Statement by Wan Abdul Aziz Wan Abdullah

Date of Meeting: December 21, 1999

Bhutan: Country Assistance Strategy

We welcome the discussion of this paper today and thank staff for the candid and comprehensive CAS for Bhutan. We found the structure of this CAS somewhat different from others in the sense that it does not specify its objective, it does not have lending scenarios and associated triggers and, at times, lacks coherence on issues. For example, it identifies risks but does not offer any specific suggestions or solutions to mitigate those risks. We are however pleased to note that IDA’s mission in Bhutan is to help the country manage its considerable natural, institutional, cultural and environmental assets in ways that can translate economic growth into rapid and inclusive social transformation and improvements in living standards, in line with the country’s long-term vision (Bhutan 2020).

We recognize the unique characteristics of the country in terms of development challenges and would like to commend the government of Bhutan for its effort in uplifting the socio-economic conditions of the people. As a landlocked Himalayan country, which was in self-imposed isolation until the 1950s, Bhutan has made some noticeable progress in building physical and social infrastructure which is so vital for the broad-based growth of the country. Although the country largely remains agrarian, the export of hydropower to its neighboring country, India and the establishment of some energy-intensive industries have contributed significantly towards achieving an impressive average growth rate of 7 percent per year over the last decade. We agree with the CAS that despite these impressive gains, the country faces many development challenges typical of low-income countries in social, economic and political fronts. In this regard, we would like to focus on the following:

First, with regard to poverty and social indicators, we are encouraged by Bhutan’s vision of inclusion under Bhutan 2020: A Vision for Peace, Prosperity and Happiness. Given such an impressive and far-reaching long-term vision, we are however somewhat surprised to note that Bhutan has yet to carry out an in-depth assessment on the causes and extent of...
poverty in the country to enable it to formulate holistic and effective poverty alleviation policies and programs not only for the short to medium-term, but also for the longer-term. Nonetheless, we support the provision of more rural access roads and a targeted program as part of the government’s poverty strategy program.

Second, Bhutan’s rapid population growth of 2.9 percent which subsequently led to a growing unemployment problem, particularly among the young and educated, could be an issue of potential social tension if not managed properly. Concerted efforts should be directed at slowing down population growth through a massive launch of health and family development programs as well as the creation of higher value-added employment opportunities especially through the opening up of the private sector. With regard to enhancing the living conditions of vulnerable and disadvantaged groups in the country, we believe that this could be one of the potential areas where IDA could provide assistance, as there are no other lead donors in this sector, unlike in others where we find one or more other donors involved.

Third, another equally serious problem in this regard is ethnic unrest arising out of the Nepali-speaking minority in southern Bhutan. The magnitude of this problem is reflected by the fact that over 100,000 Bhutanese refugees have been sheltered in refugee camps in Nepal for over a decade. We are pleased to note that the Bhutanese government is actively seeking solutions through discussions with the government of Nepal, UNHCR and Amnesty International. Our Nepalese authorities have requested us to convey to the Board that they want an expeditious, fair and just solution of the refugee problem with the government of Bhutan. They appreciate the Bank staff for highlighting this important issue in the CAS discussion.

Fourth, other areas where the government and IDA should accord top priority are financial sector and private-sector development. As mentioned in the document, the considerable liquidity in the banking system, and thus the imbalance between liquidity and productive lending opportunities, can only be solved through the expeditious liberalization of the financial sector. Similarly, the government should accelerate the pace of privatization, especially in sectors such as agriculture, power, road, education and health in an attempt to diversify the economy.

The role of IDA in Bhutan is not very significant and will continue to be so in the future because of the government’s policy of limiting the number of donors and, moreover, their preference to rely on bilateral grants. In this regard, the primary emphasis of the CAS on knowledge transfer and donor coordination which could subsequently lead to lending is well placed. Since the government is exceptionally proactive in managing donor assistance, we hope that the government is in a position of taking leadership for the implementation of Comprehensive Development Framework.

We also would like to lend our support the proposed Rural Access credit to the Kingdom of Bhutan, which compliments the Government’s poverty strategy as reflected in this CAS document.
Finally, we endorse the CAS and wish Bhutanese authorities all success in their development endeavors.