Statement by Ruth Bachmayer  
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Bhutan Country Assistance Strategy and Urban Development  
Project and Rural Access Project

1. The country assistance strategy for Bhutan reflects both the high degree of ownership and responsibility of the government, and the sensitive and demand driven approach of the WB/IDA team cooperating with the country and the small donor community. Bhutan can serve as a model of an “emancipated” developing country with a strong and consistent vision of its development path and sufficient self-reliance in its way to implement it, with the support of selected partners. The World Bank/IDA team, on the other side, recognizes that it can serve Bhutan best by responding to the demands of the Government in a very selective and appropriate manner which complements the activities of other donors.

2. The country’s development characteristics have been outlined in the Bhutan 2020 document. This unique strategy places human happiness, not economic growth, in the center of nation’s vision and values for development.

   Although the economy has been growing fast in the recent years, the living standards need to be improved. The major problem that the country faces is the high population growth rate and lack of jobs for this fast growing population. As the government correctly chooses not to become the first and final resort for employment, the private sector needs to be enhanced. I understand that Bhutan has been taking necessary measures to improve the business environment and the private sector participation in the economy.

3. I endorse IDA’s assistance strategy which focuses its support on analytical and advisory assistance while limiting its financial assistance to two relatively small, but important projects in the rural and urban area:

   In a country like Bhutan where a vast majority of the population lives in remote rural areas

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and depends on subsistence farming, special attention needs to be paid to a balanced
development of rural and urban areas with the aim of keeping migration to urban areas low.
Both projects have a high leverage potential with respect to social impact and institutional
effectiveness. At the same time, their design allows for a sufficiently long implementation
period, thus giving the authorities involved the possibility to build up the required capacity
for long-term project sustainability.
I, therefore, approve both projects.

4. IDA’s focus on the transfer of knowledge meets the demand of the government and
complements the available support provided by other donors. All areas envisaged (in
paragraph 46) seem to be sensible as they would systemically improve public sector
performance and effectiveness (esp. better targeting of budget expenditures on the poor) as
well as the framework conditions for private sector development.
The WB should also use its experience in helping the government to develop a better
understanding of and response to the refugee and ethnic minority issues to prevent potential
damaging tensions in an early stage. Concerning the high population growth rate, IDA could
support awareness programs, though such support is not envisaged in the CAS.

5. Economic development and the provision of employment opportunities is of great
importance, as the document rightly emphasizes.
The financial sector is an area where IDA’s technical contribution is vital. The absence of a
sound financial sector results in the excess liquidity to sit in non-interest bearing accounts.
Therefore, technical support on financial sector issues is an important element of the CAS.
The improvement of the private sector with a better financial sector can place the country on
a faster development path which is needed intensely to avoid possible social conflicts.

As the country grows and the private sector becomes more prominent in the country, it can be
expected that export diversification in terms of both markets and goods will be increased.
Although the lack of such diversification is not considered as a major problem for the time
being, it should not be delayed for a long period.

6. The description in paragraph 12 of the hydropower sector development is very interesting
and promising. It shows that there are constructive ways of exploiting hydropower resources
in environmentally and socially benign ways. In this sense, Bhutan may serve as a model for
sustainable energy sector development. However, from a macroeconomic point of view, the
high GDP and export share of energy raises some concerns. Possible fluctuation in prices
and the high dependency on demand from India seem to make Bhutan rather vulnerable.

7. The observation in Box 4 of the CAS document that Bhutan’s development practices have
anticipated the Comprehensive Development Framework deserves attention with regard to
the question what we can learn from Bhutan’s development model and what distinguishes
this country from others which struggle with the implementation of many structural elements
of the CDF concept, including coordination issues. One distinct feature may be the very
small group of donors which reduces complexity and organizational costs for all actors
involved and avoids pressure on the absorption capacity of the government.
8. Finally, I would like to congratulate the WB/IDA team for its excellent work and its high degree of sensitivity and responsiveness to the needs and demands of the government of Bhutan. The fact that there are countries with a functioning comprehensive structure for sustainable development, benefiting and including all parts of the society, shows that a comprehensive development concept brings about positive results. Bhutan is obviously in the favorable situation to have realized early enough the importance of a balanced approach to development, taking all elements of the society and the institutional system into account.

We wish the country every success in the continuation on their development path.