**AT-A-GLANCE**

- Bhutan maintains solid growth and macroeconomic stability. Hydropower construction and supportive fiscal and monetary policy have contributed to solid growth. Single-digit inflation, a stable exchange rate, and accumulating international reserves attest to the stability. Nevertheless, structural challenges remain, including large current account deficits, high public debt, an underdeveloped private sector, and a high youth unemployment rate. A delay in hydropower construction could cloud macroeconomic prospects in the coming years.

- Bhutan has a stable political and economic environment. It has made a tremendous progress in reducing extreme poverty and promoting gender equality, while attention is needed to address inequality issues.

- World Bank Group (WBG) support is guided by the Country Partnership Strategy (CPS) FY2015-2019 and the 2017 Performance and Learning Review (PLR). It focuses on improving fiscal and spending efficiency, increasing private-sector growth and competitiveness and supporting green development. Under IDA18 (FY2018-20), Bhutan is eligible to receiving approximately $100 million in IDA financing.

**COUNTRY CONTEXT**

Bhutan’s political environment has been stable and economic conditions have improved in recent years. Since Bhutan shifted to a democratic constitutional monarchy in 2008, the country has developed a solid development management system founded on the principle of Gross National Happiness (GNH). Bhutan plans to hold its third parliamentary election in 2018. The Gross National Happiness Commission (GNHC) is leading the preparation of the 12th Five-Year Plan (FYP) for 2018-2023. Bhutan maintains strong economic and strategic relationships with India, particularly as the major trading partner, as a source of foreign aid and as a financier and buyer of hydropower. Bhutan is vulnerable to natural disasters and climate-related risks.

Bhutan has been successful in reducing poverty. Extreme poverty has been almost eradicated, with the rate falling to 2 percent in 2012 using the international poverty line of $1.90 per person a day.

**RECENT ECONOMIC DEVELOPMENTS**

Bhutan is one of the smallest but fastest-growing economies in the world. Annual average growth between 2006 and 2015 reached 7.5 percent, which places the country 13th of 118 countries, far exceeding average global growth of 4.4 percent.

Bhutan maintains a solid macroeconomic performance. Macroeconomic stability has accompanied the improved growth performance. GDP growth is estimated at 6.6 percent in 2016/17 driven by hydropower construction. Government consumption and gross fixed capital formation led to solid growth on the demand side. However, in 2017, bad weather led to an increase in food prices. The Consumer Price Index (CPI) increased from 3.9 percent in November 2016 to 5.3 percent in August 2017. The Bhutanese ngultrum, pegged to the Indian rupee, has been stable since the second half of 2016. The current account deficit remained high at 23 percent of GDP in 2016/2017 due to capital goods imports for hydropower projects. The deficits were almost fully financed by loans from India. Therefore, as of May 2017, gross international reserves exceeded $1 billion, equivalent to 10 months of imports of goods and services. The fiscal policy has become expansionary to support the last year of the implementation of the 11th FYP. The fiscal balance is projected to improve but still show a deficit of 2.5 percent in 2017/18, from 4 percent in 2016/17.
ECONOMIC OUTLOOK

Hydropower construction will support solid growth, but a delay of one or two years in completing two hydropower projects has prompted the World Bank to revise down its growth projections for 2017–2019 by a few percentage points. Agriculture and tourism are expected to grow steadily.

Implementation of the 2016 Economic Development Policy and accompanying 2017 Fiscal Incentives Bill are expected to stimulate economic activity. Once food prices become stable, CPI is expected to be stable at around 3 to 5 percent. Although current account deficits will remain high, they are expected to be below 10 percent in 2019/20 due to the operationalization of the Mangdechhu hydropower project. According to the Government’s medium-term expenditure framework, fiscal deficits are projected at around 3 to 4 percent of GDP. Due to the delays in hydropower construction, financing sources of fiscal deficits remain unidentified. Projections based on GDP growth indicate steady and continuous poverty reduction.

THE WORLD BANK GROUP AND BHUTAN

Bhutan became a member of the World Bank in 1981, IFC in 2003, and MIGA in 2014. WBG support is guided by the CPS (FY2015-19). The overarching goal of the CPS is to support Bhutan’s aspirations to achieve sustainable and inclusive growth. The CPS is aligned with the 11th FYP and WBG activities are organized under three results areas: improving fiscal and spending efficiency; increasing private-sector growth and competitiveness; and supporting green development.

The Performance and Learning Review was completed in June 2017. It assesses the first two years of implementation of CPS and updates the focus of WBG’s support program. The WBG is making progress toward achieving the expected CPS outcomes, although implementation of some investment projects has been delayed, primarily due to insufficient government capacity and problems with procurement. The WBG program is expected to expand and intensify across the three CPS results areas. Discussions are under way with the government to build a pipeline of

<table>
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<tr>
<th>TABLE: Bhutan Macro Outlook Indicators (annual percent change unless otherwise noted)</th>
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<tbody>
<tr>
<td>Bhutan</td>
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<tr>
<td>2014/15 e</td>
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<tr>
<td>REAL GDP Growth, at Constant Market Price</td>
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<td>Private Consumption</td>
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<td>Government Consumption</td>
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<tr>
<td>Gross Fixed Capital Investment</td>
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<td>Exports, Goods and Services</td>
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<td>Imports, Goods and Services</td>
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<tr>
<td>REAL GDP Growth, at Constant Basic Prices</td>
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<tr>
<td>Agriculture</td>
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<tr>
<td>Industry</td>
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<tr>
<td>Services</td>
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<tr>
<td>Inflation (Consumer Price index)</td>
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<tr>
<td>Current Account Balance (% of GDP)</td>
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<tr>
<td>Fiscal Balance (% of GDP)</td>
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<tr>
<td>Debt (% of GDP)</td>
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Source: World Bank, Macroeconomics and Fiscal Management Global Practice
Note: e, estimate; f, forecast
activities in conjunction with the preparation of the 12th FYP starting in mid-2018. Priority areas include economic diversification, job creation, decentralization, urbanization, and education. A Systematic Country Diagnostic will be carried out in FY2018-19 to assess Bhutan’s development constraints and priorities.

Bhutan is eligible for concessional financing support from the International Development Association (IDA). Under IDA17 (FY2015-17), Bhutan had a total allocation of US$56 million in IDA financing. Under IDA18 (FY2018-20), Bhutan is eligible to receiving approximately $100 million in IDA financing.

WORLD BANK PROGRAM

Bhutan’s portfolio comprises five projects, totaling $74.5 million. It includes three IDA projects: development policy credits to strengthen fiscal management and the financial sector, an urban development project and a rural community development project. It also receives trust fund financing for biodiversity conservation and for food security and agricultural productivity.

In 2016, Thimphu municipality became the first entity in the world to be eligible to use its own procurement systems for World Bank financed projects, under the Alternative Procurement Arrangements (APA) of the Procurement Policy. With the increased IDA financing available to Bhutan, World Bank expects to support the government’s priorities such as strengthening fiscal management, developing the hydropower sector and infrastructure, expanding employment opportunities and addressing labor market challenges including through education and health.

The World Bank has provided a range of analytical support and technical assistance. To contribute to the government’s reform agenda and policy dialogue, the World Bank has prepared policy notes on the impact of hydropower development and agribusiness as a source of economic growth. It has made recommendations to improve investment competitiveness, and on the potential for green growth. It has also carried out the first review of the labor market, which established the cause of underlying problems and provided data for the government’s social protection and labor strategies. The World Bank also carried out the 2016 Public Expenditure and Financial Accountability (PEFA) assessment that provided the basis for a comprehensive Public Financial Management reform program and action plan to be supported through a PFM Multi-Donor Fund (PFM MDF). It provided technical support for the design of a new program to help the poor and improve the statistical capacity to monitor and measure poverty and welfare conditions.

WORLD BANK – IFC COLLABORATION

The International Finance Corporation (IFC) has a committed investment portfolio of US$21 million as of June 30, 2017. It consists of an equity participation in Bhutan National Bank (BNB), a loan to help finance the refurbishment and expansion of a world class tourist hotel, Zhiwa Ling, and an equity investment to support a hazelnut plantation, nursery and processing operation. IFC has made five investments in Bhutan since it became an IFC member in 2003. IFC continues to explore assistance in the areas of financial inclusion, tourism, agribusiness, and manufacturing. IFC’s advisory support on investment climate reforms, enhancing financial inclusion and SME development is expected to continue.

IFC and the World Bank work together to strengthen Bhutan’s financial market and investment climate. The second in a series of development credits prepared jointly by the World Bank and the IFC includes policy and regulatory actions to increase efficiency and access to financial services. The two institutions also coordinated closely in developing a public-private partnership policy, a tourism policy note and an agribusiness strengthening note for the Government.

World Bank Active Portfolio
(As of August 2017)

- No. of Projects: 5
- Commitments: $74.5 million
- IDA: 3 projects; $62 million
- Trust Funds*: 2 projects; $12 million

* Only those Trust Funds that are $3 million or greater
The World Bank helped Bhutan create a Financial Sector Development Action Plan, centered on enhancing financial inclusion. IFC hosted two major events to promote understanding of the subject among stakeholders. It is advising commercial banks and the central bank on implementing best practices which will further encourage financial inclusion.

**MIGA**

On October 21, 2014, Bhutan became the 181st member of the Multilateral Investment Guarantee Agency (MIGA). MIGA has yet to guarantee a project in the country, but the Agency remains engaged and is ready to support productive projects, across sectors, in Bhutan.

The “Country Snapshot” is an annual update highlighting the country’s recent developments, economic outlook and major overview of the World Bank Group’s partnership with the country. You can find the latest updates for Bhutan at [http://www.worldbank.org/Bhutan](http://www.worldbank.org/Bhutan)
BHUTAN: SECOND DEVELOPMENT POLICY CREDIT

KEY DATES:

Approved: December 21, 2015  
Effective: March 24, 2017  
Closing: June 30, 2018

FINANCING (in million US dollars*):

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<tr>
<td>IBRD</td>
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<td>IDA</td>
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<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total Project Cost</td>
<td>24</td>
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</tbody>
</table>

BACKGROUND AND OBJECTIVES:

The operation is the second single-tranche credit under a two-phase framework aimed at supporting the sustainable and equitable socioeconomic development pillar of the Eleventh Five-Year Plan. The operation supports the macro-fiscal and investment climate components of the government’s program, which focus on: (i) macroeconomic sustainability and fiscal governance; (ii) reduced volatility in liquidity and credit; (iii) the government’s ability to support counter-cyclical interventions to sustain the desired level of growth in the economy; (iv) priority areas identified for investment and private-sector development; and (v) investment in foreign government bonds.

The eleventh five-year plan includes specific objectives in terms of macro-fiscal stability, Doing Business indicators, and FDI increase. DPC support for improving the investment climate also helps develop key sectors for economic growth, such as agriculture, tourism, trade, industries, and mining. The program development objectives of the proposed operation are to promote fiscal discipline, enhance enterprise access to finance, and improve the business entry and investment climate. The proposed operation constitutes three pillars. The first pillar focuses on actions to strengthen fiscal sustainability and self-reliance. This will also contribute to a more stable financial sector which is better able to achieve the objective of the second pillar: increased access to finance, particularly for MSMEs. The third pillar supports reforms to improve the business climate and increase domestic and foreign investment.

KEY ACHIEVEMENTS:

- Cabinet approved a debt policy setting debt limits to improve fiscal sustainability.
- Cabinet approved tax rationalization measures to improve efficiency and broaden the tax base.
- Cabinet approved the amendment to the Bankruptcy Act to provide a framework for businesses to resolve insolvency and to strengthen the rights of secured creditors.
- Utility regulators (BICMA and BEA) issued a directive for utility companies to share credit information with CIB. RMA introduces an interoperability system between CIB and the utility companies.
- Cabinet approved the Financial Sector Development & Implementation Strategy.
- The National Land Commission improved the electronic property and land registration system in Thimphu with electronic input and search capabilities.
- The MoEA introduced a single window for online business registration.
- Cabinet approved a PPP policy and MoF approved PPP policy rules and regulation.

IMPLEMENTING AGENCY:

Ministry of Finance

KEY PARTNERS:

Ministry of Finance, Ministry of Economic Affairs, Royal Monetary Authority, National Land Commission
BHUTAN: REMOTE RURAL COMMUNITIES DEVELOPMENT PROJECT (RRCDP)

KEY DATES:
Approved: October 2, 2012
Effective: November 15, 2012
Closing: May 31, 2018

FINANCING (in million US dollars*):

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*As of August 23, 2016

PROJECT BACKGROUND:
The Remote Rural Communities Development Project (RRCDP) project area covers 26 gewogs, or village administrative units, and six dzongkhags or districts, in southwestern and south central Bhutan. The RRCDP is designed to improve living conditions and incomes in the poorer and more remote rural areas. The populations in these areas currently rely on subsistence agriculture, and lack roads, irrigation, technologies, and community and social infrastructure that would allow them to improve their incomes and social integration.

The main objective of the project is to increase agriculture productivity in remote rural areas by improving access to markets, irrigation, agricultural technologies, and community infrastructure. Improvement in market access would be achieved by investments in farm roads and marketing infrastructure. Agricultural productivity and rural incomes would increase through promotion of improved irrigation and agronomic practices, and rehabilitation of productive assets for key commodities. Community-led investments will improve the access of the poorest people to the critical and missing infrastructure in the selected area. The RRCDP consists of three components:

- **Rural Infrastructure**: Connects the communities to larger roads and regional markets and to improve production potential through improved availability of irrigation.
- **Community, Marketing and Productive Infrastructure**: Covers investments in marketing and post-harvest infrastructure, critical community-level infrastructure, and investments identified by producers to increase agricultural productivity.
- **Project Management and Institutional Strengthening**: Supports project management, including the monitoring and evaluation functions. It covers technical and financial management; procurement; and supervision of compliance with environmental and social safeguards.

KEY ACHIEVEMENTS AND EXPECTED RESULTS:
- Formation cutting and construction of permanent works on all five farm roads are in progress.
- 34 irrigation schemes have already been completed or near completion.
- A total of 76 sub-projects have been financed benefitting 27,387 persons in 4,393 households (13,829 males and 13,558 females).
- A total of 78,223 grafted seedlings and 258,248 cardamom suckers have been supplied. A total of 225 cows and 15,662 pullets have been distributed. Farmers from the five project supported dzongkhags have been able to earn a cash income of Nu 12.444 million and Nu 7.231 million from the sale of 1,387,074 eggs and 2,98,413 liters of milk respectively.
- The project has supported 33 community forest groups benefitting 2520 households in 22 gewogs from 6 dzongkhags. Plantation area covered is now 77.25 ha and 5.35 ha under nursery.

KEY PARTNERS:
Ministry of Agriculture and Forests
BHUTAN: FOOD SECURITY AND AGRICULTURAL PRODUCTIVITY

KEY DATES:
Approved: April 27, 2017
Closing: December 30, 2022

FINANCING (in million US dollars*):

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BACKGROUND AND OBJECTIVES:

The Food Security and Agricultural Productivity Project (FSAPP) aims to increase agricultural productivity and enhance access to markets for farmers in selected gewogs in Southwest Bhutan. The project supports Royal Government of Bhutan’s efforts to reduce rural poverty, food insecurity, and malnutrition. It also aims to increase resilience to climate change through climate smart agricultural productivity enhancement for food security and nutrition, and increased access to local and export markets for producers.

The project seeks to address multiple problems faced by farmers and rural households through a set of integrated, consolidated, and area-specific interventions that respond to local constraints, opportunities, and potential. The FSAPP is funded through a Global Agriculture Food Security Program (GAFSP) grant and will be implemented over five years (2017-2022) in Bhutan’s five south-western dzongkhags of Chukha, Dagana, Haa, Samtse and Sarpang. By focusing on the dzongkhags in the southwest, the project represents an opportunity to significantly reduce pockets of extreme poverty in Bhutan and build the capacity of smallholder farmers to move from subsistence farming to commercial market-driven agriculture. The project interventions will take gender into consideration and ensure equal participation in project activities, representation in farmer groups, and proactive involvement in decision making by women. This draws on the experience and practical lessons of previous projects and builds on the achievements of prior investments. Dietary diversity and nutrition outcomes will be assigned priority in project implementation with regard to the production of a variety of foods and their availability and affordability to consumers. The project aims to directly benefit approximately 10,400 households (52,000 people) with women constituting about 30 percent of the direct beneficiaries. The project will also improve homegrown school feeding programs for 3,000 children in 16 schools in 11 project gewogs by facilitating productive linkages among producer groups and the schools.

The project focuses on four components:

- Strengthen farmers’ and producers’ groups to better enable them to implement and sustain project interventions
- Improve agricultural productivity vital for improving food security and nutrition
- Promote value chains for select high-value nutrient-rich crops and enhance linkages to domestic and export markets
- Support all aspects of project management including: management and coordination, monitoring and evaluation, technical assistance, and a grievance redress system.

KEY ACHIEVEMENTS AND EXPECTED RESULTS:

Project launch is planned for September 21, 2017.

IMPLEMENTING AGENCY:

Ministry of Agriculture and Forests (MoAF), Ministry of Finance, Gross National Happiness Commission (GNHC), Department of Agriculture Marketing and Cooperative (DAMC), Project Management Unit (PMU), Research and Development Centers (RDCs),

PARTNERS:

The World Bank will be the supervising entity while the United Nations Food and Agriculture Organization (FAO) will provide technical assistance.
BHUTAN: SUSTAINABLE FINANCING FOR BIODIVERSITY CONSERVATION AND NATURAL RESOURCES MANAGEMENT

KEY DATES:
Approved: May 15, 2013
Effective: November 4, 2013
Closing: December 31, 2018

FINANCING (in million US dollars*):

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PROJECT BACKGROUND:
The project development is to improve the operational effectiveness and institutional sustainability of the Bhutan Trust Fund for Environment Conservation. The project components are:
- Enhancing the operational effectiveness and sustainability of BTFEC;
- Improving conservation management of the High Altitude Northern Areas (HANAS) landscape in Bhutan (including protected areas and associated methods, forests and agricultural systems); and
- Capacity building for mainstreaming of conservation and sustainable forest and natural resource management approaches in national policies, strategies and plans.

KEY ACHIEVEMENTS AND EXPECTED RESULTS:
To enhance the operational effectiveness and sustainability of BTFEC, the following steps were undertaken during this reporting period: (i) BFTEC Fund Raising Strategy was completed; (ii) staff participated in many regional and international meetings including the IUCN World Conservation Congress; (iii) an internal audit was conducted and the results shared with the implementing agencies to improve efficiency; (iv) awareness raising and consultations with stakeholders on BTFEC’s modernization and new format for grant proposal preparation; revision of the administrative, human resource, program management, procurement and financial management sections of the Operations Manual has been completed and has been endorsement by the Board. Under Component 2, nine sub-projects amounting to US$2.7 million in the High Altitude Northern Areas (HANAS) have been approved and their implementation has begun.

The first phase of mainstreaming conservation and sustainable forest and natural resource management approaches in national policies, strategies and plans has been initiated. There has been support for undertaking a gap analysis of conservation policy, mainstreaming management effectiveness of Bhutan’s protected areas, sharing lessons and experiences from activities supported under the HANAS component, strengthening human resource capacity and adoption of a landscape approach to develop a strategic management plan for snow leopards.

KEY PARTNERS:
Bhutan Trust Fund for Environmental Conservation.
BHUTAN: SECOND URBAN DEVELOPMENT PROJECT AND ADDITIONAL FINANCING (BUDP2)

KEY DATES:

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*As of August 30, 2017

BACKGROUND AND OBJECTIVES:

The Kingdom of Bhutan has been experiencing rapid social and economic development over the past two decades, and this socio-economic transition is fueling rapid urbanization. Meeting the challenges of urban development, management, and finance is now a key developmental agenda of the Royal Government and its international development partners. The World Bank started its support with the Bhutan Urban Development Project (1999-2006), which helped develop urban infrastructure systems in 10 secondary towns. The government showed strong interest and appreciation of the Bank’s policy advice through the project and technical assistance to prepare the National Urbanization Strategy (2008) and the Thimphu City Development Strategy. On the government side, the Local Government Act of 2009 and the Municipal Finance Policy (2012) provide the framework for the roles and responsibilities of urban local governments. In that context, the ongoing BUDP2 focuses on supporting urban/municipal development in Thimphu (the capital and Bhutan’s largest city), Phuentsholing (second largest city and a commercial hub), Gelephu and Samdrup Jongkhar (the two other cities) as well as on technical assistance for the urban local governments and the Ministry of Works and Human Settlement.

The project development objectives are to (i) support Bhutan’s municipal reform program by strengthening municipal finance and management services in Thimphu and Phuentsholing; and (ii) improve infrastructure services in northern Thimphu where no formal services are currently available. The project as well as Additional Financing consists of three components: municipal finance and management, Thimphu Northern Area Development, and capacity building.

- Component 1 aims at strengthening the institutional systems of Thimphu and Phuentsholing Thromdes, or city corporations. The support for the city-specific reforms is being done broadly through strengthening both the local revenue administration systems and processes, and the expenditure management systems and financial management systems and processes of the two city corporations. Two new towns (Gelephu and Samdrup Jongkhar) will also be covered under the Additional Financing. This component also supports government policy reforms aimed at setting up a policy framework for municipal financing.
- Component 2 supports the development of basic infrastructure systems in two “local area plans” in northern Thimphu, including roads, storm-water drainage, water supply, sewerage, and street lighting, as well as support for increasing low-income housing units in these areas.
- Under Component 3, resources are being provided for training programs, equipment, technical assistance, and studies based on the needs of Thimphu and Phuentsholing Thromdes as well as preparation and implementation of urbanization-related policies by the Ministry of Works and Human Settlement. This component aims to significantly upgrade each city corporation’s capacities in various aspects of their internal work processes and service delivery to citizens through training of operational staff and provision of relevant equipment.

KEY ACHIEVEMENTS AND EXPECTED RESULTS:

- Increase in local revenue collection: 50 percent by Thimphu and 40 percent by Phuentsholing.
- New building permits issued for serviced plots: 175 (in two Thimphu “local area plans” being developed).
- Number of households with new piped water and sewerage connections: 600 (in two Thimphu “local area plans”).
- Number of municipal staff trained: 250 (with 150 in Thimphu and 100 in Phuentsholing)

KEY PARTNERS:

Ministry of Works and Human Settlement, Ministry of Finance; Thimphu, Phuentsholing, Gelephu and Samdrup Jongkhar Thromdes.