intermediation and remove policy impediments to private sector development.¹⁷ Policy reform contents of the SDP included rationalization of the Government's control over private sector business activities, liberalization of interest structure, and improvement in banking supervision capabilities. One component of the SDP is an equity investment in BNB. This is the first time that the Bank had been involved in direct equity investment in Bhutan. ADB is also assisting the Government to corporatize the DOP with an agreed Action Plan for restructuring the power sector including efforts to promote private sector participation in hydropower development.

IV. Regional Cooperation

82. The globalization has greatly intensified international competition and has, at the same time, given rise to a new wave of regionalism. Geographical proximity, economic complementarity, political commitment, policy coordination and infrastructure development are factors conducive to formation of such groupings. Subregional economic cooperation, as one form of coordination, could offer the South Asian countries significant potential benefits. In 1997, Bangladesh, Bhutan, India, and Nepal agreed to establish the South Asian Growth Quadrangle (SAGQ), which will operate within the South Asia Association for Cooperation (SAARC) framework. Given their development potential, focus was to be given to six sectors, including energy; multi-modal transport and communication; trade and investment facilitation and promotion; tourism; and natural resource utilization and environment. Another potential area for subregional cooperation is the road subsector. The proposed improvement of the road network will open up and enhance transit routes to India and Bangladesh, and provide Bhutan with access to seaports in these countries. It would also improve road connections to the Indian road system in West Bengal where a north-south corridor from the border to the port of Haldia is being developed. As a landlocked country, Bhutan's access to and from seaports in neighboring countries will be essential in breaking out of the limits imposed by a small domestic market. A feasibility study on establishing a dry port in Phuentsholing was completed under UNDP support. This may enhance the potential of further bilateral trade between eastern states of India and Bhutan but in the longer term also with Bangladesh and Nepal. ADB is currently assisting private sector-led initiatives to promote economic cooperation in this subregion.

V. Donor Activities and Aid Coordination

83. Bhutan has established a reputation as a developing country that is able to make effective use of the assistance available to it. External assistance mostly in the form of grants generally finance all the capital expenditures in the budget (see Appendix 3). Most of such assistance are provided on a grant basis from bilateral donors and UN agencies. India is the largest bilateral donor. Others include Austria, Denmark, Japan, Netherlands, and Switzerland. Among the multilateral institutions, the Bank is the largest donor, followed by UN agencies and the World Bank. Aid management and coordination are the responsibility of the Government

¹⁷ Loan No. 1565-BHU(SF): *Financial Sector Intermediation Facility (Policy Loan)*, for \$4 million, approved on 23 October 1997; Loan No. 1566-BHU(SF): *Financial Sector Intermediation Facility (Development Finance Loan)*, for \$4 million, approved on 23 October 1997; Investment No. 7139-BHU: *Bhutan National Bank*, for \$800,000, approved on 23 October 1997; and TA No. 2902: *Capacity Building of Financial Sector Infrastructure and Entrepreneurial Development*, for \$500,000, approved on 23 October 1997.

and the discharge of this responsibility is assisted by collaboration among the donors and between the donors and the Government.

84. The in-country donor community is relatively small, and most if not all members of it are well known to one another. ADB makes regular contact with Government and donor agency officials, and contributes actively to sectoral and more general programming workshops. Close coordination with various donors in respective sectors was undertaken to enhance development impact of ADB interventions. In transport sector, Government of India provides assistance in civil aviation, road construction and maintenance, and bridges. The World Bank and SNV focus on environmentally friendly rural access road construction while ADB's assistance emphasizes institutional development for technical capacity particularly on main road maintenance. A number of donors are active in developing human resources of the country including the World Bank in primary education; India, Government of Denmark, UNFPA, UNICEF, WHO, UNCDF in health facilities; ADB in health sector policy reforms and technical and vocational education; and UNDP, Governments of Austria, Sweden, Denmark, India, and Netherlands in overall human resources development. In the energy sector, ADB's assistance in rural electrification and sector reforms were provided within the framework of the overall development in the power sector with assistance from the Governments of India, Austria, Japan, and Norway. ADB supports urban development in close coordination with Government of Denmark for the two major towns and consistent with the World Bank's assistance in ten secondary towns. Adequate resources were provided by IFAD, FAO, JICA, Governments of Netherlands, Denmark, Austria and Switzerland/Helvetas, European Community, UNDP in the agriculture sector. UNDP, WWF, and Governments of Denmark, Norway, the Netherlands, and Switzerland are also active in the environment sector.

85. The next Roundtable Meeting is currently planned for 7-9 November 2000 after almost three years since the last meeting. The venue will be in Thimphu against the usual venue of Geneva. The Government with UNDP support is taking more ownership in organizing the proposed event compared to previous meetings. The theme of the meeting has been realigned to "Development Towards Gross National Happiness" with emphasis on (i) environment and conservation; (ii) social and economic development; (iii) culture heritage; and (iv) governance. The Government has agreed to include a political briefing on refugee and security issues during the meeting.

VI. Cofinancing and Catalyzing External Resources

86. ADB is playing a catalytic role in mobilizing additional resources through cofinancing/parallel financing for projects in Bhutan. In the past, cofinancing of about \$13 million from UNCDF, UNDP and Governments of Denmark and Norway for five projects were mobilized with a total of \$75 million loan investments from ADB during 1983 to 1999. Cofinancing has been a challenge in Bhutan due to the small size on both loan amount and number of projects in the operational program of Bhutan.

87. ADB in consultation with the Government will continue to explore actively cofinancing/parallel financing possibilities for the program period with GEF, UNDP, UNCDF, Government of Denmark, and other bilateral and multilateral agencies. A good candidate is the Basic Skills Development Project with GTZ. Private sector financing would also be targeted for the two hydropower projects, for which feasibility studies are being conducted (see para. 55).

VII. ADB's Operational Program

A. The Proposed Program

88. The lending program for 2001-2003 will be maintained at an average annual level of up to \$10 million per year, taking into account Bhutan's absorptive capacity. Average one loan per year is envisaged during the program period. ADB's future operations in Bhutan will be linked to country performance particularly in macroeconomic management, efforts for poverty reduction, improvement in governance, and portfolio management. In addition, Government's contribution would need to finance more than 20 percent of total project cost as evidence of its commitment and ownership. ADB investments will be limited to a relatively narrow range of sectors consistent with the new COS. The lending and TA program for 1999-2003 is presented in Table 1 (see Appendix 4, page 1 for details).

Table 1: Lending and Technical Assistance Program, 1999-2003

A. Public Sector Lending Program										
Lending Program ^a	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
ADF	1	10.0	2	19.6	1	7.0	0	0.0	2	15.0
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline ^b										
ADF	1	10.0	2	19.6	1	7.0	0	0.0	2	15.0
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program										
TA Program ^a	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	5	2,200	5	2,100	6	2,200	5	2,200	4	2,200
TA Pipeline ^b	5	2,200	5	2,100	6	2,200	5	2,200	4	2,200

^a The Program is comprised of the firm projects.

^b The Pipeline consists of both firm and standby projects.

89. ADB will assist the Government in making progress towards a policy and institutional environment conducive to the generation and sustainability of the desired development impact of government and ADB programs. ADB's TA operations will focus on: (i) strengthening institutional capacity, policy formulation capability and the legislative and regulatory environment; and (ii) directly supporting lending operations, either through advisory and operational or project preparatory activities. Through regional technical assistance, ADB will also seek to play a proactive role in subregional economic cooperation, and to stand ready to facilitate research and policy dialogue in potential areas of mutual interest.

90. The Government has requested ADB to consider raising the current level which is inadequate to fully meet the crucial need for institutional development and capacity building to support private sector development and to improve the effectiveness of development administration. The implementation of the new COS with the overarching objective of poverty reduction also requires necessary institutional development and capacity building for effectively plan, formulate, monitor, and evaluate poverty interventions. As such, the annual indicative planning figure (IPF) for ADB's current TA program in Bhutan is raised by 10 percent to \$2.2 million. Institutional capacity to produce timely and reliable data for assessing, monitoring, and evaluating the progress and achievement of poverty reduction will need to be developed in

order to fully implement the new COS as well as the proposed partnership agreement. The details of TA program for 2001-2003 is presented in Appendix 4, page 2.

91. One to two loans per year are envisaged during the program period except for 2002, when no firm loans are proposed. TA grants total \$6.6 million for 15 TA projects, of which three are for PPTAs and 12 ADTAs. Three projects in the lending pipeline 2001-2003 include one other development interventions and two poverty interventions. In volume terms, more than 55 percent of ADB lending for the program period will be classified as poverty interventions. This exceeds the 40 percent requirement as indicated in the implementation of ADB's poverty reduction strategy. In terms of sectoral distribution, there are two projects in social infrastructure and one in transport, the road subsector (see Appendix 5).

VIII. Economic and Sector Work Program

92. The new COS, which was finalized in 2000, will guide the future ADB interventions in the medium term to achieve the respective operational goals and overarching objective of poverty reduction. A COS update will be prepared according to the findings and recommendations of the ongoing poverty analysis. Country economic review/updates will be prepared annually for the next three years. The economic and sector work (ESW) program for 2001-2003 will aim at providing the necessary policy and institutional framework for sector development as well as mainstreaming cross-cutting issues particularly the pro-poor element in ADB's operational program. With the finalization of the poverty reduction partnership agreement in Bhutan planned for the end of this year, the implementation of the poverty reduction strategy in the sectors that ADB continues to involve may require necessary realignment and consolidation of past and ongoing efforts. As such, sector reviews and strategies are proposed specifically for finance in 2001, power in 2002, and transport in 2003. Although the external debt position of the country remains comfortable, the situation may come under increasing pressure as concessional loans incurred in early 1990s begin repayment. ADB will assess and continue to monitor the debt servicing capacity in the short-term, medium-term, and long-term to facilitate economic planning as well as the aid and debt management of the country.

IX. Local Cost Financing

93. Although the Government has been able to meet almost all the recurrent expenditures from its domestic resources since the 1990s, the scope for further expansion of domestic revenues remains very limited due to the largely rural and scattered population, and the small industrial and commercial base. Given the expansion of basic services particularly health and education in the past few years, the requirement to sustain these services will impose additional burdens on local resources. Continued efforts are being undertaken to improve tax administration and collection as well as to broaden the tax base through promotion of private sector activities. Preparation for the introduction of a personal income tax is a good example. The Government is also gradually introducing user charges and fees for basic services including water and sewage as well as education. Nevertheless, donor funding of a substantial portion of local currency cost will still be necessary over the medium term. The local cost financing of Bank loans in Bhutan varies from less than 5 percent in the energy sector to more than 30 percent in the social infrastructure sector.

BHUTAN
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999 [*]
ECONOMIC INDICATORS					
A. Income and Growth^a					
1. GNP per Capita (dollars, current)	479	509	603	586	618
2. GDP Growth (% in constant prices)	7.4	6.0	7.3	5.1	6.0
Agriculture	4.0	6.4	3.1	1.3	2.3
Industry	17.0	8.4	3.8	6.9	12.2
Services	7.0	5.1	13.4	5.8	6.7
(percent of GDP)					
B. Savings and Investment (current market prices)					
1. Gross Domestic Investment	53.5	48.0	48.1	46.3	n.a.
2. Gross National Saving (% of GNP)	40.8	30.9	35.8	35.7	n.a.
3. Savings-Investment Gap	-12.8	-17.2	-12.3	-10.7	n.a.
(annual percent change)					
C. Money and Inflation					
1. Consumer Prices (annual average)	8.2	9.3	7.4	9.0	9.2
2. Broad Money (M2)	29.9	30.4	30.9	41.7	21.4
(percent of GDP)					
D. Government Finance					
1. Total Revenue (including grants)	41.1	42.8	36.8	32.8	39.9
a. Tax	7.3	8.1	6.9	8.3	8.8
b. Non-Tax	12.9	11.5	11.8	12.0	10.7
o/w Chukha sales	2.0	2.1	2.4	5.7	4.9
c. Grants	20.0	22.5	17.6	12.0	20.1
o/w India	8.2	11.2	7.5	6.9	11.9
2. Total Expenditure and Net Lending	41.0	40.6	39.1	31.8	42.2
a. Current Expenditure	21.5	18.8	18.5	17.4	17.0
b. Capital Expenditure	19.7	20.8	18.1	13.0	23.5
3. Current Surplus/Deficit (excl. grants)	-1.3	0.7	0.2	2.9	2.5
4. Overall Surplus/Deficit (-)	0.1	2.3	-2.4	0.9	-2.3
5. Financing	-0.1	-2.3	2.4	-1.0	2.3
a. External	-0.1	-0.3	1.0	2.2	2.3
b. Domestic	0.0	-2.0	1.4	-3.2	-
E. Balance of Payments					
1. Merchandise Trade Balance (% of GDP)	-9.6	-4.3	-9.0	-6.3	-14.2
with India (% of GDP)	-1.9	2.8	1.3	2.4	-4.6
2. Current Account Balance (% of GDP)	-12.1	-12.1	-15.9	-11.8	-24.5
with India (% of GDP)	-5.1	-2.0	-3.6	-6.5	-17.7
3. Export (\$) growth (annual percent change)	10.2	39.6	1.7	12.0	-5.9
Exports to India (% of total exports)	93.8	91.9	90.8	94.6	93.8
4. Import (\$) growth (annual percent change)	4.6	14.1	18.4	3.7	20.5
Imports from India (% of total imports)	73.0	73.4	65.3	70.5	71.5
F. External Payments Indicators					
1. International Reserves (million dollars, end of period)	121.0	145.1	176.0	215.5	258.8
- months of imports	14.9	15.7	16.1	19.0	18.9
2. External Debt Service (% of exports of goods & services)	18.3	25.7	10.4	9.0	14.7
3. External Debt (% of GDP)	48.4	39.1	33.8	37.4	35.3
Memorandum Items:					
GDP (current prices, Million Nu)	9,611	11,355	13,971	16,236	19,274
GNP (current prices, Million Nu)	8,760	10,467	13,336	14,329	17,269
Exchange Rate (Nu per dollar, annual average)	31.4	34.3	35.8	38.4	42.6
Population (thousand) ^b	583	600	618	637	656

GNP = gross national product; GDP = gross domestic product; n.a. = not available.

^a For calendar year, where 1994/95 = Calendar Year (CY) 1995.

^b Population for FY1999 is an estimate based on a 3.0% growth rate.

^{*} Provisional.

Sources: *National Accounts Statistics Report*, March 1999, Central Statistical Organization.

Selected Economic Indicators, September 1999, Royal Monetary Authority of Bhutan.

BHUTAN
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population (thousands)	547 (1993)	564 (1994)	618 (1997)
Annual Population Growth Rate (% change) ^a	2.0 (1985)	n.a.	3.10
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	5.9 (1984)	n.a.	5.6 (1994)
Maternal Mortality Rate (per hundred thousand live births)	770 (1984)	n.a.	380 (1994)
Infant Mortality Rate (below 1 year; per '000 live births)	142 (1984)	n.a.	70.7 (1994)
Life Expectancy at Birth (years)	47.5 (1984)	n.a.	66.1 (1994)
Female	45.8 (1985)	n.a.	66.0 (1994)
Male	49.1 (1985)	n.a.	66.2 (1994)
Adult Literacy (%)	23 (1980)	38 (1990)	54 (1996)
Female		25 (1990)	28 (1996)
Primary School Enrolment (% of school age population)	12 (1980)	25 (1990)	72 (1996)
Female	7 (1980)	19 (1990)	60 (1996)
Secondary School Enrolment (% of school age population)	17 (1980)	31 (1990)	n.a.
Female	2 (1980)	5 (1990)	n.a.
Child Malnutrition (% of under age 5)	n.a.	58.1 (1992)	39.1 (1994)
Population Below Poverty Line (%)	n.a.	n.a.	n.a.
Income Ratio of Highest 20% to Lowest 20%	n.a.	n.a.	n.a.
Population with Access to Safe Water (%) ^b	31 (1987)	n.a.	58 (1996)
Population with Access to Sanitation (%) ^c	50 (1985)	n.a.	90 (1996)
Public Education Expenditure as % of GNP ^d	3.6 (1986)	3.1 (1990)	5.3 (1995)
Public Health Expenditure as % of GDP ^d	1.9 (1986)	1.7 (1990)	4.0 (1995)
Human Development Index ^e	0.236 (1987)	0.150 (1990)	.483 (1998)
Human Development Ranking ^e	119 (1987)	159 (1990)	142 (1998)

^a The figure for the latest year was obtained from Bhutan's 1994 National Health Survey.

^b Refers to population with access to safe drinking water.

^c Refers to population covered by health care.

^d GDP based on data from CSO; expenditure data are in fiscal year while GDP data are in calendar year.

^e The definition and derivation of HDI: *UNDP Human Development Report 2000*.

n.a. - not available

Sources:

Statistical Yearbook of Bhutan 1994.

Eighth Five-Year Plan, 1997-2002.

UNDP, *Human Development Report, 2000*.

ESCAP, *Statistical Yearbook for Asia and the Pacific, 1996*.

UNESCO, *World Education Report 1998*.

World Resources, *A Guide to the Global Environment 1998-99* and past issues.

Official Communication, *Central Statistical Organization (CSO)*, March 1999.

Key Indicators of Developing Asian and Pacific Countries, 1998.

BHUTAN
COUNTRY PERFORMANCE INDICATORS

ENVIRONMENTAL INDICATORS	1980	Latest
Energy Efficiency of Emissions		
GDP per unit of energy use (PPP \$ per kg oil equivalent)		
Traditional fuel use (% of total energy use)		
Carbon dioxide emissions (total metric tons)		0.26 (1996)
Carbon dioxide emissions (per capita metric tons)		0.10 (1995)
Water Pollution		
Emissions of organic water pollutants (kg/day)		
Industry share of emissions of organic water pollutants		
Wood (%)		
Primary Metals (%)		
Paper and Pulp (%)		
Chemical (%)		
Food and Beverages (%)		
Textiles (%)		
Land Use and Deforestation		
Forest area (sq km '000)	29.8	27.56 (1995)
Average annual deforestation (sq km)		
Average annual deforestation (% change)	0.6 (1980-90)	
Rural population density (people per sq km of arable land)		
Arable land (% of land area)		9 (1994)*
Permanent cropland (% of land area)		5.8 (1995)
Biodiversity and Protected Areas		
Nationally protected areas (sq km '000)		26.2 (1997)
Percent of total land area		20 (1996)
Mammals (number of threatened species)		14 (1996)
Birds (number of threatened species)		20 (1993)
Higher plants (number of threatened species)		1 (1996)
Reptiles (number of threatened species)		0 (1996)
Amphibians (number of threatened species)		
Urban		
Urban population (thousands)	50.0	145.0 (2000)
Percentage urban	4.0	7 (2000)
Per capita water use		
Wastewater treated (percent)		
Per capita solid waste generation (kg/day)		
Air Pollution		
City population ('000)		
Total Suspended particulates (micrograms per cubic meter)		
Sulfur dioxide (micrograms per cubic meter)		
Nitrogen dioxide (micrograms per cubic meter)		

* domesticated land

Sources: World Development Report 1999-2000, World Bank.
1998-99 World Resources: A Guide to the Environment.

BHUTAN
PORTFOLIO PERFORMANCE
Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount		Rating (No.) ^a										
			Total		Implementation Progress				Development Objectives				
	\$ million	%	No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	0.0	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Energy	9.9	33.6	1	20.0	0	1	0	0	0	0	1	0	0
Finance and Industry	8.0	27.1	2	40.0	0	2	0	0	0	0	2	0	0
Social Infrastructure	11.6	39.3	2	40.0	0	2	0	0	0	0	2	0	0
Transport and Communications	0.0	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Others/Multisector	0.0	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Total	29.4	100.0	5	100.0	0	5	0	0	0	0	5	0	0

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	0.0	16.0	16.0
(2) Disbursed amount (\$ mn, cumulative, active loans only)	0.0	7.1	7.1
(3) Percentage disbursed [(2)/(1)] (%)	0.0	44.6	44.6
(4) Disbursements (\$mn, active loans only, latest year)	0.0	2.1	2.1
(5) Disbursement ratio (%) ^b	0.0	13.9	13.9

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995	0.0	2.9	2.9
Net transfer in 1996	0.0	2.1	2.1
Net transfer in 1997	0.0	6.3	6.3
Net transfer in 1998	0.0	3.4	3.4
Net transfer in 1999	0.0	1.1	1.1

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating (as of 31 December 1999)										
Rated Generally Successful (GS)	0	0.0	1	50.0	0	0.0	1	33.3		
Rated Partly Successful (PS)	0	0.0	0	0.0	1	100.0	1	33.3		
Rated Unsuccessful (US)	0	0.0	1	50.0	0	0.0	1	33.3		
No Rating	0	0.0	0	0.0	0	0.0	0	0.0		
Total	0	0.0	2	100.0	1	100.0	3	100.0		
2. Postevaluation Rating by Sector 1968-99 (as of 31 December 1999)										
	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	1	100.0	0	0.0	0	0.0	0	0.0	1	33.3
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Finance and Industry	0	0.0	1	100.0	0	0.0	0	0.0	1	33.3
Social Infrastructure	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Transport and Communications	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Others/Multisector	0	0.0	0	0.0	1	100.0	0	0.0	1	33.3
Total	1	100.0	1	100.0	1	100.0	0	0.0	3	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^c Includes private sector projects for countries with private sector operations.

Source : Programs (A), CTD (B & C), OEO (D)

BHUTAN
PORTFOLIO PERFORMANCE
Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
ENE	Sustainable Rural Electrification	0.0	9.9	Nov-99	Jan-00	Mar-04	-	0	0.0	0.0	S	S
F&I	Financial Sector Intermediation Facility (Policy Loan)	0.0	3.9	Oct-97	Apr-98	Jun-02	-	-	2.4	2.4	S	S
F&I	Financial Sector Intermediation Facility (Development Finance Loan)	0.0	4.0	Oct-97	Jul-98	Jul-02	-	-	0.4	0.7	S	S
SOC	Technical & Voc'l. Education & Training	0.0	5.7	Sep-90	Nov-91	Jun-98	Jun-00	85	3.3	3.6	S	S
SOC	Urban Infrastructure Improvement	0.0	5.9	Jul-98	Mar-99	Jun-04	-	12	0.6	0.3	S	S
Total		0.0	29.4						6.8	7.1		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

F&I: Finance and Industry

SOC: Social Infrastructure

T&C: Transport and Communications

OTH: Others/Multisector

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

BHUTAN
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

External Source	Past 3 Years (annual average)		1999 Actuals	
	Loan/Credit	TA/Grant	Loan/Credit	TA/Grant
A. Multilateral Assistance				
ADB	3.4		1.4	
EU		0.2		
IFAD	0.6		0.2	
UNCDF		1.0		0.2
UNDP		2.0		2.1
UNICEF		0.6		0.6
WORLD BANK	1.0	0.1	0.9	
WHO		0.3		0.2
Others		1.0		1.7
Sub-total	5.0	5.2	2.5	4.7
B. Bilateral Assistance				
Austria	3.3	0.4	2.9	0.2
Denmark		4.6		5.5
India	19.7	25.0	15.6	23.7
Japan		3.0		0.4
Kuwait	0.2	0.0		
Netherlands		0.8		1.6
Switzerland		0.2		0.2
Others		n.a.		n.a.
Sub-total	23.2	34.0	18.5	31.5
Total	28.1	39.3	21.0	36.3
Memo Items:				
External Assistance as % of Current Expenditure	47.4	66.1	29.6	51.2
External Assistance as % of Capital Expenditure	51.1	71.3	21.4	37.0

Note: The above estimated figures are based on disbursements made for the past 3 years. Receipts in kinds are not captured. ADB = Asian Development Bank; EC = European Community; IFAD = International Fund for Agricultural Development; UNCDF = United Nations Capital Development Fund; UNDP = United Nations Development Programme; UNICEF = United Nations International Children's Emergency Fund; WHO = World Health Organization

Source: Department of Aid and Debt Management, Ministry of Finance.

For the past 3 years

Average Current expenditure	2312.333333
Average Capital	2144.666667
Average exchange rate	38.93333333

1999 current expenditure	3016
1999 capital expenditure	4173
1999 exchange rate	42.6

In dollars

Average Current expenditure	59.39212329	total average ex	114.4777397
Average Capital	55.08561644		
1999 current expenditure	70.79812207	total expenditure	168.7558685
1999 capital expenditure	97.95774648		

BHUTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^{a*}	Crosscutting Operational Priority ^{b*}	Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 FIRM LOANS										
Social Infrastructure	PI	GAD	AWEH	1999						
1. Basic Skills Development					tbd	0.0	7.0	7.0	tbd	tbd
Total					tbd	0.0	7.0	7.0	tbd	tbd
2002 FIRM LOAN										
None										
2003 FIRM LOANS										
Transport and Communications	ODI	ENV	IWTC	2001						
1. Transport Network Improvement					tbd	0.0	10.0	10.0	tbd	tbd
Subtotal					tbd	0.0	10.0	10.0	tbd	tbd
Social Infrastructure	PI	HD	AWWU	2002						
2. Urban Housing Development					tbd	0.0	5.0	5.0	tbd	tbd
Subtotal					tbd	0.0	5.0	5.0	tbd	tbd
Total					tbd	0.0	15.0	15.0	tbd	tbd

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; and ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

BHUTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003¹

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			ADB	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM					
Energy					
1. Private Sector Participation in Hydropower Devt.	IWEN	ADTA	400.0	0.0	400.0
Subtotal			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Finance and Industry					
2. Financial Sector Review	IWFI	ADTA	400.0	0.0	400.0
3. Instl. Devt. of Royal Insurance Corporation of Bhutan	IWFI	ADTA	300.0	0.0	300.0
Subtotal			<u>700.0</u>	<u>0.0</u>	<u>700.0</u>
Social Infrastructure					
4. Health Services Efficiency Improvement	AWEH	ADTA	400.0	0.0	400.0
Subtotal			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Others					
5. Strengthening of Central Statistical Organization (Phase II)	EDSD	ADTA	500.0	0.0	500.0
6. Strengthening Project Performance Evaluation Capability	OEWD	ADTA	200.0	0.0	200.0
Subtotal			<u>700.0</u>	<u>0.0</u>	<u>700.0</u>
Total			2,200.0	0.0	2,200.0
2002 TECHNICAL ASSISTANCE PROGRAM					
Energy					
1. Power Sector Review	IWEN	ADTA	500.0	0.0	500.0
Subtotal			<u>500.0</u>	<u>0.0</u>	<u>500.0</u>
Finance and Industry					
2. Restructuring of Bhutan Development Finance Corp.	IWFI	ADTA	400.0	0.0	400.0
3. Strengthening of Royal Monetary Authority (Phase II)	IWFI	ADTA	500.0	0.0	500.0
Subtotal			<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
Transport and Communications					
4. Transport Network Improvement	IWTC	PPTA	400.0	0.0	400.0
Subtotal			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Social Infrastructure					
5. Urban Housing Development	AWWU	PPTA	400.0	0.0	400.0
Subtotal			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Total			2,200.0	0.0	2,200.0
2003 TECHNICAL ASSISTANCE PROGRAM					
Energy					
1. Rural Electrification Network Expansion	IWEN	PPTA	800.0	0.0	800.0
Subtotal			<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
Transport and Communications					
2. Transport Sector Review	IWTC	ADTA	600.0	0.0	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Social Infrastructure					
3. Institutional Strengthening of Urban Housing Planning and Management	AWWU	ADTA	400.0	0.0	400.0
Subtotal			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Others					
4. Household Living Standard Survey	EDSD/PW2	ADTA	400.0	0.0	400.0
Subtotal			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Total			2,200.0	0.0	2,200.0

¹ Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

FIRM LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001		2002-2003	
	No.	%	No.	%
I. By Poverty Classification *				
A. Core Poverty Intervention	0	0.0	0	0.0
B. Poverty Intervention (Non-core)	1	100.0	1	50.0
C. Other Development Interventions	0	0.0	1	50.0
Total	1	100.0	2	100.0
II. By Crosscutting Operational Priority *				
A. Environment	0	0.0	1	50.0
B. Gender and Development	1	100.0	0	0.0
C. Good Governance	0	0.0	0	0.0
D. Human Development	0	0.0	0	0.0
E. Private Sector Development	0	0.0	1	50.0
F. Regional Cooperation	0	0.0	0	0.0
Total	1	100.0	2	100.0
III. By Sector				
A. Agriculture and Natural Resources	0	0.0	0	0.0
B. Energy	0	0.0	0	0.0
C. Finance and Industry	0	0.0	0	0.0
D. Social Infrastructure	1	100.0	1	50.0
E. Transport and Communications	0	0.0	1	50.0
F. Others/Multisector	0	0.0	0	0.0
Total	1	100.0	2	100.0

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

BHUTAN

PROJECT PROFILE					
1. Project Name: Basic Skills Development		2. Sector/Subsector: Education/Technical and Vocational Education and Training			
3. Poverty Classification: ^{a*} PI		4. Crosscutting Operational Priority: ^{b*} GAD			
5. Rationale & Objectives: The country lacks Bhutanese workers in service, maintenance, small- and medium-scale manufacturing, and construction sectors which rely considerably on expatriate workers. The acute shortage of Bhutanese workers is a major impediment to national development. The Government has requested that ADB be lead donor in the technical and vocational education and training (TVET) subsector and provide a loan to develop a demand-driven skills development system. ADB is currently supporting the TVET sector under Loan No. 1035-BHU, and will produce a skills development investment plan (2001-2007) and prepare a basic skills development project under a PPTA (TA No. 3340-BHU), which includes recommendations on policy and system support, strategies, institutional development, and investment priorities. In addition, an ADTA will be provided in 2001 to strengthen the capacity of the NTTA in planning, coordinating, and managing skills development programs.		6. Beneficiary Participation/Consultation Needs: Ministry of Health and Education National Technical Training Authority (NTTA) National Employment Board Ministry of Finance Secretariat of Planning Commission Royal Civil Service Commission Ministry of Trade and Industry Bhutan Chamber of Commerce and Industry District education officers Women's Association Donor agencies (including NGOs) School principals, teachers, students, and parents			
7. Scope: The proposed Project will be to (i) strengthen capacity in planning, management and restructuring of skills training; (ii) increase equitable access to skills training, including for women and disadvantaged groups, through introducing short courses at TVET institutions, setting up skills development centers, and piloting mobile vocational training units; (iii) improve the quality of skills training by developing quality support systems and qualified trainers; and (iv) promote effective utilization of skills by promoting positive values to manual work and by paying more attention to the needs of the private sector.					
8. Estimated Cost & Financing Plan:				Remarks: Cofinancing with GTZ is actively being pursued.	
Loan Project Cost (\$m)					
Financing (Source)		FC	LC		Total
Bank					7.0
Cofinancing					tbd
Borrower					tbd
Total				tbd	
9. Estimated Benefits and Beneficiary Groups: Outcomes of the Project will include (i) strengthened capacity of the TVET system including the NTTA in planning, managing and restructuring skills development programs, (ii) increased access to skills training for women and disadvantaged groups, (iii) improved quality of skills training supported by quality improvement system and qualified trainers, and (iv) enhanced effectiveness in utilizing skills being linked with the positive work values and private sector needs. Beneficiary groups will include about 150,000 workers with 50,000 in urban areas and 100,000 in rural areas; of which at least 50 percent of the beneficiary groups will be women. A training participation rate for women and disadvantaged groups will be increased from the current 10 percent to 50 percent by the end of the proposed Project in 2007. This increase will be associated with increased income and reduced poverty.					
10. Executing Agency: National Technical Training Authority (NTTA)		11. Project Implementation Period: Start: 2001 End: 2007			
12. Environment Category: C		13. Processing Year: 2000-2001			

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; and ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.