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COUNTRY PARTNERSHIP STRATEGY

FOR

THE KINGDOM OF BHUTAN

FOR THE PERIOD FY11-14

October 27, 2010

**Bhutan Country Management Unit
South Asia Region**

**International Finance Corporation
South Asia Department**

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GOVERNMENT FISCAL YEAR

July 1–June 30

WORLD BANK FISCAL YEAR

July 1–June 30

ABBREVIATIONS AND ACRONYMS

| | | | |
|-------|---|-------|---|
| 9FYP | Ninth Five-Year Plan | GNHC | Gross National Happiness Commission |
| 10FYP | Tenth Five-Year Plan | | |
| AAA | Analytic and Advisory Activities | GTFP | Global Trade Finance Program |
| ACC | Anti-Corruption Commission | HE | Higher Education |
| AES | Annual Education Statistics | IBRD | International Bank for Reconstruction and Development |
| BLSS | Bhutan Living Standards Survey | | |
| BPFSS | Budget Policy and Fiscal Framework Statement | ICA | Investment Climate Assessment |
| | | ICT | Information Communications Technology |
| BUDP | Bhutan Urban Development Project | IDA | International Development Association |
| CAS | Country Assistance Strategy | IDF | Institutional Development Fund |
| CASCR | Country Assistance Strategy Completion Report | IFAD | International Fund for Agricultural Development |
| CBDRM | Community-Based Disaster Risk Management | IFC | International Finance Corporation |
| CIC | Community Information Center | IFRS | International Financial Reporting Standards |
| CPIA | Country Policy and Institutional Assessment | | |
| CPS | Country Partnership Strategy | IPSDS | Integrated Public Service Delivery System |
| CRW | Crisis Response Window | | |
| DHI | Druk Holding and Investment | ISA | International Standards on Auditing |
| DIT | Department of Information Technology | JSDF | Japan Social Development Fund |
| | | LFS | Labour Force Survey |
| DPC | Development Policy Credit | MD | Managing Director |
| DPO | Development Policy Operation | MOLHR | Ministry of Labour and Human Resources |
| DRM | Disaster Risk Management | | |
| DRR | Disaster Risk Reduction | MSME | Micro, small and medium enterprises |
| EC | European Commission | | |
| EDP | Education Development Project | MTFF | Medium-Term Fiscal Framework |
| ESW | Economic and Sector Work | MYRB | Multi-Year Rolling Budget |
| FTI | Fast Track Initiative (EFA) | NACSF | National Anti-Corruption Strategic Framework |
| GAFSP | Global Agriculture and Food Security Program | NCWC | National Commission for Women and Children |
| GEF | Global Environment Facility | | |
| GDP | Gross Domestic Product | NECS | National Environment Commission Secretariat |
| GLOF | Glacial Lake Outburst Flooding | | |
| GNH | Gross National Happiness | | |

| | | | |
|-------|--|-------|--|
| NLTA | Non-lending Technical Advice | RUB | Royal University of Bhutan |
| NPV | Net present value | SAARC | South Asian Association for Regional Cooperation |
| PEMS | Public Expenditure Management System | SEDF | South Asia Enterprise Development Facility |
| PER | Public Expenditure Review | SME | Small and Medium Enterprise |
| PFM | Public Financial Management | SOE | State-Owned Enterprise |
| PlaMS | Planning and Monitoring System | TA | Technical Assistance |
| PREM | Poverty Reduction and Economic Management | TCC | Thimphu City Corporation |
| PRSP | Poverty Reduction Strategy Paper | TVET | Technical and Vocational Education and Training |
| PFM | Public Financial Management | UCS | Use of Country Systems |
| PPP | Public Private Partnership | UN | United Nations |
| PSD | Private Sector Development | UNCT | United Nations Country Team |
| RAP | Rural Access Project | UNDAF | United Nations Development Assistance Framework |
| RBM | Results-Based Management | UNRC | United Nations Resident Coordinator |
| RGoB | Royal Government of Bhutan | WB | World Bank |
| RIM | Royal Institute of Management | | |
| ROSC | Reports on the Observance of Standards and Codes | | |

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**COUNTRY PARTNERSHIP STRATEGY FOR
THE KINGDOM OF BHUTAN**

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IBRD Map No. 33373R

EXECUTIVE SUMMARY

i. ***‘Gross National Happiness’ (GNH) is the philosophy which forms the cornerstone of Bhutan’s development and which Bhutan is succeeding in implementing.*** Introduced by the Fourth King of Bhutan in the 1970s, GNH presents an alternative model for development which places equal weight on the social, spiritual, intellectual, cultural and emotional needs of a society as it does on material and economic gain. The GNH philosophy today garners considerable attention as many nations, both developed and developing, assess the merits of development and, in particular, the extent to which their people’s sense of well-being and happiness is reflected by their levels of material and economic gain.

ii. ***Bhutan represents a bastion of peace and stability in South Asia.*** Inherent in its Buddhist philosophy and committed to the overarching goals Gross National Happiness – sustainable development, preservation of cultural values, conservation of the environment and good governance - - Bhutan today enjoys a number of development assets, including strong ownership of the development process, low levels of corruption, robust institutions, a well educated and dedicated civil service and visionary leadership. Bhutan is well poised to consolidate and expand on the numerous impressive gains it has achieved since the advent of development planning and its recent smooth transition to democracy.

iii. ***Today Bhutan faces a new set of challenges as it experiences rapid transition*** from a mostly agrarian society to one characterized by increasing levels of education, shifting expectations and changing demographics, particularly among the country’s youth for whom rural life and farming hold little appeal. With increasing urban drift and limited opportunities for securing public sector employment, the Royal Government is challenged to identify strategies to diversify the economy for creating employment while, simultaneously, ensuring that underserved populations – both rural dwellers in remote parts of the country and new urban populations -- have access to basic services and infrastructure. The impetus to deliver services, including roads, water supply, electricity, and health and education facilities is compounded by Bhutan’s new system of democratic governance whereby the wishes and demands of constituents must be responded to.

iv. ***Bhutan is blessed with abundant water resources which offer enormous potential for the generation and sale of hydro-electricity.*** Bhutan enjoys close physical proximity to and strong ties with neighbouring India which itself is experiencing rapid economic development and social transformation. Given India’s current and future need for a reliable supply of electricity, the future for Bhutan’s economic growth appears bright. A number of large hydropower projects, financed by India, are planned over the coming decade to tap into the country’s abundant hydropower generation capacity, of which only five percent is presently harnessed. Using revenues gained from hydropower sales, the Royal Government’s long-term plan, as articulated in its *Bhutan 2020* vision, is to achieve economic self-reliance and the provision of quality services for the entire population.

v. ***While hydropower generation will bring increased economic gain to Bhutan, it will not be major source of employment.*** There are also risks from being dependent on a single market (India) for the sale of a single commodity (electricity), including natural disasters and the possible effects of climate change, particularly if the glacial melt which feeds Bhutan’s rivers is altered. For these reasons, Bhutan seeks economic diversification along with prudent planning for and management of resources. In forging new pathways forward to achieve economic diversification, to keep pace with globalization trends, particularly in ICT and education, and to address new challenges resulting from the country’s development successes to date, the Royal Government has articulated a vision to create

a 'knowledge-based society, with private sector development as the engine for growth, ICT as the platform, underscored by strategic infrastructure'.

vi. ***This Country Partnership Strategy aims to support Bhutan in laying the foundations for achieving this long-term vision.*** The CPS will align with the country's Tenth Five-Year Plan (FY08-13) in support of the Royal Government's efforts to: (a) diversify the economy and generate employment through private sector growth, and (b) provide services to populations in rural and expanding urban areas that lack them while addressing emerging social challenges. The CPS program defines a set of outcomes that it expects to influence and associated milestones to track progress. The outcomes are organized around four clusters that include: (i) creating more favorable conditions to create businesses and accessing credit; (ii) reforming the educational system to enable it to deliver the skills needed for diversification; (iii) providing infrastructure to expanding urban and connecting isolated rural areas, where rural development needs better access to market, and (iv) charting a new agenda for meeting emerging social challenges in health and education while increasing the effectiveness in the use of public resources. To help achieve these results, the CPS identifies two cross-cutting themes embedded throughout the program: (I) capacity building for good governance, and (II) environmental sustainability. The CPS spans the remaining three years of the Royal Government's 10th Five-Year Plan and the first year of the 11th Five-Year Plan. It has been developed, therefore, to ensure sufficient flexibility to align to new priorities of the Royal Government under the next national development plan.

vii. ***As a joint World Bank-International Finance Corporation (IFC) strategy,*** the CPS seeks to exploit the comparative strengths and advantages of each agency and coordinate their interventions to support achievement of the CPS' objectives. The International Development Association (IDA) will seek to leverage its limited allocation through strategic partnerships with government and development partners using best practices. Bhutan's IDA envelope for FY11-14 is indicatively set at SDR49 million (approximately US\$75 million equivalent). The proposed IDA program, including lending and analytical and advisory activities (AAA), will be sequenced such that AAA underpins lending and lending reflects a 60/40 split between budget support operations and specific investments, respectively. IFC's focus areas take into account its three strategic pillars for South Asia operations: (1) inclusive growth; (2) climate change adaptation and mitigation; and (3) global/regional integration.

viii. ***This CPS takes a medium- to long-term vision of Bhutan as a middle income country.*** The World Bank expects that positive and timely implementation of the CPS program will pave the way for Bhutan to move to IDA-IBRD blend status under the next CPS. As of 2010, Bhutan has moved to hardened IDA credit terms which are expected to prevail throughout this CPS period. Given Bhutan's likely transition from IDA-only status after this CPS period, this strategy emphasizes the World Bank Group's *partnership* with Bhutan over its *assistance*.

ix. ***Two broad sets of risks may impact implementation of the CPS.*** The first set of risks is related to factors endogenous to the implementation environment and reflective of Bhutan's specific development challenges and levels of progress. These include macroeconomic volatility and capacity limitations. The second set of risks is related to the design of the program itself given that some key issues which the CPS might address and subsequent activities to address them are yet to be defined. While no major risks are likely to derail the country program, there are some risks which may affect implementation progress and for which mitigation measures will be in place.

INTRODUCTION

1. **Bhutan faces a new reality brought on by its past development successes.** The increasing numbers of youth completing the full cycle of basic education and beyond face a nascent private sector and few opportunities for public sector employment. To the unprecedented pressure of rising youth unemployment are added the complex issues associated with rural-urban migration and rapidly expanding urban settlements. Bhutan's challenge, then, is to increase economic growth and diversification to expand opportunities for employment while equipping the labor force with modern skills that support diversification. Further, a balanced development in rural and urban areas requires both continued expansion of basic infrastructure and quality services in growing urban centers while simultaneously ensuring that rural parts of the country have the services, infrastructure and opportunities people need for an improved standard of living and to make rural life more appealing overall.

2. **This Country Partnership Strategy (CPS) provides a framework for World Bank Group support to Bhutan during fiscal years (FY) 2011–14.** It is aligned with Bhutan's Tenth Five-Year Plan through 2013 and will cover the first year of the Eleventh Five-Year Plan starting in July 2013 (FY14). Under the overarching goal of increasing people's 'Gross National Happiness', the philosophical cornerstone of Bhutan's development vision and path, the CPS follows a strategic approach that focuses on results in key strategic areas to support Bhutan in realizing its vision of creating a *'knowledge-based society with private sector as the engine for growth, ICT as the platform, underscored by strategic infrastructure'*.

3. **The CPS has been developed in partnership between the World Bank and the International Finance Corporation (IFC).** The goal of a joint Bank-IFC CPS is to maximize and leverage the strengths of each organization in order to provide a coherent and consolidated development assistance strategy for Bhutan.

COUNTRY CONTEXT

4. **Bhutan is a small mountainous landlocked country in South Asia** located in the eastern Himalayas and bordered by India and China. According to the last census in 2005, its population is approximately 696,000, spread over an area of 38,394 sq kms and roughly the size of Switzerland. Bhutan has approximately 70 percent of its land area still under forest cover, although less than two percent of land is suitable for cultivation. Given its location between the Indian and Asian tectonic plates, Bhutan is prone to earthquakes. It also experiences frequent landslides, particularly during the summer monsoon season, as well as forest fires, wind storms and glacial lake outburst floods (GLOFs).

5. **Bhutan has abundant water resources.** It is well placed to take advantage of its location next to India for the sale of hydropower. Hydropower is the principle driver for economic growth. Bhutan currently exploits an estimated five percent of its total hydropower generation capacity and plans to have 10,000 MW of hydropower generation capacity by 2020.

6. **Almost two-thirds of the population is classified as rural.** The majority of the population lives in the central highlands. While steadily decreasing overall, poverty in Bhutan is concentrated in isolated rural areas. These areas have limited income opportunities and a high cost of service delivery. Service delivery is hampered by difficult terrain and scattered settlements. There are higher concentrations of population in the southern belt of the country bordering poor regions of northern India. The capital, Thimphu, has a population of approximately 120,000 people and lies in the western part of the country, as does the town of Paro, where the country's only airport is located, from where Bhutan has direct air links to India, Bangladesh, Nepal and Thailand.

7. **Bhutan is a global biodiversity hotspot.** It has a strong track record for environmental stewardship. Centuries of isolationism, a small population and topographical extremes have led to Bhutan maintaining one of the most intact ecosystems in the world. The country ranks amongst the top ten countries in the world in terms of species density (i.e. the number of species per unit area).

A. Political and Economic Context

i. Political Economy and Governance

8. **In 2008, Bhutan transitioned smoothly from an absolute monarchy to multi-party democracy.** His Majesty King Jigme Khesar Namgyel Wangchuck is the nominal head of state. Executive power resides in the government led by the Prime Minister. The transition to democratic governance was the outcome of a decade of preparations led by the Fourth King Jigme Singye Wangchuck who abdicated in 2007. These included the establishment of numerous constitutional bodies, including an election commission, an anti-corruption commission and an independent auditor-general. While public sentiment was generally not in favour of democracy -- preferring, rather, continued governance by the country's monarchs -- the Fourth King deemed it in his people's long-term interest to ensure that power rests in their hands. The current and first elected Royal Government of Bhutan consists of a parliamentary majority of 45 of 47 seats in the National Assembly.

9. **Good governance has been a continued priority for the Royal Government.** Bhutan stands out in the region with overall low levels of corruption and robust institutions to support transparent governance. Bhutan scores well on the WBI Governance Research Indicators score for 'control of corruption', and is at the 75th percentile worldwide. The 2010 Transparency International Corruption Perception Index score for Bhutan is 5.7, making Bhutan the least corrupt country in South Asia and 36th least corrupt out of 178 nations globally, up from 49th position out of 180 nations in 2009 with a score of 5.0. Bhutan enjoys relative peace and stability. The institutions of democracy, while still young, have taken firm root and provide a solid foundation for ensuring the rule of law and transparent governance with adequate checks and balances.

10. **Bhutan has a strong record of social policy.** This is characterized by equity and commitment on the part of the state to ensure a minimal level of access and quality in the provision of social services. This has yielded a relatively well educated population of young Bhutanese who have benefited from an English-medium education, thus facilitating access to information and learning outside Bhutan's borders in an increasingly inter-connected world.

11. **Bhutan enjoys a high level of confidence on the part of its development partners.** This stems from good planning capacity and the building of strong and transparent systems of fiduciary functioning. This level of good governance allows for the effective use of aid and concerted focus on the development issues at hand, with relatively little distraction from what is elsewhere a major preoccupation with the barriers of poor governance, corruption and indifference.

12. **Bhutan's development has been one of broad-based progress.** This has been achieved under the guidance of a strong lineage of monarchs who have led the way in establishing the conditions for development while articulating the nation's approach to modernization. Today, Bhutan enjoys numerous 'development assets': (i) low corruption; (ii) ability to delivery services; (iii) peace and stability; and (iv) robust institutions. Additionally, Bhutanese society emphasizes inclusiveness, places particular importance on the equal status of women and is unencumbered by a caste system of social hierarchy.

ii. Recent Economic Developments

13. **Economic growth has slowed down recently.** Bhutan grew at an average real rate of nine percent per annum during the Ninth Five-Year Plan period (2002/03–2007/08, extended by one year). This was driven largely by hydropower development, as Bhutan started to effectively tap into its 23,760 MW hydropower potential¹. Annual real GDP growth exceeded 13 percent and 11 percent in 2006/07 and 2007/08 respectively, as the 1020 MW Tala hydropower project came on-stream in 2006/07, trebling Bhutan’s power generation capacity (Figure 1). However, economic growth slowed in 2008/09 and 2009/10 to about 5.7 percent and 6.6 percent respectively, as the effects of the Tala hydropower project wore off. Construction work on new hydropower projects has been the key source of growth during the last two years.

14. **RGoB’s overall fiscal stance has been prudent.** Domestic revenues consistently cover current expenditures. The fiscal deficit, including grants, has averaged 2.5 percent during the 9FYP, in-line with RGoB’s target of maintaining it below 5 percent. However, volatility has been an issue with the fiscal balance varying from a deficit of 12 percent of GDP in 2002/03 to a surplus of over 7 percent of GDP in 2006/07. For its revenues, Bhutan relies heavily on hydropower and foreign grants, particularly from India, which fluctuate considerably. When Tala came on-stream on 2006/07, for instance, it boosted domestic revenues by 45 percent over 2005/06. On expenditures, fluctuations in recent years can be attributed to the purchase of aircraft in 2004/05, interest payments for Tala (which started in 2007/08), and an increase in discretionary capital expenditure in 2007/08 when the new government assumed office. However, strong fiscal discipline has resulted in small fiscal surpluses during the last three years, and 2008/09 sees a surplus of 1.9 percent of GDP on account of under-spending on capital expenditures (Figure 1).

15. **The stock of government debt rose from US\$459 million in 2002/03 to US\$721 million in 2008/09.** This was largely on account of hydropower development loans. At the same time, RGoB’s ability to service debt is also increasing due to a higher GDP contribution from the electricity sector. As Tala came on-stream and boosted growth, the total debt-to-GDP ratio fell from 92.2 percent in 2005/06 to 59.6 percent in 2008/09 (Figure 1). Today, over 96 percent of total government debt is foreign, and about 60 percent is for hydropower development.

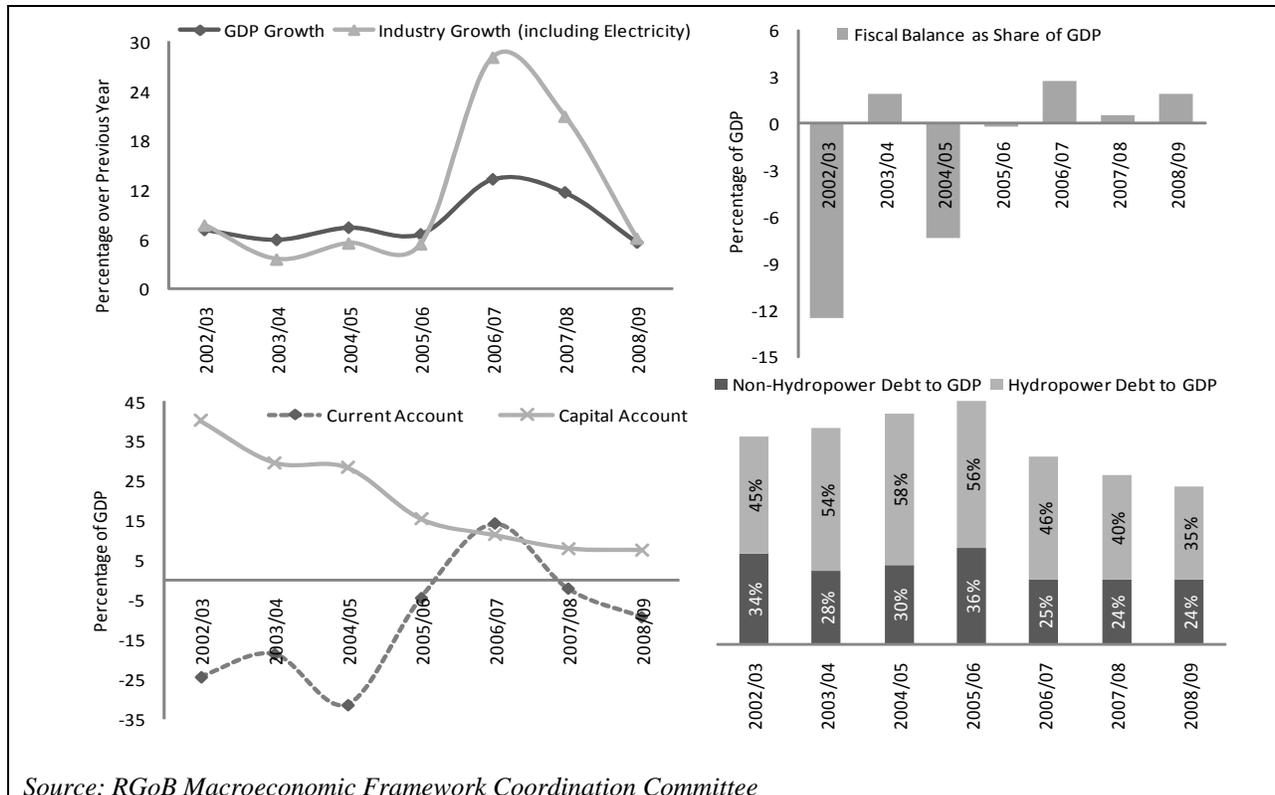
16. **Healthy external balances have led to continuous increases in foreign exchange reserves.** Large grants from India and foreign aid from Bhutan’s development partners have helped the country maintain healthy external balances in recent years. The overall balance of payments has averaged around 6.5 percent of GDP over 2002/03–2008/09 on account of strong aid inflows, even as the current account deficit has been in the range of about 10.8 percent of GDP over the same period. However, there has been volatility, especially in the current account. For example, the current account deficit reached a high of 31 percent of GDP in 2004/05 when there were large imports due to RGoB’s purchase of aircraft. The current account deficit has deteriorated in 2008/09 on account of increased imports from government expenditure on hydropower projects, interest payments from Tala, and a decline in commodity exports (particularly manufactured and mineral-based products) during the global economic crisis (Figure 1). However, inflows on the capital account cover this. Foreign reserves have grown at about 12 percent annually since 2002/03, and stand at over 13 months of import cover at present.

17. **Bhutan was adversely affected by several external shocks in 2009.** These collectively caused significant losses. First, floods resulting from Cyclone Aila in May cost the country an estimated US\$15 million in damages to infrastructure. Second, an earthquake measuring 6.1 on the Richter scale struck

¹ In the hydropower sector, the country has the potential to develop 23,760 MW of capacity, of which only five percent has been tapped so far.

eastern Bhutan in September, and a rapid needs assessment estimated damages of about US\$52 million, also to existing infrastructure. Finally, even though Bhutan was largely insulated from the effects of the recent global economic crisis, there was a significant effect on tourism. Convertible currency revenues from the sector fell from US\$38 million in 2008 to about US\$31 million in 2009. While it is still too soon to be conclusive, data from the Tourism Council of Bhutan suggests that the sector may be recovering. Convertible currency earnings from tourism are higher in the first half of 2010 (US\$14.3 million) than they were in the first half of 2009 (US\$13.5 million).

Figure 1: Recent Growth and Macroeconomic Performance in Bhutan



iii. Economic Outlook

18. **Average annual real growth rate of 6.5 percent is expected during the CPS period.** Construction work on new hydropower projects will be the major source of growth during the CPS.² Hydropower production will continue to drive economic growth in the medium term as RGoB proposes to add 10,000 MW of hydropower generation capacity by 2020.³ During the CPS period, only the Dagachu (114 MW) is expected to come on stream in 2012/13. Electricity and budgetary grants are the main projected sources of revenue during the CPS period. The average share of electricity in aggregate revenue is estimated to be about 28 percent during FY11-14. Grants are expected to account for over 37 percent of Bhutan's aggregate revenues during the CPS period. About 80 percent of these grants are expected to be

² Construction work on the 1200 MW Punatsangchhu I, the 720 MW Mangdechhu, and the 1000 MW Punatsangchhu II hydropower projects has already commenced, and they are targeted to become operational by 2017/18.

³ Bhutan and India have agreed on a list of 10 hydropower projects to be developed — six under an 'intergovernmental model' of financing through a mix of grant and loan, and four under the joint venture model whereby public sector companies from both countries will implement the project.

tied to specific projects. India alone accounts for almost 70 percent of projected grants. Bhutan's tax base is small, and efforts are planned to buttress collection from personal and business income taxes.

19. **Fiscal projections show an ability to withstand reasonable short-term shocks.** Nonetheless, there is a shortage of resources to finance the development agenda. Fiscal policy during the CPS period is anchored in a prudent policy of maintaining current expenditures in-line with the domestic revenue stream (Table 1). At the same time, the fiscal deficit projected by RGoB's Budget Policy and Fiscal Framework Statement (BPFSS) is expected to average above six percent, largely on account of the Royal Government's ambitious infrastructure expansion plans.

20. **Bhutan faces a resource shortage of about US\$500 million in financing its projected development plans during FY11-14.** Capital expenditures rose significantly in 2009/10 as Bhutan successfully hosted the South Asia Association for Regional Cooperation (SAARC) summit in April 2010. Furthermore, the BPFSS assumes full implementation of planned reconstruction activities from the recent earthquake and flooding damages of 2009. RGoB's ambitious projections are based on a near-doubling of capital expenditure from 2008/09 levels, which may be constrained by capacity. More modest growth in capital expenditure — at the historical rate of about ten percent per annum observed post-2001, for example — will result in a lower fiscal deficit of about three percent of GDP during the 10FYP period. The projected deficit also includes implementation of a civil service pay hike approved in early-2009, which will contribute to higher current expenditure.

21. **The size of the total public debt is expected to rise, but the risk of debt distress is moderate.** Total debt burden is expected to rise. This is largely on account of external borrowing for the construction of new hydropower projects, but the resources needed to service the debt will be generated directly by the asset created through borrowing. The debt burden, which is presently close to 60 percent of GDP, is projected to rise to almost 75 percent by 2013/14. A Joint IMF / World Bank Debt Sustainability Analysis (DSA) undertaken in 2009 suggests moderate risk of debt distress over 2008/09–2028/29. While the policy-related Low Income Country DSA (LIC-DSA) thresholds are breached for several indicators due to debt on account of hydropower projects, these projects bring dividends in the form of growth and exports. Sensitivity analyses show that the public debt profile is sustainable under most scenarios, and the debt ratios decline over time and eventually fall below the LIC-DSA thresholds. Despite breach of thresholds in the initial period of the analysis, a rating of moderate risk of debt distress is supported by: (i) Bhutan's strong track record of project implementation; (ii) commercial viability of new hydropower projects; and (iii) Bhutan's close economic and political ties with India which render minimal the commercial risks of these projects, as India is both the main provider of financing for hydropower projects as well as the main consumer of the projects' output.

22. **The overall external balance will likely continue to show a surplus during the CPS period.** This is due to robust capital inflows, even as the current account deficit is projected to average about 5 percent. The current account deficit is expected to improve somewhat, with a deteriorating trade balance and increased interest payments offset by higher current transfers. Electricity is expected to remain the dominant export commodity, accounting for almost 50 percent of total exports, and India will likely remain the key trading partner. Robust capital inflows in the form of capital transfers from India, foreign direct investment (FDI), as well as loans and grants from development partners are expected to finance the current account deficit and enable an increase in gross international reserves at the rate of 13.5 percent per annum during FY11-14. The import cover is also projected to go up from 13 months at present to over 22 months by 2013/14.

23. **There are several risks to Bhutan's outlook.** While Bhutan's overall macroeconomic framework is sound, as confirmed by the IMF's 2009 Article IV Staff Report, its industrial and export bases are narrow, and it is exposed to single market (India) and single commodity (hydropower) risks.

High spending pressures combined with the possible shortfalls in aid-based foreign financing, due to weak global recovery, may lead to further debt build-up and jeopardize debt sustainability. Internally, given high development spending to meet the goals of the 10FYP and recent wage increases, the fiscal deficit has been rising. It is projected to rise further, creating overheating risks. Given its small size, Bhutan will likely remain susceptible to economic volatility in external assistance and hydropower revenues, and financing will be needed, along with fiscal prudence, to help maintain macroeconomic targets.

Table 1: Selected Economic Indicators, 2008/09 – 2013/14

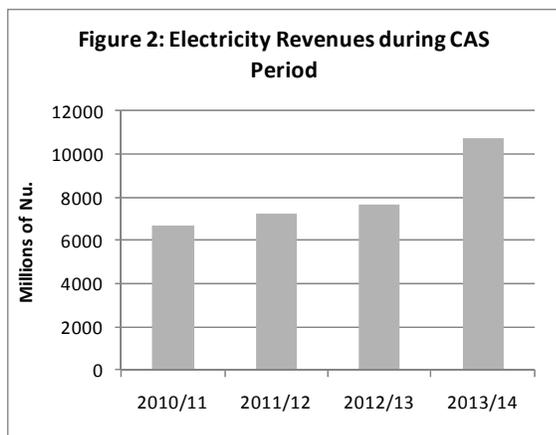
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--|-----------------|-----------------|------------------|------------------|------------------|--------------------|
| | <i>Actual</i> | <i>Revised</i> | <i>Estimated</i> | <i>Projected</i> | <i>Projected</i> | <i>Projected**</i> |
| <i>Annual Percentage Change</i> | | | | | | |
| National Income and Prices* | | | | | | |
| Real GDP | 5.7 | 6.6 | 6.7 | 6.4 | 6.2 | 7.1 |
| CPI (period average) | 7.2 | 8.4 | 6.3 | 4.5 | 4.2 | 4.1 |
| <i>As Percent of GDP (unless specified otherwise)</i> | | | | | | |
| Royal Government Budget | | | | | | |
| Total Revenues, Grants, & Other Receipts | 40.2 | 39.4 | 35.0 | 30.9 | 26.5 | 26.4 |
| Total Revenues and Grants | 35.3 | 39.4 | 35.0 | 30.9 | 26.5 | 26.4 |
| Domestic Revenue | 24.1 | 23.0 | 20.7 | 18.9 | 17.3 | 17.7 |
| o/w Electricity Sector | 9.7 | 10.9 | 8.8 | 8.2 | 7.6 | 9.2 |
| Grants | 11.2 | 15.6 | 14.2 | 12.0 | 9.2 | 8.7 |
| Total Expenditure, Net Lending & Other Payments | 38.3 | 45.5 | 41.3 | 37.4 | 33.6 | 32.7 |
| Total Expenditure and Net Lending | 33.4 | 45.5 | 41.3 | 37.4 | 33.6 | 32.7 |
| Current Expenditure | 19.0 | 20.7 | 19.8 | 18.6 | 17.5 | 16.8 |
| Capital Expenditure | 16.7 | 26.5 | 22.6 | 19.8 | 17.6 | 15.9 |
| Fiscal Deficit (including grants) | 1.9 | -6.1 | -6.3 | -6.5 | -7.0 | -6.3 |
| Fiscal Deficit (excluding grants)*** | -9.3 | -21.7 | -20.5 | -18.6 | -16.3 | -15.0 |
| Balance of Payments and Reserves | | | | | | |
| Current Account Balance | -9.3 | -6.0 | -6.5 | -6.2 | -2.7 | -4.2 |
| Gross Official Reserves | | | | | | |
| Millions of USD | 758.2 | 870.8 | 1023.1 | 1277.5 | 1642.4 | 1721.1 |
| Months of GNFS imports | 13.7 | 13.5 | 14.8 | 17.6 | 21.8 | 22.1 |
| Debt and Debt Service | | | | | | |
| Total Government Debt | 59.6 | 61.3 | 63.1 | 65.5 | 68.4 | 73.3 |
| Foreign Debt | 57.5 | 59.8 | 62.0 | 64.7 | 67.8 | 73.0 |
| o/w Hydropower Debt | 35.3 | 37.8 | 41.0 | 46.0 | 50.7 | 58.9 |
| External Debt Service | | | | | | |
| (in percent of GNFS exports) | 14.4 | 14.3 | 13.5 | 12.6 | 11.9 | 13.8 |
| Nominal GDP at Market Prices (Nu. Mn) | 58,308.0 | 66,865.3 | 76,556.8 | 87,980.0 | 100,877.1 | 117,403.6 |

Source: Budget Policy and Fiscal framework Statement (BPFSS) as on 26/05/2010 reported in Annual Budget Report FY 2010-2011, unless specified otherwise.

* Real GDP and CPI Data from World Bank and IMF databases, and differ from RGoB's BPFSS.

** Projections for 2013/14 are based on World Bank and IMF projections, and differ from RGoB's BPFSS in several cases.

*** Fiscal Deficit (excluding grants) are calculated by subtracting the Grants row from the row denoting Fiscal Deficit (including grants).



24. **Bhutan must manage its hydropower resources to promote economic development effectively.** RGoB presently uses its revenues from hydropower to finance its budgetary expenditures, with the social sectors being major areas for government spending. Projected high hydropower revenues during the CPS period and beyond will provide finance for growth, but may not necessarily spur sustained growth and employment in the non-hydropower sectors.⁴ Bhutan does not show resource curse ('Dutch Disease') effects at present.⁵ At the same time, it will be important to guard against manifestations of this phenomenon in the future, especially as hydropower development in Bhutan is largely dependent on donor assistance and, therefore, subject to some

uncertainty. Using hydropower gains strategically, to facilitate the transition to a competitive, market-led economy can be a good option for fostering non-hydropower growth and job creation. This would call for part of hydropower revenues to be saved for stabilization purposes or for future generations, and using these to purchase financial assets -- or reduce public debt -- that will provide a return for the economy.

B. Poverty and Human Development

25. **Poverty is declining and Bhutan does not face widespread hunger, destitution and homelessness.** The poverty headcount rate shows substantial reductions, falling from 31.7 percent in 2004 to 23.2 percent in 2007⁶, with the official incidence of poverty being much lower in urban (1.7 percent) than in rural areas (30.9 percent). The urban-rural gap exists in other dimensions as well, for example, food security, access to services and infrastructure. While rapidly urbanizing, Bhutan continues to be over 60 percent rural. Difficulty of access has limited rural areas' access to social services which, consequently, have progressed more slowly in the demographic transition. The result is that urban areas have a profile of falling birth rates, an aging population, increasing chronic and costly non-communicable diseases, increasing need for pensions, changing diet and declining levels of physical activity. Increased access to ICT and higher levels of education overall have yielded demand for modern technologies, which has important implications for government expenditure. In rural areas, on the other hand, people continue to die at younger ages, have higher birth rates and are affected primarily by communicable diseases. Addressing both realities at the same time and the financing pressures on that result necessitates a more efficient use of funds and more innovative approaches.

26. **Bhutan is characterized by solid progress in human development and modernization,** particularly in urban areas, with increasing availability and use of public services throughout the country.

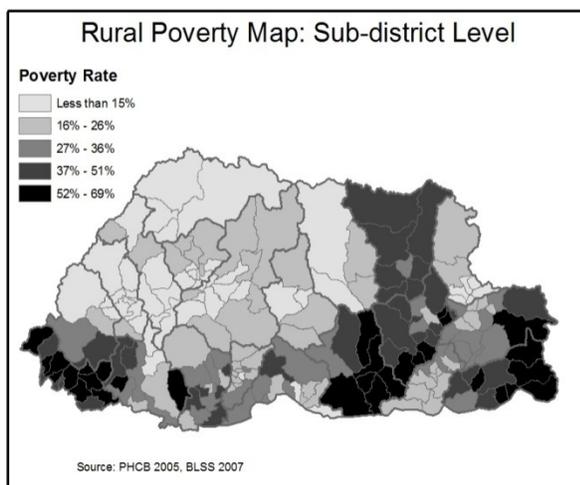
⁴ These potentially negative impacts on a resource-rich economy come through: (i) the appreciation of the real exchange rate, as the export and production of the non-hydropower sector falls, which may lead to sectoral unemployment (hydropower employing relatively few workers), while the price of non-traded goods increases; (ii) lack of domestic absorption capacity, as substantially increased spending is made possible by the extra revenues from the taxation or ownership of the natural resource; (iii) weak governance of public spending, where large amounts of new resource revenues entering the government budget can see poor performance in terms of output, if the capacity to manage these resources is insufficient.

⁵ The real exchange rate is broadly in equilibrium with the Indian rupee. Hydropower revenues have India as the dominant and stable market, which was not affected even during the global economic crisis. While youth unemployment is an issue, general unemployment rates of around four percent compare favorably even with developed countries. In fact, the Investment Climate Assessment Enterprise (ICA) Survey of 2010 shows that private formal firms in Bhutan are growing rapidly (although from a low base), with the median firm reporting an increase of 36 percent in sales and 25 percent in employment over 2006-08.

⁶ It is to be noted that the national poverty line of Nu1,096 per person per month translates to about US\$0.70 per person per day, which is below the international benchmark of US\$1 per person per day. Therefore, the poverty head count using the international benchmark of US\$1 per person per day is likely to be higher than 23.2 percent.

Bhutan received a score of 0.619 on the UNDP’s Human Development Index in 2007, placing it in the medium range, along with most of its neighboring South Asian countries.

Figure 3: Poverty Map



27. **Bhutan has already attained or is on-track to achieve most of the MDGs.** In education, the net primary school enrollment and primary completion rates are 92 percent and 90.2 percent, respectively (2009)⁷; net enrollment in basic education (up to grade 10) is 75 percent. RGoB seeks to increase this to 90 percent by the end of the 10FYP. Bhutan has made good progress in developing a system of national education assessment, which is viewed by many other countries as an example of good practice in this highly technical area. In health, mortality rates of under-five children were reduced by about half (from 123 to 61.5) between 1990 and 2007. Bhutan remains on track to achieve the MDG target to reduce under-five mortality by two-thirds. Infant mortality has also decreased from 90 to 40.1 per 100,000 live births over

the period 1990-2007. The target of reducing it by two-thirds by 2015 appears feasible.

28. **Progress toward MDG targets has been slower to reach more remote areas.** This is due to the rugged terrain and limited trained human resources. While several MDG targets, such as increasing access to safe drinking water and sanitation and a reduction in the proportion of under-weight children, have already been achieved, the MDG on maternal mortality, for example, is unlikely to be met. Nevertheless, social development has been significant overall, particularly given the difficult terrain and wide population dispersion.

29. **Bhutan performs remarkably well in terms of gender equality.** Bhutanese culture fosters gender equality, most significantly the tradition of passing land and other forms of inheritance through daughters. Women enjoy equal access to productive resources and protection under the law. As a result, female labor force participation is high in the agricultural and non-agricultural sectors combine. According to the Labor Force Survey in 2009, the labor force participation rate of women is almost as high as that of men (65 percent vs. 73 percent), while the South Asia average of female and male labor force participation rates are only 37 percent and 82 percent, respectively. In terms of human development, the ratio of girls to boys in primary and secondary school is as high as 98 percent in 2008. However, when examining full time paid employment in non-agricultural sectors, female

Box 1: GNH and MDGs

“The pursuit of happiness in Bhutan has been, at the broadest level, a concomitant effort to achieve four goals. These are equitable and sustainable socio-economic development, conservation of our environment, promotion of culture and good governance. All our achievements including, the peaceful emergence of Bhutan as the youngest democracy has been the result of pursuing happiness. I wish to add also that the MDGs are completely in harmony with our program to create the enabling conditions for happiness.”

Address by the Prime Minister of Bhutan, Lyonchhen Jigme Y. Thinley, to the MDG Summit at the UN General Assembly, September 22, 2010.

⁷ Compared with a primary school completion rate of 76 percent in 2006.

participation drops significantly. Women represent only 14 percent of the workforce, and there are few women holding high ranking positions in government and the private sector⁸. Only 10 out of 72 members of Parliament are women and only one among 205 *gups* (village heads) is female. Such challenges suggest the need for more innovative research, including gender-disaggregated data collection, in order to understand the nature of glass ceiling phenomenon in Bhutan. Improved data collection is one of the areas highlighted the 2010 High-Level Sensitization Program on Gender Mainstreaming recently conducted by the National Commission for Women and Children (NCWC) for high-level government and parliament officials, with support from UNDP.

30. **A number of worrisome social problems are emerging.** With increased modernization and urban drift, particularly among educated youth, there are rising juvenile problems, especially in Thimphu and peri-urban settlements which are experiencing increasing rates of alcohol and drug abuse. There are also alarming rates of domestic violence, much of which is attributed to widespread alcohol abuse. The overall unemployment rate has risen to four percent from 3.7 percent in 2007. This translates to about 13,000 unemployed Bhutanese of which 81 percent are 15-24 years old. Youth unemployment has risen rapidly to 13 percent from 9.9 percent in 2007 and 2.2 percent in 1998. Despite expansion of basic education, the nation's skills base is narrow and Bhutanese youth have insufficient exposure to practical and applied studies that equip them with skills required for employment in expanding sectors. Similarly, at the higher education level, many instructors lack qualifications and experience at advanced levels of training and research, which presently constrains efforts to build a knowledge-based economy.

BHUTAN'S VISION, CHALLENGES AND STRATEGY

A. Vision

31. **'Gross National Happiness' (GNH) is Bhutan's overarching development philosophy.** GNH promotes a more meaningful purpose for national development than simply the fulfillment of material satisfaction. This alternative development model places human happiness and holistic well-being at the centre of the development equation. It highlights a consistent approach taken by the Royal Government to secure a synergistic and harmonious balance between material well-being and the spiritual, emotional and cultural needs of individuals and society. GNH aims to achieve broad-based and sustainable growth, improvement in the quality of life, conservation of the natural environment, preservation of culture and good governance. These themes have shaped the spirit and content of all five-year plans undertaken since the inception of development activities in Bhutan.

32. **'Bhutan 2020: A Vision for Peace, Prosperity and Happiness' is Bhutan's twenty-year perspective strategy.** It sets the preferred direction for where Bhutan wants to be in the year 2020 starting from the base year of 2000. In striving to achieve increased GNH, Bhutan's development goals are reflected in *Bhutan 2020*. It envisions an economic future driven by hydropower-based investments to help the country achieve financial self-reliance and with responsibility for development financing in its own hands. To realize its vision for the delivery of quality services across the country, RGoB sees relying not only on hydropower revenues, but also on a diversified economy which provides productive employment for an educated and skilled populace. Based on these resources, Bhutan expects by 2020 to be able to sustain rising social sector investments, meet its growing physical infrastructure development requirements and stimulate further growth in economic activity to raise people's standard of living and quality of life. It also seeks to continue its policy of promoting high end-tourism, including eco-

⁸ Among executive-level civil servants, only 7 percent are women (RCSC Statistics).

33. **The Royal Government further envisions the natural environment and natural resource endowments being intact.** It aims to maintain 60 percent of the country forested with sizeable tracts of protected national parks and reserves harbouring rich bio-diversity. It anticipates the full development of the country’s governance and legal institutions, with local governments which are fully and effectively empowered and responsible for development planning and management. It is expected that the Bhutanese people would genuinely own the development process toward fulfilling both long-term national goals and local aspirations and priorities.

34. **Bhutan’s first elected government has expanded on the *Bhutan 2020* vision.** After coming into office in 2008, while adhering to the vision articulated in *Bhutan 2020*, it has built upon this by defining a long-term objective for the country to become a *‘knowledge-based society with ICT as the platform, private sector as the engine for growth underscored by strategic infrastructure’*. The fulfillment of this vision constitutes the basis for the strategic choices of this CPS.

Box 2: Principles and Pillars of GNH

The 4th King of Bhutan, His Majesty Jigme Singye Wangchuck, coined the term ‘Gross National Happiness’ in 1972 declaring it to be more important than gross domestic product. Since then, GNH has “influenced Bhutan’s economic and social policy” (OPHI 2010) and generated much interest outside the country. The four key areas of GNH are sustainable development, preservation of cultural values, conservation of the environment, and good governance. (Thinley 2007)

In order to create a measurement tool “useful for policy making and resource allocation,” (OPHI 2010) the GNH Index was launched in 2008. The GNH Index is comprised of nine dimensions including conventional measures in areas of health and education and less conventional measures including time use, culture and psychological well-being. The results of the first GNH index (2008) “showed that no surveyed Bhutanese person had achieved sufficiency in all of the indicators; however, most Bhutanese people had achieved sufficiency in six or more of the nine dimensions.” (OPHI 2010)

The usefulness of the GNH Index as a policy tool includes aspects of Bhutan’s investment climate. For example, a business is able to increase living standards, promote good governance, and can have implications on employees’ psychological well-being.

The Nine Dimensions of the GNH Index:

- 1) Psychological Well-Being
- 2) Cultural Diversity and Resilience
- 3) Education
- 4) Health
- 5) Time Use
- 6) Good Governance
- 7) Community Vitality
- 8) Ecological Diversity and Resilience
- 9) Living Standard

Sources: The Centre for Bhutan Studies (<http://www.grossnationalhappiness.com/>); Oxford Poverty and Human Development Initiative, OPHI (<http://www.ophi.org.uk/policy/national-policy/bhutan/>); Thinley, Lyonpo Jigmi Y., What Is Gross National Happiness? (2007); Bhutan Investment Climate Assessment, 2010

B. Challenges

35. **Bhutan’s challenges to achieving its vision which the CPS seeks to address, fall into two broad categories:** (I) challenges to attaining economic growth for increased employment, and (II) challenges to attaining improved standards of living and well-being.

I. Challenges to attaining economic growth for employment

36. **Bhutan faces the challenge of growing and diversifying its economy to create employment.** It seeks to do this through expansion of the private sector while, at the same time, equipping its people with the skills and knowledge needed to enter an expanding and diversifying job market. While RGoB recognizes that opportunities for employment must be found in the private sector and successful diversification of the economy, a number of factors impede private sector development in Bhutan. The

World Bank Group's *Doing Business* report (2010) and *Investment Climate Assessment* (ICA, 2010) identify several such constraints.

37. **Bhutan ranks 126th out of 183 countries on the ease of starting a business.**⁹ Licensing is time-consuming and bureaucratic. The time spent by firms to comply with government regulations and the associated costs are much higher compared to regional and international averages. Bhutan's business environment would benefit from simplification of regulatory and licensing procedures. Payment systems have not modernized, leading to heavy use of cash and paper based transactions. The ICA highlighted that with a 312 percent collateral principal ratio, the value of collateral needed for a bank loan is close to the highest in the world. More than 20 percent of surveyed firms listed access to finance as the main obstacle to business, mostly for small and medium firms. Equally, more than 20 percent of firms list skills issues or labor regulations as the main impediment. Not surprisingly, given Bhutan's landlocked geography, transportation tops infrastructure/access to markets constraints for large firms, in particular. These constraining factors are coupled with a small domestic market, high transport costs and inadequate infrastructure, including roads and electricity.

38. **Bhutan's economy remains led by state-owned enterprises.** While the private sector has been growing, public companies are the largest companies as measured by assets, turnover and employment. However, a number are loss-making and operate under governance rules that diverge from international best practice. The creation in 2007 of Druk Holdings and Investment (DHI), the primary ownership entity for state owned enterprises in Bhutan, is a promising step toward improving corporate governance for the state-owned sector. DHI would benefit, however, from the instituting of international corporate governance standards.

39. **RGoB has recently revised its policy frameworks governing both private sector development and foreign direct investment.** It has also embarked upon a far-reaching reform exercise with the support of a renowned international management consulting firm to boost economic development and employment generation. This includes planned major reform of the tertiary education sub-sector to increase access to and relevance of learning programs, increasing the skills base through training and apprenticeships for youth, and increasing private sector participation in the delivery of basic services, including health, education and infrastructure.

40. The ICA explicitly addressed the gender issue and found a mixed picture for women in business in Bhutan. Finance appears a more acute constraint for women entrepreneurs.

Table 2: Finance constraints for women entrepreneurs

| | Male | Female | | Male | Female |
|---|------|--------|----------------------------------|------|--------|
| Access to finance | 26% | 37% | % firms using banks to finance | 72% | 61% |
| | | | investments | | |
| Hiring foreign workers | 15% | 25% | % firms using banks to finance | 59% | 56% |
| | | | expenses | | |
| Transport | 13% | 21% | % firms with loan/line of credit | 63% | 47% |
| | | | from financial institution | | |
| Labor regulations | 13% | 19% | Firm's recent loan/line of | 60% | 47% |
| | | | credit required collateral (%) | | |
| Practices of competitors in the informal sector | 10% | 13% | Value of collateral needed (%) | 280% | 292% |
| | | | of the loan amount) | | |

⁹ World Bank Group Doing Business Report 2010

41. **Capacity is a major issue constraining the RGoB's development efforts.** Although Bhutan has made rapid strides in the field of education and human resource development, much work remains before the nation is equipped with the human resources required to sustain the process of development. The nation's skills base is extremely limited and just over one-half of the population is considered literate and numerate. It should be noted, however, that gains in literacy and educational attainment are largely generational and reflect progress made over the last two decades. In addition to technical capacity at the lower and mid-levels, middle and high-level managerial capacity is in short supply and a lack of procurement and financial management capacity among civil servants has been a particular impediment for the implementation of the Royal Government's development agenda.

42. **The number of people completing schooling and seeking employment is growing rapidly.** Over the decade 2001 to 2010, it was projected that approximately 90,000 school leavers and graduates would be produced by the school system with exponential increases taking place each year. As the current formal sector work force is estimated around 60,000, the creation of an additional 90,000 jobs is a formidable challenge. There exists, however, reluctance on the part of young people to enter the private sector. This has several reasons. They fail to see real growth within the sector, are dubious of career prospects and fear job insecurity. Unlike many other developing countries, wage differentials between the public and private sectors are modest, except at the highest levels. Negative perceptions are not effectively countered by higher rates of pay and other financial incentives. This has led to under-utilization of capacity in technical and vocational training institutions, which the country can ill afford. These factors also constitute a major obstacle to the growth of the private sector. A key challenge moving forward will be to create and implement a credible strategy for private sector development which builds people's confidence in the private sector as a viable career path.

II. Challenges to attaining improved living standards and well-being

43. **Poverty continues to impact approximately one-fifth of the population.** This is the case despite the fact that over the past 30 years Bhutan has made remarkable progress in improving the overall living standard of its people through improved access to services and decreasing poverty levels. Bhutan's increasingly educated population and relatively new system of democratic governance, whereby elected officials seek to respond to constituents' demands, places enormous pressure on RGoB to expand access to quality public services and infrastructure in both rural and urban areas.

44. **Bhutan's social and economic transition over the last two decades has fueled rapid urbanization.** This is despite efforts to increase the availability of rural infrastructure -- particularly roads and electricity -- to make rural areas more attractive. This rapidly changing demographic reality characterized by urban drift is a major challenge. With increasing levels of rural-urban migration, growing urban populations require municipal services such as roads, sewerage, water and solid waste disposal in the face of limited financial, human and institutional resources to plan for and manage the growth of towns and cities. Bhutan's urban population is projected to grow from approximately 30 to 50 percent by 2020 and is estimated to have grown by 4.7 percent per year over the past ten years. This rapid urban growth is generating a host of major infrastructure challenges. The capital city, Thimphu, presents some of the most pressing urban challenges for the country and the Royal Government has been struggling to manage its rapid expansion toward ensuring that underdeveloped areas are provided with essential urban services and infrastructure. A factor negatively impacting urban development in Bhutan is an insufficient capacity for urban planning and management. Finally, there is a lack of clear identification of the potential role of the private sector through public-private partnerships.

45. **Underdeveloped infrastructure constrains the delivery of public services as well as private sector growth.** Access remains a problem in remote areas, in particular. Despite the rapid expansion of the road network, more than 50 percent of the population lives half-a-day's walk from the nearest

motorable road. In addition to the existing system of national highways which traverses the country east-to-west with four branches extending to the southern border with India, the country's network of feeder and farm roads serving remote villages throughout the country is expanding. However, the geophysical reality of Bhutan's terrain within the relatively young and unstable Himalayan mountain range makes road construction and maintenance difficult, particularly with the occurrence of frequent landslides provoked by annual monsoon rains.

46. **In rural areas, agricultural production systems and rural living standards are influenced heavily by Bhutan's mountainous landscape, sparse population and limited physical infrastructure.** Subsistence agriculture, low levels of monetization and high rates of poverty prevail in areas where access is limited to walking tracks and the nearest road or town is more than four hours walk away. Access to public services is also limited in some remote areas. Labor shortages have emerged as a major constraint to agricultural growth and there is a possibility that enhanced non-farm employment opportunities will both exacerbate this shortage and raise the cost of farm labour. Where access is poor, rural poverty is high and subsistence agriculture prevails. Access to agricultural extension and farm inputs are known to be weak in such areas. There is a need to strengthen links between rural communities and adjacent rural markets, as well as bring greater diversification of agricultural products.

47. **The geographical 'isolated community' nature of rural Bhutan also poses several challenges.** This was clearly witnessed following the 2009 September earthquake – both in terms of communications and building standards. While RGoB is trying to strengthen rural linkages, there is a need for better emergency communications and strengthening of local communities and government for being prepared, through equipment and training to better respond to disasters such as earthquakes and landslides. A lack of safe and strong housing and inadequate seismic-safe building codes in rural areas are major impediments to household well-being in the face of natural disasters.

48. **The continued expansion of basic services and addressing the emerging challenges will continue to put pressure on public resources.** The challenge, therefore, is to increase efficiency and effectiveness in the use of public resources and skillfully involve the private and/or civil society in the delivery of basic services, when appropriate and possible.

C. The Royal Government's Strategy

49. **The Royal Government's strategy to attain its vision for Bhutan's future development is reflected in the Tenth Five-Year Plan (10FYP).** This describes the country's development programs and activities for the current five-year plan period (FY08-13) and serves as RGoB's Poverty Reduction Strategy Paper (PRSP). The overall development objective of the 10FYP is poverty reduction. This is expected to be realized through implementing the following strategic priorities: (i) vitalize industry; (ii) strengthen national spatial planning; (iii) achieve synergized rural-urban development; (iv) expand strategic infrastructure; (v) invest in human capital; and (vi) foster an enabling environment through good governance. To sustain a target real growth rate of 7.7 percent over the medium-term, RGoB sees its major sources of growth as construction, electricity, transport and communications.

50. **The overarching target of the 10FYP is to decrease the poverty headcount to 15 percent by 2013.** Block transfers from the central government to district and sub-district governments have been introduced based on poverty estimates, population and geographical size at the sub-district level. The Royal Government is working to produce poverty estimates at the sub-district level, presented as poverty maps, and strengthen and rationalize decentralized resource allocation and management. Poverty mapping has been supported with technical assistance from the World Bank.

51. **RGoB's strategy prioritizes expansion of the private sector and use of ICT.** These are expected to bring the country increased economic diversification, growth and employment. To support this agenda, the Royal Government issued in 2010 two key policy frameworks as the core of its economic development strategy: (I) Economic Development Policy; and (II) Foreign Direct Investment Policy. RGoB is also preparing ambitious plans for enhancing the system of skills development, training and tertiary education. Combined, these measures aim to spur private sector growth for increased and diversified employment opportunities, facilitate technology transfer and increase foreign revenue earnings.

52. **Development of the 10FYP was carried out through extensive consultations with the people.** This participatory process started soon after completion of the Mid-Term Review (MTR) of the 9FYP in 2005. Following extensive deliberations and consultations with various stakeholders, including communities, civil society, private sector and local governments across the country, a preliminary set of guidelines were drawn up that contained the core objectives, priorities, strategies and resource allocation principles for the plan. These policy guidelines also incorporated recommendations of both the MTR and the 'Good Governance Plus' report of 2005. Guidelines for preparation of the 10FYP were subsequently circulated to all ministries, agencies, *dzongkhags* (districts), and *geogs* (sub-districts) as a broad policy framework for the formulation of plan programs. The aggregate plan was based on a consolidation of *dzongkhag* plans and finalized in January 2009.

Box 3: RGOB's Strategy Development and Consultative Process

Bhutan's PRSP reflects the country's long tradition of participatory planning. The 10FYP (2008/09 to 2012/13) is based on a consultative process that started soon after the completion of the Mid-Term Review (MTR) of the 9FYP in 2005. The preparation process involved extensive consultations with stakeholders, including the private sector and local government bodies (dzongkhags and gewogs), and reflected the recommendations of the MTR and the Good Governance Plus Report of 2005. The resulting Plan is based on a consolidation of individual dzongkhag plans, and was approved by Parliament in January 2009.

Bhutan Joint IDA-IMF Staff Advisory Note on the Poverty Reduction Strategy Paper, March 29, 2009

WORLD BANK GROUP PARTNERSHIP STRATEGY

A. Lessons from the Last Country Assistance Strategy

53. The 2010 Country Assistance Strategy Completion Report (CASCR) finds that the CAS for FY06-09 effectively aligned itself with the goals and priorities of the 9FYP in its focus on three pillars: (i) expanding access to better infrastructure and social services and connecting communities to markets; (ii) promoting private sector development and employment; and (iii) strengthening management of public resources, and the monitoring and evaluation of development outcomes. These were all identified by the CASCR as appropriate and well-targeted areas of intervention for the Bank during the last CAS period.

54. **There are three broad lessons from the last CAS.** The first concerns the needed *selectivity* in the program to avoid being spread thinly across sectors and areas of engagement. With a small IDA envelop, the selective use of IDA resources for specific investments must be well targeted to ensure maximum impact and added value, particularly in terms of knowledge and technical support. A second

key lesson concerns *capacity* as a major issue constraining the Royal Government’s reform efforts. The CASCR notes that progress was strongest where adequate capacity either already existed, or was mobilized as a part of deepening engagement in a given area. The strengthening of Bhutan’s procurement system, which is now being reviewed and further bolstered as part of a Use of Country Systems (UCS) agenda, is a good example of where close engagement over a sufficient amount of time has yielded strong results. A third lesson of the last CAS period concerns *coordination*, both within the Royal Government for improved monitoring and evaluation of Bank-supported activities, as well as within the World Bank Group to ensure complementarity between the Bank and IFC and among Bank teams. The CASCR notes that at the sectoral level coordination among ministries and agencies remains a challenge, particularly around monitoring and evaluation. While there are obvious sector specific issues to be addressed, national planning and monitoring would benefit from the standardization of a number of indicators across sectors.

55. **Bank and IFC teams worked collaboratively to support development of the private sector.** This included joint analytical work to carry out an investment climate assessment and final review of the EDP and FDI Policies. Knowledge sharing across World Bank Group teams on the results of the first poverty mapping exercise was also coordinated. This aimed to enhance understanding of poverty among all stakeholders and engage government more meaningfully on issues and strategies related to poverty in the context of increased decentralization of resource allocation.

B. Proposed Partnership Strategy

56. **The FY11–14 CPS seeks to assist the Royal Government in addressing a period of major transition for the country.** It focuses on economic growth, employment generation and skills development, while supporting the expansion and sustainability of quality public services. As this is a joint Bank-IFC CPS, it aims to ensure maximum complementarity and collaboration between both agencies for providing a consolidated package of inputs by way of both financing and knowledge sharing. The World Bank Group’s partnership with Bhutan is demand-driven, closely aligned with the Royal Government’s own planning and vision, and is founded on a strong relationship built-up over many years.

57. **The CPS is guided by three principles:** (i) *alignment* with government strategic priorities; (ii) *partnership*; and (iii) *selectivity*. These principles are based on lessons learned from the last CAS and through feedback gained during broad-based consultations with the Royal Government, civil society, private sector and other development partners.

58. Alignment with government strategic priorities. The CPS is aligned with three key strategic frameworks: (i) principles of GNH; (ii) Bhutan’s 2020 Vision; and (iii) the Tenth Five-Year Plan. Drawing upon each, the CPS seeks to support Bhutan in fulfilling the aspirations and goals which each of these frameworks sets out, and respond to emerging priority areas. It reflects the Royal Government’s priorities as revealed during the CPS consultation process. While the CPS aims to define the broad program over the CPS period, it also recognizes the reality of changing priorities and envisages some degree of flexibility to address the complexity of the current challenges and the need to adjust to changing circumstances.

59. Partnership. This CPS reflects three key partnerships: (a) between the World Bank Group and the Royal Government of Bhutan; (b) between the World Bank Group and other key stakeholders, including private sector, civil society and other development partners; and (c) between the Bank and IFC.

60. **The World Bank Group is seen as an important development partner for Bhutan.** It is valued for both its financial and technical support. RGoB has solicited the World Bank Group’s advice and input in a number of areas, particularly related to improving the investment climate for private sector development, as well as options for the sustainability of public provision of social services and the long-

term management of hydropower revenues for sustained growth. IDA development policy lending to Bhutan demonstrates the Bank's confidence in RGoB to plan and manage its development agenda, and is a reflection of the country's solid track record for ensuring good governance. This is further underscored by incremental steps toward the use of country systems for procurement, financial management and environmental safeguards. Both reflect a level of trust and shared vision which characterizes the partnership.

61. **The CPS also reflects the World Bank Group's close partnership with other stakeholders.** IFC's on-going dialogue with the private sector is central to the on-going development of the IFC program in Bhutan. The Bank engages regularly with civil society and during the CPS period will continue to support Bhutan's emerging NGO/civil society sector. There is a relatively small number bilateral and multilateral development partners with resident offices in Bhutan. With the opening of a World Bank Group office in Thimphu, existing practices for development partner information sharing and coordination are expected to be further strengthened. The response to the September 2009 earthquake in eastern Bhutan underscored, for example, the importance of close partnerships between Bank, other development partners and the Royal Government. Finally, the World Bank Group will seek to leverage other donor resources to support achieving results in areas of shared interest and mutuality vis-à-vis programming.

62. **The CPS reflects a strong partnership of the World Bank and IFC.** It strategically positions both agencies to work together to support Bhutan in achieving its development goals. The establishment of a shared country office in Thimphu at the start of the CPS period aims to foster closer collaboration between the World Bank and IFC, as well as ensure greater coordination and engagement in dialogue with the Royal Government and other stakeholders, including central and local administrations, private sector, civil society and communities, among others.

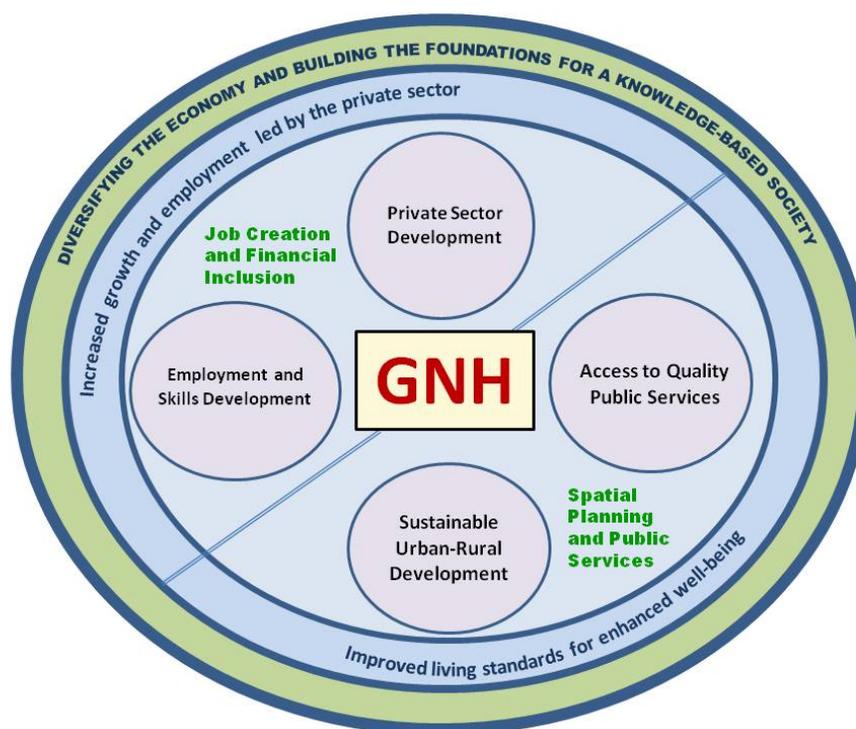
63. **Selectivity.** The CPS strives to be selective in the number of lending operations, choice of lending instruments, and sectors of engagement it identifies, particularly given IDA's small allocation relative to Bhutan's overall needs. The CPS envisages both programmatic development policy lending to address broader issues of policy and provide government with flexibility to utilize resources as it sees fit in-line with national development plans. It also envisages specific investments for projects where the Bank's earlier support for institution and capacity building will help consolidate achievements to enhance sustainability. The CPS also identifies emerging priority areas, such as skills and training to address the skills/labour market mismatch hindering youth employment.

64. **Selectivity will also be reflected in the Bank and IFC advisory and analytic programs.** These will be used to strategically underpin both budget support and lending operations, as well as support IFC's portfolio development in strategic areas of interest. These programs will reflect the Bank and IFC's capacity to provide knowledge sharing in areas of respective expertise outside of where lending is programmed. Given the small size of Bhutan's IDA envelop, that most financing will be provided through budget support operations, and the relative newness of IFC's presence in Bhutan, the World Bank Group's capacity to share knowledge across sectors will, in many ways, constitute the cornerstone of engagement in a given sector or area.

C. Results Framework

65. **The CPS emphasizes both economic/material growth and people's overall well-being.** In doing so, it reflects Bhutan's 'Gross National Happiness' development philosophy which emphasizes both economic/material growth and the well-being of individuals, communities and society.

Figure 4: CPS areas of engagement, results clusters, and potential impact of the Bank’s program



66. **The CPS’ results framework is organized into two areas of engagement.**

- A. Economic Diversification, Job Creation and Financial Inclusion**
- B. Spatial Planning and Public Services**

The CPS recognizes that economic growth must be accompanied by sustained efforts toward ensuring that all members of society benefit from quality infrastructure and services, tailored to the specific needs of both urban and rural populations, while simultaneously ensuring that the country’s remarkable gains in the social sectors of health and education continue apace. To achieve these results, the CPS draws on the comparative strengths and advantages of the Bank and IFC, and ensures full alignment with the country’s Tenth Five-Year Plan and *Bhutan 2020* vision.

67. **The CPS will support Bhutan in unleashing potential for private sector growth.** This will be achieved through a focus on improving the business environment for FDI and domestic investment in the private sector, particularly through local entrepreneurship development. A key outcome of growth of the private sector will be the creation of employment opportunities, particularly for youth who possess relevant knowledge and skills for the job market.

68. **The CPS will also assist in ensuring the adequate provision of basic infrastructure.** This goal targets both growing urban populations, as well as rural dwellers for increased access as a means of improving rural living standards and to stem urban drift. The CPS will assist in prioritizing budget spending and increasing public sector efficiency to avoid any major negative impacts of fiscal adjustments on critical public services and longer-term growth.

69. **Outcomes in the two areas of engagement are expected to reinforce and complement each other.** This propounds a balanced view of development which is consistent with Bhutan’s Buddhist

philosophy of a ‘middle path’. Thus, the outcomes under the CPS support the country in consolidating past gains, completing prior agendas, especially for ensuring access for all to basic services, while simultaneously beginning to set the basis for a new economy able to face the many complexities of a rapidly changing world with increasing globalization and interconnectedness that dissolves, in many respects, traditional borders – which in the past helped foster Bhutan’s isolation. Together these areas of engagement will help establish the foundations needed to move Bhutan closer toward creating a knowledge-based society while, at the same time, fulfilling the long-term goals articulated in the *Bhutan 2020* vision.

70. **The World Bank Group will focus on achievements considered critical for Bhutan’s long-term vision.** Given the difficult nature of the transformation through which Bhutan is moving, the attainment of visible results will take time. Therefore, the focus will be on achieving specific modest outcomes in key strategic areas which can then be built upon. Choice of lending instruments and types of advisory and analytical work to be undertaken will be based on how they best support the achievement of results.

71. **Cross-cutting themes.** The CPS identifies two cross-cutting themes embedded throughout the program:

- (a) **Capacity building for good governance**
- (b) **Environmental sustainability**

72. Capacity building for good governance. This theme encapsulates both institutional and human resource capacity building on the premise that good governance is largely the outcome of institutions and individuals’ capacity to perform. It acknowledges the central role of capacity building for implementing development plans efficiently and effectively. Strengthening already sound public financial management (PFM) is an area of high priority for Bhutan and the CPS. This is consistent with the country’s good governance agenda, and since RGoB is the major controller of public resources, with grants and hydropower revenues flowing through it.

73. Environmental sustainability. This cross-cutting theme includes environmental stewardship and the application of environmental safeguards, disaster risk management and adaptation to climate change. Environmental stewardship is achieved primarily through the application of RGoB’s own environmental safeguards. The CPS includes specific disaster risk reduction activities, as well as imbues disaster risk reduction approaches throughout the program, particularly for the provision of infrastructure. The CPS considers climate change a cross-sectoral issue, and accounts for climate resilience through how the anticipated investments can contribute to enhancing the country’s preparedness to cope with climate change.

Area of Engagement A: Economic Diversification, Job Creation and Financial Inclusion

74. **The CPS supports the objective of the Royal Government to diversify the economy thus increasing opportunities for meaningful employment and entrepreneurship.** To do so, the CPS program assists the Royal Government in implementing a program that removes barriers to business creation and operation and fosters financial inclusion and greater financial sophistication of the economy. The improved business environment is expected to lead to the creation of greater employment and income opportunities. In addition, the CPS program will assist Bhutan in equipping key segments of the population with the knowledge and skills that fulfill the needs of an expanding private sector. The parallel focus on the demand for quality employment and supply of adequate skills will enhance the credibility of the strategy, which is a weak point today. A growing and robust private sector that leads the diversification of the economy and demands new knowledge and skills from those entering the workforce will set the stage for Bhutan to advance toward a knowledge-based economy.

Private Sector Development

75. **The World Bank Group’s engagement is in many ways grounded in the results of the recently completed Investment Climate Assessment (ICA) report.** It is further supported by the dialogue with authorities during its preparation. It aims to assist Bhutan in improving the investment climate to encourage both domestic and foreign investment in private sector enterprises, leverage private sector involvement in the provision of strategic infrastructure, including through public-private partnerships, and support financial inclusion through enhanced efficiency of and access to financial services. This includes improving accounting and auditing standards in the private sector. Lastly, it aims to strengthen corporate governance in light of the prominent role in the economy of state-owned enterprises (SOEs).

Results Cluster 1: Private Sector Development

| Long-term objectives | Results/outcomes at end of fiscal 2014 |
|--|---|
| Improved environment for private sector investment | <ul style="list-style-type: none"> • Improved framework of policies, procedures and practices resulting in more efficient process of business start-up, project approval and licensing for domestic and foreign investors • Increase in the number of FDI project approvals |
| Leveraging private sector participation for strategic infrastructure | <ul style="list-style-type: none"> • Increased number of public private partnerships |
| Improved efficiency of and access to financial services | <ul style="list-style-type: none"> • Increased ratio of private credit over GDP |
| Strengthened corporate governance of state-owned enterprises | <ul style="list-style-type: none"> • Improved corporate governance for SOEs as measured by the number of SOEs implementing new Corporate Governance framework |

76. ***Improved environment for private sector investment.*** To advance RGoB’s agenda for reforming policy and regulatory frameworks for private sector growth, the CPS will support revised FDI rules and regulations in-line with the recently completed FDI Policy. It will support the drafting and launch of an implementation plan for the Economic Development Policy to operationalize critical measures set out in the policy to expand private sector participation. It will support accounting and audit reforms, including the notification and implementation of new accounting standards. Improvements in the business environment, licensing simplification, and the capacity of small and medium-size enterprises will be achieved through the on-going Bhutan Private Sector Development Project and a follow-on project. The Development Policy Credit series will support key policy and institutional reforms for strengthening the investment climate and streamlining regulatory requirements and procedures. IFC’s second-phase support for business licensing simplification through the South Asia Enterprise Development Facility (SEDF) will aim to reduce barriers to setting up a company, trading across borders, accessing land, and protecting investors, via system-wide reforms, such as e-License Portal. These results will be provided through a mix of lending for specific investments and AAA, including technical assistance for licensing simplification and possible IFC support for small and medium enterprise finance.

77. ***Leveraging private sector participation for strategic infrastructure.*** The CPS will support through technical assistance and the development policy operation series the possible need and use of a Public Private Partnership (PPP) unit in government to build government’s capability to facilitate and build sustainable PPPs. IFC is discussing possible advisory support for private sector involvement in bus services and solid waste management in Thimphu, as well as exploring possible investment assistance for increasing private sector participation in the ICT, hydropower, transport (airlines) and tourism sectors. In the bus services and solid waste management PPP projects, the Bank, through on-going or planned urban

development investments, and IFC will explore joint or complementary support for supporting Bhutan’s infrastructure development.

78. **Improved efficiency of and access to financial services.** Building on the diagnostic study jointly conducted by the Bank and IFC, the CPS will support the modernization of payment systems in Bhutan. This should lead to a fully functioning Electronic Funds Transfer Clearing System (EFTCS) stimulating commercial and financial transactions and reducing costs of cash and checks. In addition, it will support modernization of lending practices and increased financial literacy in the country through a follow-on private sector development project, the development policy operations series and targeted AAA. IFC is exploring possible support through both investment and advisory services to expand the availability of financial services, including payments and leasing for MSMEs.

79. **Strengthened corporate governance of state-owned enterprises.** The CPS will support technical assistance to improve corporate governance among state-owned enterprises (SOEs), specifically the development of good governance practices and improvement of transparency, effectiveness in governance and accountability. This support may be enhanced by further WBG assistance with DHI’s divestiture review and plan.

80. **Under this cluster, the program will support institutional strengthening.** This will be done to enhance good governance and capacity building across relevant agencies and private sector institutions, such as banks. On-going technical assistance through the DPC series will support institutional strengthening for the planning and use of hydropower revenues. To support environmental sustainability, the leveraging of private sector participation for strategic infrastructure will promote the provision of infrastructure which is resilient to natural disasters, particularly for ensuring seismic resistance, and built according to Bhutan’s well defined environmental safeguards framework.

i. Employment and Skills Development

81. **On the supply side of increasing employment, the CPS will support RGoB’s efforts to diversify training options, particularly for educated youth and women.** This will be carried out as a means of assisting Bhutan in equipping key segments of the population with knowledge and skills to improve labour market insertion and address the mismatch between skills demand and skills availability. It will also promote the delivery of training and skills programs in partnership with the private sector.

Results Cluster 2: Employment and Skills Development

| Long-term objectives | Results/outcomes at end of fiscal 2014 |
|---|--|
| Diversify learning options to meet skills demand and enhance employability through: (a) increasing access to and choice of learning options, and (b) increasing private sector participation. | <ul style="list-style-type: none"> • Competency-based curricula in place as measured by number of new or revised learning offerings • Increased annual number of graduates trained in institutions through public private partnerships (e.g. tourism, ICT, nursing) • Increased number of firms providing apprenticeships for Bhutanese youth |

82. **The CPS will support improvements in the quality of technical and vocational education and training (TVET).** This will be achieved through the development of competency-based curricula and expansion of subjects. Particular attention will be paid to the training and skills development needs of women as a means of addressing lags in the participation of women in the formal manufacturing and services workforce. It will help establish links between the university and TVET education systems by

making it possible for experienced and well-trained graduates from the technical and vocation stream to access tertiary education as a part of life-long learning.

83. **The CPS will support an increased emphasis on public private partnerships for employability by fostering private sector-based training in expanding sectors.** It will explore opportunities to train job seekers directly in private sector firms by providing incentives such as financing of training and establishing apprenticeship programs. It will also support improvements in labor market regulations and intermediation through improved services for job placement. This will include intermediary services for helping job seekers be better prepared for the growing job market, gain more experience in the private sector, as well as have timely and relevant information about learning and job opportunities.

84. **A mix of lending and analytical work will support the achievement of results under this cluster.** Through the on-going Private Sector Development Project, Bhutanese youth are receiving IT training in India for subsequent absorption in Bhutan's emerging IT industry. A follow-on specific investment for private sector development and creating of a knowledge society will include activities for expanding training and skills development opportunities. IFC's investment support for the ICT sector would complement the Bank's efforts, particularly if investments are realized. Technical assistance for promoting e-Government is also expected to help broaden employment opportunities arising from the introduction and functioning of e-Government systems. A rural livelihoods project will include activities to support the availability of skills training in rural areas for expanding and diversifying agriculture sector as well as non-farm employment. The development policy series will support policy and institutional reforms aimed at facilitating productive employment opportunities.

85. Institutional capacity building within the Royal Government to improve the management of training and skills development programs will be a key aspect of interventions under this cluster. Similarly, human resource development in the critical areas of labour market analysis, employment forecasting and the design and management of skills development program, including through public-private partnerships, will be instrumental. In-line with Bhutan's strong track record for environmental stewardship, lending for specific investments will undergo thorough screening for ensuring the application of environmental safeguards and standards.

Area of Engagement B: Spatial Planning and Public Services

86. **The CPS aims to assist the Royal Government to deliver quality social services, enhance access to them and address challenges emerging from Bhutan's own previous success, such as rapidly increasing rural to urban migration.** This area of engagement is closely aligned to RGoB's objective of increasing the availability of quality services throughout the country, including to businesses. The CPS focuses on extending public services to areas that lack them, mostly in rural areas of difficult access and in those urban areas where increasing numbers of people are settling in. This seeks to address dual demands posed by the Royal Government's long-standing commitment to increasing access to essential services, including roads, water supply, health and education facilities and electricity, while addressing new challenges posed by shifting demographics, particularly urbanization, and rising public expectations. It will help consolidate and complete what has been an ambitious agenda for a country that just 30 years ago was largely cut off from the outside world and whose population was largely confined to their own regions as a function of its rugged terrain. It also aims to improve effectiveness and efficiency in the delivery of services, particularly in the human development sectors. It complements the first area of engagement by supporting measures to raise incomes and promote economic diversification in rural areas beyond subsistence agriculture.

Sustainable Urban-Rural Development

87. **The CPS emphasizes the provision of infrastructure and institution building as first steps in a broader strategy to bring outcomes to isolated and underserved populations.** To address shifting demographics with an increasing proportion of the population living in urban areas which lacks sufficient infrastructure, including water, sewerage and transport facilities, the CPS will support the provision of urban infrastructure and capacity building for municipal authorities to better plan, manage finances and deliver services. In rural areas, this results cluster seeks to increase rural living standards by increasing incomes derived from both farm and non-farm activities and employment. The CPS will also address disaster risk reduction under this cluster, recognizing the importance of safe and disaster resilient infrastructure in both urban and rural settings, and the importance of community-based activities for disaster risk reduction, disaster preparedness and adaptation to climate change.

Results Cluster 3: Sustainable Urban-Rural Development

| Long-term objectives | Results/outcomes at end of fiscal 2014 |
|--|---|
| Improve the quality of life in urban centers through the provision and efficient management of infrastructure and other municipal services | <ul style="list-style-type: none"> • Increased access to urban services in selected Thimphu local areas plans (LAPs) as measured by access to roads, water and sewage. • Improved management of municipal services finance as measured by (a) increased collection of property taxes, and (b) increased cost recovery for municipal services |
| Increase rural living standards by raising farm incomes and creating opportunities for non-farm employment | <ul style="list-style-type: none"> • Improved access to markets through: (i) establishment of road user group for road maintenance as measured by the number of road user groups, and (ii) the construction of new farm roads as measured by kilometers of new roads • Increased number of rural dwellers acquiring new skills as measured by the number of people trained • Increased markets for selected agricultural products on a pilot basis |
| Decrease in the loss of life and assets through the development of local and institutional capacity for disaster preparedness and adaptation to climate change | <ul style="list-style-type: none"> • Improved community-level preparedness with local communities trained and effectively implementing disaster preparedness and adaptation plans and activities • Improved national preparedness with disaster preparedness plans developed in vulnerable dzongkhags |

88. **Urban Development.** The urban population is estimated to continue to rise during the CPS period. The CPS will support RGoB through the Second Bhutan Urban Development Project (BUDP2) under which the Thimphu City Corporation (TCC) will develop sites and services for two local area plans. This will lead to improved access to roads, street lights, drainage, sewerage and water supply for residents of each area. To strengthen this effort, IFC is looking to work jointly with the Bank as part of this program to assist TCC with a public-private partnership scheme for solid waste management. In parallel, the Bank will support improvements in municipal management and municipal finance systems in the city corporations of Thimphu and Phuntsholing, including the computerization of municipal accounts and tax records, and training for staff at the city corporations and Ministry of Works and Human Settlement.

89. The municipal reform and capacity building components of the BUDP2 will help with the establishment of urban local governments with enhanced autonomy and accountability for planning, staffing, finance and budgeting. A follow-on urban development project toward the end of the CPS period will address infrastructure and capacity building in dzongkhag towns or underserved parts of Bhutan's two major cities, Thimphu and Phuntsholing. AAA to examine trends in urbanization will enhance understanding of the linkages between urbanization and employment and identify priority areas of future investment. These initiatives could further be complemented by IFC's PPP advisory support for Thimphu

City bus services to provide better public mass transit services and possibly reduce fiscal burden on RGoB.

90. **Rural Development.** The CPS will initially support rural development through analytical work for the preparation of a national rural development policy, which will help operationalize RGoB's vision for sustaining and improving rural livelihoods. It will inform strategic decision-making for integrating competing demands for economic activity, employment, services and opportunities for education and skills development. A specific investment to support rural development will build on strategic directions identified by analytical work and consolidate gains made under on-going rural development programs supported by IDA, other development partners and RGoB.

91. A new investment project will continue expansion of the network of rural roads, as well as support public and private measures to enhance agricultural productivity and strengthen the marketing of new and existing agriculture commodities. The project will encourage economic diversification led by the private sector, and seek to expand opportunities for rural livelihoods through increased farm and non-farm employment, improved application of technologies and market information systems, skills training and entrepreneurship. Project design will be influenced by the results of on-going poverty mapping work, an urbanization and growth study, a youth employment study, and the public expenditure review for the social sectors. It will provide key pieces of information to inform parallel studies on urbanization and employment. The development policy operation series can pick up any relevant policy reforms.

92. Building on the ongoing advisory activities to promote credit access for the underserved, IFC is considering an access to finance advisory program to increase the availability of credits, especially for agribusiness financing in the rural areas. IFC plans to complement this with potential SME financing or leasing support, which would include rural or agribusiness dimensions. IFC is evaluating opportunities to support agribusiness projects with multiple benefits to Bhutan, such as niche products with export potential which could bring positive effects to supplying farmers, as well as support diversified tourism activities. IFC and the Association of Bhutan Women Entrepreneurs successful and scaled-up initiative that introduced commercial agriculture to women in remote villages may be replicated.

93. **Disaster Management.** Under this results cluster, the Bank is leveraging technical assistance funds from other sources, including a Japan Social Development Fund (JSDF) grant to support the Community-Based Disaster Risk Management and adaptation to climate change. Global Facility for Disaster Risk Reduction (GFDRR) funds will be used to provide support to the disaster risk management components in RGoB's program more broadly. Development policy operations address institutional strengthening for disaster risk reduction through the development of a multi-hazard atlas and macro-level hazard risk assessment. Additionally, policy reform measures support development of a National Emergency Operations Center and a National Disaster Response Plan to strengthen overall response and coordination capacities in the event of a disaster.

94. **Institutional and human resource capacity building are embedded in activities under this cluster.** Strengthening the institutional capacity of municipal governments forms an essential component for meeting objectives for improved quality of life in urban settings. In the rural sector, activities to support non-farm employment for increased and diversified economic activity and enhance the availability of non-farm skills will help prepare rural dwellers, particularly youth, enter the labour market. The provision of infrastructure in urban and rural settings will be carried out in an environmentally sensitive manner in compliance with RGoB's own environmental safeguards. Particular attention will be paid to ensuring maximum disaster resilience. The September 2009 earthquake revealed the need for rural infrastructure to incorporate improved building codes for increased seismic resistance.

ii. Access to Quality Public Services

95. **The CPS will support RGoB’s efforts to increase the efficiency and equitable delivery of services, particularly in the social sectors.** Over the last three national plan periods, RGoB has prioritized health and education in its budget, allocating close to 25 percent to these sectors. As Bhutan undergoes rapid transition with increased urban migration, enrollment pressures at increasingly higher levels of the education system and changing, life-style-related disease patterns, the cost of delivering social services has escalated sharply over recent years. This is a result of, among others, increasing cohorts entering the various levels of education, an aging population in urban areas (together with changing diets/lifestyles) leading to greater chronic non-communicable diseases, and an increase in the number of elderly requiring higher pension and health expenditures. A Public Expenditure Review of the Human Development sector will provide the analytic underpinning for this program. It aims to guide the Royal Government in decision-making for ensuring sustainable delivery of health, education and social protection services, with a particular focus on gender.

96. **The World Bank Group will support RGoB’s efforts to improve Bhutan’s system of tertiary education under this results cluster.** This is seen as a key feature for fulfilling the country’s goal to create a knowledge-based society. This is also linked to other CPS objectives for expanding the private sector and enhancing the country’s skills and knowledge base for increased employment opportunities.

Results Cluster 4: Access to Quality Public Services

| Long-term objectives | Results/outcomes at end of fiscal 2014 |
|---|--|
| Improved access to and quality of social services through evidence-based resource allocation and management | <ul style="list-style-type: none"> • Improved allocation of budgetary resources by utilizing the findings of poverty maps and other surveys • Service delivery standards and criteria in place as evidenced by annual reporting to the National Assembly |
| Expanded and diversified system of higher education | <ul style="list-style-type: none"> • Identification of strategic partnerships with outside institutes of higher learning • Quality assurance system established which covers all programs, degrees and research activities |

97. ***Improved access to and quality of social services through evidence-based resource allocation and management.*** RGoB is examining options for improving spending for the delivery of quality social services which are accessible to all. The CPS will support RGoB to improve the quality of expenditure management, with attention to better alignment of budgetary allocations with national objectives and more coherent understanding of service delivery costs. The CPS will assist authorities in making budget allocations which are more spatially pro-poor by utilizing the results of poverty mapping, as well as support RGoB's effort to track progress toward more equitable distribution of resources¹⁰. The CPS program will also support initial work to link budgets with performance in the health and education sectors. While significant improvements in access and health outcomes have been attained in recent years, Bhutan’s health sector performance, relative to other countries of similar income level and health expenditure level, is below average on some important outcomes such as infant and maternal mortality. This suggests that the efficiency and effectiveness of health spending can be improved. Similar findings are evident in the education sector.

98. The CPS will support RGoB in developing and implementing service standards across sectors as part of efforts for better service delivery to its citizens. Standards are expected to be adopted and implemented in most agencies during the CPS period. These results will be achieved through a mix of

¹⁰ This can be concretely measured by a significant increase in correlation between geog-level allocated budgets and poverty levels.

policy and institutional reforms brought about through development policy operations and analytical work, including the public expenditure review of the social sectors. Other inputs include a report on public financial management and technical assistance, plus the development of medium-term fiscal frameworks and multi-year rolling budgets. The CPS will include continuation of the Bank's on-going lending and AAA support to improve public financial management.

99. Given the importance of hydropower revenues, the Bank will provide advisory services to RGoB on its management of hydropower revenues to ensure a measure of stabilization in the face of possible fiscal fluctuations over the coming years as hydropower projects progressively come on-line and levels of expenditure, debt and revenues rise and fall. This includes the possible establishment of a stabilization or cushion fund over the medium term.

100. ***Expanded and diversified system of higher education.*** The Bank's ongoing Education Development Project (EDP) financed development of the strategic plan for the Royal University of Bhutan. Subsequent assistance will seek to build on this work and emphasize, in particular, the establishment of strategic partnerships with outside institutions. Under this CPS, AAA work will be carried out through a study on policy and strategic options for development of the tertiary education sub-sector. Three key areas of tertiary education will be targeted: (i) increased access including transition from vocational to tertiary level studies; (ii) quality of the teaching program, including human resource capacity; and (iii) relevance of the tertiary education program, particularly to address a knowledge/skills-employment mismatch.

101. Possible IFC investment support for private sector participation in the education sector could be forthcoming. This would complement RGoB's goal of providing increased access at the middle secondary, higher secondary and tertiary levels of education. The CPS instruments to achieve this include an on-going education project, the development policy operation series and analytical work.

102. **Institutional and human resource capacity building will be central to the CPS's engagement under this results cluster.** At the central level, support through development policy operations for improving budget planning and management will be key for the delivery of quality services. Technical assistance could be provided to assist RGoB in examining options for the establishment of a stabilization or cushion fund to manage future hydropower revenues for financing basic services and meeting other key government obligations. Technical assistance will be provided to support implementation of RGoB's e-governance program. Environmental safeguards and standards for the establishment of new infrastructure to support service delivery will be adhered to. Following the experience of the 2009 earthquake which caused considerable damage to basic infrastructure, including schools, basic health units and rural roads, disaster risk management and planning will examine community-based approaches for mitigating the impact of natural disasters and their impact on service delivery.

D. Implementing the Strategy

i. Ongoing program

103. International Development Association (IDA). Bhutan's IDA portfolio comprises nine projects with net commitments of US\$84.5 million as of August 2010, with approximately US\$48.6 million disbursed at end-FY10. Overall portfolio performance is satisfactory with a disbursement ratio of 30 percent in FY2009, above the regional average of 29.2 percent. IDA investments in Bhutan are broadly spread. They include support for rural and urban development, education, HIV/AIDS, PSD, transport, land management, HIV-AIDS and avian flu prevention. Engagement in the social sectors has shifted over time from an emphasis on specific investments toward a greater focus on AAA and regular provision of TA. Bhutan is a pilot country for the Use of Country Systems (UCS) for environment safeguard

compliance, and is moving toward adoption of UCS for procurement. Roughly 60 percent of IDA financing is now used for Development Policy Credit (DPC) operations. Three DPC operations were completed under the last CAS period, and another is currently under preparation and scheduled to be presented to the Bank's Board of Executive Directors along with this CPS.

104. International Finance Corporation (IFC). Since Bhutan joined IFC as a member country in 2003 and IFC made its first investment (supporting the first FDI) in the country, IFC has been cementing its presence and support to develop the private sector in Bhutan, including opening an office in Thimphu with a dedicated staff since November 2009. In the market where the public sector remains dominant in key sectors, IFC has been providing much needed advisory support¹¹ to the RGoB and private sector to lay the ground work for building a business-enabling environment while providing investment support as opportunities arise. In the last CAS period, IFC's advisory support was especially geared toward strengthening in four areas: (i) investment climate; (ii) financial sector infrastructure and operations, including financial inclusion; (iii) Public-Private Partnerships (PPP); and (iv) skills development and the SME sector. Currently IFC's portfolio stands at US\$7.4 million for one hotel project, committed in FY04. In the last three years, IFC supported the issuance of 15 trade finance guarantees by two banks for the total amount of \$1.40 million. The GTFP lines have been combined with advisory support, such as on risk management and IT strategy. IFC is committed to continued development of the financial sector in Bhutan.

105. Other Financing Resources: Several Institutional Development Funds (IDF) grants have supported deepening engagement on macroeconomic, fiscal, and financial management issues. An IDF grant on Public Financial Management is assisting the development of the MYRB/PEMS for better performance monitoring. In order to strengthen and harmonize Bhutan's environmental safeguard system, use of country systems to address environmental issues is being piloted under RAP2. An IDF grant is being implemented through the National Environment Commission Secretariat (NECS) for Strengthening Institution Capacity for Implementation of Environmental Safeguards. To strengthen the recently-established Public Procurement Policy Division (PPPD), the Bank has approved a three-year IDF which aims to support the operationalization of this division. An IDF grant has recently been approved to strengthen the institutional capacity of the MOLHR to facilitate employment and labor market entry of Bhutanese youth. The Bank is also leveraging support through the Japan Social Development Fund (JSDF) and the Global Facility for Disaster Risk Reduction (GFDRR) to support RGoB's disaster risk management agenda. Under this CPS, the Bank will seek other sources of funding, including trust funds and other financing mechanisms such as global funds to support emerging priority areas.

106. Analytical and Advisory Activities (AAA): AAA is being carried out in a number of areas, including: health finance, higher education, investment climate, poverty mapping, e-governance, pension reform, public financial management, human development expenditure, ICT and agricultural marketing. Given the relatively small size of the IDA envelop for Bhutan, the Bank's role as a 'knowledge bank' and its knowledge sharing function is of even greater significance for a small country like Bhutan. With an increasing emphasis placed on lending through budget support operations, it is imperative that policy reforms supported by DPCs be adequately grounded in sound analytical work.

ii. Proposed program

107. IDA Financing. The CPS will cover the final year of the IDA15 cycle (FY11) and the entire three-year IDA16 cycle (FY12/13/14). A total of SDR16.5 million (approximately US\$24.75 million equivalent) has already been committed in FY11 for one budget support operation (DPC1). Bhutan's IDA

¹¹ IFC-managed South Asia Enterprise Development Facility (SEDF) - in partnership with DFID and NORAD - has been delivering many of IFC's advisory services.

envelope for FY11–14 is indicatively set at approximately US\$78 million, of which about US\$52.5 million is expected to be allocated to Bhutan under IDA16¹². The proposed IDA program, including lending and AAA, is presented in Table 3. The primary focus of the program is on results, with lending instruments and decision-making on advisory and analytical work undertaken to support a strong results focus. Lending operations will be sequenced to reflect a 60/40 split between budget support operations and specific investments, respectively. Investment lending will place key emphasis on ensure continued strengthening of accounting and audit practices within line ministries and implementing units. As the IDA envelope is small relative to the country's needs, the CPS will seek to leverage other donor resources.

108. **The Royal Government has indicated its clear preference for development policy operations.** RGoB seeks this modality to benefit from its flexibility in the allocation of resources and lower transaction costs associated with project preparation. The next proposed budgetary operation will support the objectives of Bank's current investment lending program by highlighting key policy and institutional changes that will contribute importantly to some of the projects achieving their expected results. The initiatives under the proposed DPC1, on macroeconomic/fiscal management and fiduciary systems, will have cross-cutting impacts enhancing the effectiveness of public spending, as well as include more specific elements that will be central to the implementation of an on-going procurement training project. The mitigation of social risks through community involvement and community-based approaches will be addressed across a range of programs through broad stakeholder consultations, including with communities.

109. **The Bank expects that positive and timely implementation of the CPS program will pave the way for Bhutan to move to IDA-IBRD blend status at the end of the IDA 16 cycle and under the next CPS.** As of 2010, Bhutan has moved to hardened IDA credit terms, which is anticipated to prevail throughout the CPS period. While not IBDR eligible at the present time, Bhutan could benefit from IBRD support through enclave financing. Given Bhutan's imminent transition from IDA-only status after this CPS period, this CPS should have a medium- to long-term vision of Bhutan as a middle income country. Any move from IDA-only status would be based on the outcome of a creditworthiness assessment.

110. **International Finance Corporation.** As part of IFC's regional strategy for South Asia, IFC plans to focus on the three strategic pillars: (i) Inclusive growth; (ii) Climate change mitigation and adaptation; and (iii) Global/regional integration. These three strategic pillars are integral to this Bhutan CPS's goals, promoting sustainable and competitive private sector development in Bhutan. First, the activities supporting the Inclusive Growth pillar would contribute to employment generation, infrastructure access, and financial inclusion. Second, activities supporting Climate Change pillar aim at numerous goals promoted through sustainable urban/rural development, as well as the cross-cutting theme of environment. Finally, the integration pillar activities, including investment climate support, would assist in export diversification aligned especially with the CPS's rural development agenda as well as institutional capacity building. IFC plans to explore investment and/or advisory support with respect to following areas: investment climate reforms, the financial sector (including commercial banks and non-bank financial institutions, such as with SME finance, rural finance, trade finance, credit lines, and/or equity), tourism, agribusiness, and education. In addition, to strengthen infrastructure, IFC considers exploring ICT, hydropower, transport (airline/bus) and PPP programs, with advisory assistance and investments. IFC would leverage its advisory and investment program by working closely with the various WBG teams. The extent to which IFC will be able to provide advisory services will depend on the

¹² Bhutan's total IDA resource envelope for FY11-14 is indicative only. Actual allocations will depend on: (i) the country's own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; and (v) terms of financial assistance provided (grants or loans).

ability of clients' co-funding to leverage IFC's resources in order to get maximum mileage out of the funds largely contributed by donors.

111. IFC is supportive of the government's plans to revive the Private Sector Development Committee (PSDC) to start building a Public-Private Dialogue as an inclusive mechanism for consultations on cross-cutting and sector-specific policies and reforms. Based on its experience in building institutionalized structured public-private dialogue elsewhere and subject to cost-sharing principles noted above, IFC is ready to assist in strengthening Public-Private Dialogue implementation. The PSDC would complement existing and planned PPP advisory projects.

112. Knowledge sharing. IDA lending will be complemented by a strong, demand-driven AAA program. This will include Economic and Sector Work (ESW), Non-Lending Technical Assistance (NLTA) and Institutional Development Fund (IDF) grants. AAA will be sequenced to inform lending operations, mainly those involving policy reforms under budget support operations, but also to inform project design for specific investments. Given the small volume of IDA financing available and increasing use of untied assistance through budget support, AAA takes on greater prominence as a means of allowing the Bank's engagement in a number of sectors where no lending is programmed or envisioned.

113. Sequencing. Sectors for which specific investments will take place will have operations timed for maximum coherence with earlier operations. For example, a planned investment in urban development is scheduled as follow-on to an urban development project approved at the end of the last CAS period. Other areas for specific investments reflect emerging priorities for the Royal Government, such as fostering a knowledge society and generating increased and diversified economic activities in rural areas, in part, to stem urban drift. To enhance the effectiveness of the World Bank Group's assistance, the CPS will rely on synergies among lending, technical assistance and analytical work to be delivered in partnership with the Royal Government, other development partners and the World Bank Group team, which itself will work as one well-coordinated entity. The policy reform agenda supported by the DPO series will serve as an umbrella for other lending operations.

114. Use of country systems. Bhutan stands out in the South Asia region through its use of country systems for accounting and financial reporting. By contrast, most other countries use some parts of country systems (for instance, budgeting etc.), but typically create ring-fenced systems for accounting and reporting for Bank funds. While the Bank works to support Bhutan's efforts to strengthen its public financial management systems, the guiding principle in the management of the World Bank portfolio will be to continue to use country systems in the design of financial management arrangements for Bank-financed operations. This is reflected in the use of a report-based method of disbursement, maintaining local currency Designated Bank Accounts, simplification of disbursement processes and other efforts by way of enhancing the capacity of project staff to use MYRB/PEMS to budget for, maintain project accounts and prepare periodic financial reports, as required by the Bank.

115. The Bank has been an active partner in its support to Bhutan's PFM reform program agenda through analytic work, IDF grants and other non-lending support. The recently concluded joint RGoB/World Bank diagnostic study of the PFM system using the Public Financial Management Performance Measurement Framework, developed by PEFA concluded that Bhutan scores reasonably well with 18 of the 31 indicators, receiving grades of A or B based on well-defined and objective criteria. Going forward, RGoB proposes to prepare and adopt a time-bound action plan to bring about improvement in the PFM framework. The CPS will support RGoB's initiatives through technical assistance, diagnostic work and other non-lending support. In all these efforts, the Bank's will endeavour to maximize opportunities to reduce transaction costs on the part of the Royal Government in its business with the Bank. In procurement, a series of assessments are presently underway with the eventual aim of

adopting country procurement systems for all Bank-financed operations. Country systems are currently in use for social and environmental safeguard screening.

Table 3: World Bank Group Program for Bhutan, 2010–14 CPS (US\$ million)¹³

| | 2011 | 2012 | 2013 | 2014 |
|-------------------------|--|---|---|--|
| Lending | DPC1 (24.75m) | Improving Rural Livelihoods (12m) | DPC2 (20m) | Urban Project 3 (12.45m) |
| | Regional Wildlife Project (0.75m) | | PSD/Knowledge Society SIL(8m) | |
| Total IDA | 25.5 | 12 | 28 | 12.45 |
| Non- lending | Human Development Public Expenditure Review ESW | Youth Employment Study ESW | Public Procurement IDF | Management of Hydropower Revenues TA |
| | Bhutan Investment Climate Follow-up TA | DPC2-related AAA | Poverty Assessment ESW | Decentraliz- ation TA |
| | Higher Education Policy Note ESW | Access to finance advisory (WB-IFC) | Construction Sector ESW | Corporate Governance TA |
| | Solid Waste Management in Thimphu TA (Bank- IFC)* | Building Public-Private Partnerships TA | National Transport Plan ESW | Environmental Safeguards IDF |
| | Poverty Mapping TA | Rural Development Strategies ESW | Disaster Risk Management TA | |
| | Advisory on Licensing Simplification (IFC) | Medium-Term Fiscal Framework / MYRB TA | Tax Administration TA | |
| | E-Governance TA | ICT Sector Policy and Regulatory Issues TA | Urbanization and Growth Study ESW | |
| | JSDF Seed Fund for 'Building Resilience of Communities Against Disasters and Climate Change' | Country Sustainable Development Analysis ESW | JSDF support for ' Building Resilience of Communities Against Disasters and Climate Change' | |
| | Bus Service in Thimphu TA (IFC)* | Auditing and Accounting TA | | |
| | Access to Finance TA to Banks (IFC) | Decentralization and Sub- National Strengthening TA | | |
| | SME/Finance TA (IFC)* | Agricultural Marketing Study AAA | | |
| | Disaster Risk and Recovery Program (GFDRR grant) | | | |

* possible support

116. Regional engagement. For the first time, this CPS will reflect Bhutan's increasing role as a regional leader and, in specific areas, the need to address key issues from a regional perspective. A

¹³ Not including IFC's investments and advisory projects beyond FY11.

proposed regional operation for wildlife protection, with particular emphasis on tiger conservation, will allow Bhutan to demonstrate regional leadership as one of several South and East Asian nations identified as tiger habitats. Bhutan’s reputation for sound environmental stewardship will be enhanced through its participation in this initiative. This will also support development of Bhutan’s eco-tourism offerings toward diversifying the tourism sector through with increased wildlife-based tourism, as has been highly successful in Nepal, India and Thailand.

117. Disaster risk reduction. Disaster risk reduction (DRR) measures will be woven throughout the program wherever possible. The full range of DRR-related financing sources and partnerships, such as GFDRR and JSADF, will be explored to ensure that this agenda is as robust as possible and sufficiently takes account of the real risks facing Bhutan from natural disasters. Expansion of infrastructure in a country could have adverse effects on the environment, and is subject to the effects of natural disasters. The Royal Government has ambitious plans to expand infrastructure for the benefit of the people. The Bank will continue to support environmental mainstreaming measures and help support the mainstreaming of disaster risk reduction measures into national development planning, implementation and budget processing. This could be addressed through the DPC series. A grant totaling US\$600,000 has been made available from GFDRR for the ‘Bhutan Risk and Recovery Program’ following the 2009 earthquake.

GENDER

118. **The CPS considers gender as an integral part of the whole program.** It will continue to monitor activities supported by the World Bank Group to ensure adequate attention to gender issues. Effective approaches to promoting gender equity will be mainstreamed into the Bank’s program. Gender will be mainstreamed in Bank programs under all four clusters. Current gender-related challenges suggest the need for more innovative research and data collection to understand the nature of glass ceiling phenomenon in Bhutan.

119. The ICA explicitly addressed the gender issue, exploring trends for women’s participation in the labor force as workers and business owners. This will lead to complementary AAA, policy dialogue and operational work on gender aspects of employment and financial inclusion. Proposed work will help answer questions raised by the women in business chapter of the ICA, in particular: (i) validate whether women entrepreneurs in Bhutan face more acute top investment climate constraints than their male counterparts; (ii) suggest measures to enhance women’s participation in entrepreneurial activities; (iii) validate whether Bhutanese women have more difficulties as employees; and (iv) suggest measures to enhance their participation.

Box 4: Gender and GNH

“As a country dedicated to building a GNH society, it is crucial for all public and private sector agencies to build a common understanding of gender issues and mount interventions to bridge the gaps, and there are many, in all our plans and programs.”

Address by Lyonpo Thakur S. Pawdyel,
Chairperson, National Commission for Women
and Children to the High Level Sensitization
Program on Gender Mainstreaming,
July 10, 2010.

120. A qualitative study on gender and economic choice will be conducted as a part of the NLTA on poverty monitoring. It will inform the 2012 World Development Report on Gender Equality and Development. A poverty assessment in FY 2013 will measure progress on gender from the BLSS 2012 and provide analysis for the formation of the next five-year plan. Other possible AAA incorporating gender includes the Access to Finance TA, the Higher Education Sector Note and the Urbanization and Growth study. Results of AAA activities on gender can be used to showcase Bhutan, as it is one of few low income countries that men and women are quite equal. To that end, Bhutan may offer a ‘success’ and ‘positive’ story in terms of showing what a society would look like if there is gender equality and its

related benefits. Annex 5, ‘Gender Mainstreaming in the Bhutan CPS’ provides additional information on how gender is addressed under the CPS program.

RESULTS MONITORING AND MANAGEMENT

121. **Bhutan benefits from good clarity in its five-year plans, and is largely results-based, particularly in its budgeting framework.** This is further strengthened through the introduction of the Results-Based Management (RBM) concept during the formulation of the 10FYP. The direct results of this mechanism are reflected in the plans and programs of the central and local governments which appear more dynamic, needs driven, results-oriented and responsive to the emerging challenges. The CPS should, similarly, be results based and harmonized with the national monitoring framework manifested in PlaMS and accompanied by a robust monitoring framework, particularly for development policy operations as a means of informing subsequent budget support investments. The World Bank Group will strengthen its results-based monitoring and evaluation to better assess how World Bank Group activities are contributing to results on the ground. The CAS Completion Report indicates that not all projects and the program itself have been effective in monitoring results-based indicators on a regular basis. This, in turn, has led to difficulties in assessment and in making mid-course corrections.

122. **The CPS will draw upon OPCS’ recently developed ‘Country Portfolio and Results Monitoring Tool’ (CPRT).** The CPRT aims to improve the quality and alignment of results frameworks between country programs and projects in order to provide high quality CPS and sector results reports to Bank management, the Board, and external stakeholders in a harmonized, efficient and reliable manner.

123. **This is a results-based CPS with outcomes and monitorable indicators.** The World Bank Group will support program monitoring through:

- greater analytical work prior to investment so that results indicators are well integrated into strategy
- increased attention to project design
- strengthening project supervision, which is also expected to be buttressed by the presence of a fulltime Representative based in Thimphu

124. **The CPS results matrix, which was developed in partnership with the Royal Government, tracks progress in the main areas of engagement.** The Bank team will track progress through regular impact reviews at the time of the joint RGoB/World Bank Group CPS review. The Bank teams will work directly with Royal Government agencies to track results and identify factors affecting them. It will support the ongoing activities of RGoB to strengthen the integration of the Results-Based Management (RBM) Framework in the planning process and also the national M&E system. RGoB introduced the RBM concept in the 10FYP planning process to ensure focus on the results and outcomes of the intervention as opposed to processes and inputs. One such system currently being developed to mainstream RBM and to ensure effective monitoring of the results is the Planning and Monitoring System (PlaMS). This system when integrated with the Public Expenditure Management System and the MYRB offers promising prospects in terms of providing a coherent national mechanism for ensuring effective monitoring and evaluation of the development plans and programs. The CPS Progress Report will reevaluate the results framework in light of implementation, exogenous developments, and adjustments to the Bank’s program. This CPS will include a client survey to gauge both progress toward achieving results and alignment with the Royal Government’s own priorities as they evolve and client/stakeholder satisfaction.

125. **The CPS will help RGoB strengthen its statistical capacity.** This will be achieved through the DPC series and self-standing technical assistance, such as advancing work on poverty mapping and

strengthening the capacity of the National Statistics Bureau. The 2005 census provided solid benchmarks for tracking progress toward development outcomes, particularly on social issues, for which results-tracking has been weak. To further address the issue of data inadequacy to enhance decision making, the CPS will assist in strengthening capacity for collecting regular and better quality data and developing tools to analyze them.

126. CPS implementation will be reviewed on a regular basis together with the Royal Government. This aims to assess progress and propose necessary adjustments to the Bank program and strategic approach. A CPS Progress Report will be prepared at mid-term or before, if deemed necessary. Projected lending in the outer years (FY13/14) will be reviewed at the time of the CPS Progress Report and may be adjusted depending on IDA allocations and progress toward CPS objectives. The IDA portfolio performance will also be reviewed periodically and projects will be restructured as needed and freed up resources will be redirected to emerging priorities.

DEVELOPMENT PARTNERS

127. Strong development partnerships will continue under the CPS. The community of resident development partners in Bhutan is very small, and limited to two multilateral organizations (United Nations, World Bank Group), and a handful of bilateral partners (India, Japan, Denmark, Switzerland, Austria, Netherlands and Canada). Non-resident development partners include ADB, the European Union, Norway and Australia. India is Bhutan's largest development partner. Given the small size of the donor community in Bhutan, donor coordination is carried out through monthly information sharing meetings. The donor activities mapped along the CPS areas of engagement are captured in Annex 4.

128. Donor support in Bhutan is aligned with the 10FYP/PRSP. Development partners' areas of focus reflect, for the most part, the Royal Government's suggestions and requests, as well as each development partner's comparative advantages. The World Bank Group is a member of the UN Country Team. The UN Development Assistance Framework (UNDAF) elaboration will be led by the Office of the Resident Coordinator. The UN will begin preparations for the next UNDAF cycle (2013-2017) in mid-2011. The UNDAF describes the collective response of the UN Country Team to the priorities in the national development framework. Several donor sub-groups have been formed to examine, in an on-going manner, specific areas of interest. With establishment of the World Bank Group's first country office in Bhutan, closer coordination among development partners is anticipated.

129. Harmonization and donor coordination are critical issues for managing development partner relations and activities in a small country such as Bhutan. Small size and good governance make Bhutan a good candidate for further reliance on country systems, and a country that can benefit substantially from simplification agendas. During the CPS period, the Bank, in close coordination with development partners, will strive to rely incrementally on country institutions and procedures, initially through sectors where capacity to ensure compliance of safeguards and fiduciary requirements is considered to be adequate. At the same time, capacity will be strengthened in weak sectors/areas, while the country team will endeavor to maximize opportunities to reduce transaction costs and project processing by applying in Bhutan, to the extent possible, simplification processes and the use of new policies for streamlining procedures and enhancing procedural efficiencies.

130. Under the CPS, IDA funds will be used to catalyze donor resources. This will be done through several instruments, including global funds for climate change, health-related global fund-supported initiatives, and bilateral partner-specific trust funds. The World Bank Group will explore possibilities for other operations to be prepared and implemented in close partnership with donors, building on successes and lessons learned.

RISKS

131. **The World Bank Group program in Bhutan faces two types of risks in implementation of the CPS.** The first set of risks is related to factors endogenous to the implementation environment and reflective of Bhutan's specific development challenges and levels of progress. The second set of risks is related to the design of the program itself, particularly since some key aspects of the program will be defined during implementation, such as the rural support program and the social agenda after the PER. While no major risks that are likely to derail the country program, there are some risks which may affect implementation progress and for which mitigation measures are or will be in place.

132. Risks related to the implementation environment.

- (a) **Macroeconomic.** External shocks could impact the macroeconomic framework. As a small landlocked country, Bhutan faces several vulnerabilities, including, most notably, the heavy reliance on hydropower sales to India for its budget, balance of payments, and growth prospects. The heavy dependence on India as a source of external assistance, as the major trading partner and the critical buyer for electricity exports also make Bhutan liable to shocks that affect the Indian economy — although, given that assistance to Bhutan is a very small share of India's resources, there was no significant pass through of the effects of the recent global financial crisis from India to Bhutan. In addition, swings in the investment outlays for investment in electricity generation and swings in revenues from its sales induce volatilities that call for a very careful macroeconomic management. An emphasis on establishing a sound medium-term fiscal framework through budget support operations should help ensure that the multi-year consequences of investments and other decisions are forecast and taken into account. The focus on improving the general environment for private sector development should also help the country realize more of its potential for economic diversification.
- (b) **Capacity.** The preceding CAS identified risks related to technical capacity constraints and put forward some mitigation measures, including the provision of appropriate technical assistance, which this CPS takes on board. In addition to technical capacity, high-level managerial capacity is also in short supply and may be adversely affected by the political transition. To some extent, familiarity with Bank procedures and continuity of key counterpart officials help mitigate this risk. As in the case of the earlier CASs, capacity constraints are mitigated, in part, through selectivity of focus and a small number of Bank-financed operations. One objective of the CPS is to leverage technical assistance resources from the Bank and other development partners.

133. Risks related to the program

- (c) **Lack of clarity on issues.** While the CPS broadly identifies a number of key issues facing Bhutan's development, including the lack of private sector capacity to provide sufficient levels of employment, a labour market/skills mismatch and insufficient provision of services and infrastructure, a clearer understanding of a number of development challenges which the CPS will seek to address will emerge through planned analytical activities. For example, the public expenditure review of the human development sectors will reveal areas needing attention and which the CPS could address. The CPS Progress Report will take stock of the results of the analytical work and will agree with the authorities on how to deepen further the engagement in social areas.

This CPS charters into new and more complex areas of engagement, which places added pressure on implementation. It represents an overall shift in the World Bank Group's assistance

to Bhutan with its focus on a number of new areas which reflect the changing nature of Bhutan's development challenges. While in the past the needs which were addressed through the Bank's assistance were largely for the expansion of basic services in education, transport, etc., the issues which this CPS addresses are more complex insofar as they have no immediate resolution as compared to, for example, the strategy to build more schools to increase enrollment. To that end, the Bank's global experience and knowledge is sought as Bhutan seeks to learn from the example of other countries that have faced similar development challenges and tap into best practice and cutting-edge thinking and approaches for addressing complex economic and social challenges. This risk will be mitigated by strategically and selectively engaging with the Royal Government with a carefully tailored mix of financing and knowledge sharing, while recognizing that few, if any, of these challenges are to be resolved in the course of a single four-year CPS period. To that end, the World Bank Group recognizes the need to ensure continuity from the last CAS period and areas of engagement it encompassed, and look forward to the next CPS period as a means of laying the ground work for the World Bank Group's medium- to long-term engagement in new areas, such as ICT, private sector development and youth employment.

Annex 1: CPS Results Framework

| Country Long-Term Goals | Major Issues and Challenges | Outcomes and Indicators | CPS Milestones | Bank Program and Partners |
|---|---|--|---|---|
| Area of Engagement 1. ECONOMIC DIVERSIFICATION, JOB CREATION AND FINANCIAL INCLUSION | | | | |
| Results Cluster 1: Private sector development | | | | |
| 1.1. Improved environment for private sector investment | Complexity and limitations of regulatory procedures, resulting in high cost of regulatory compliance for businesses | <p>Improved framework of policies, procedures and practices resulting in more efficient process of business start-up, project approval and licensing for domestic and foreign investors as measured by number of days to start a business <i>Baseline: 46 days in 2010</i> <i>Target: 30 days in 2014</i></p> <p>Increase in the number of FDI project approvals <i>Baseline: 20 approvals in 2009</i> <i>Target: 25 approvals in 2014</i></p> | <p>Revised FDI rules and regulations approved, in line with new FDI policy</p> <p>Implementation Plan of the Economic Development Policy (EDP) developed and launched.</p> <p>Bhutanese Accounting Standards from Phase 1 and 2 of agreed road map notified</p> | <p><u>Ongoing Projects:</u></p> <ul style="list-style-type: none"> • DPC1 <p><u>Non-lending:</u></p> <ul style="list-style-type: none"> • Investment Climate Policy Dialogue • Licensing Simplification TA (IFC) • Construction Sector Assessment • Access to Finance TA • Corporate Governance TA • Accounting & Auditing Standards TA <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • DPC2 |
| 1.2. Leveraging private sector participation for strategic infrastructure | Narrow fiscal space limits development of strategic infrastructure | <p>Increased number of public private partnerships <i>Baseline: 1 in 2010</i> <i>Target: 3 in 2014</i></p> | RGoB Public Private Partnerships Department staffed and operational | <p><u>Ongoing Projects:</u></p> <ul style="list-style-type: none"> • Bhutan Private Sector Development SIL <p><u>Non-lending</u></p> <ul style="list-style-type: none"> • Building PPPs TA • Construction Sector Assessment • Possible support for solid waste management in Thimphu (Bank-IFC) • Possible support for bus service in Thimphu (IFC) <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • PSD/ICT/Knowledge |

| Country Long-Term Goals | Major Issues and Challenges | Outcomes and Indicators | CPS Milestones | Bank Program and Partners |
|--|--|--|--|---|
| | | | | Society SIL <ul style="list-style-type: none"> • Possible support for telecom, hydropower, and private airliner (IFC) • -Possible support for tourism (IFC) |
| 1.3 Improved efficiency of and access to financial services | <p>Micro, small and medium enterprises (MSMEs) lack adequate financial services</p> <p>Payment systems have not modernized, leading to heavy use of cash and paper-based instruments in financial transactions</p> | <p>Increased ratio of private credit over GDP as measured by IFS</p> <p><i>Baseline: 29.7 percent</i></p> <p><i>Target: 33 percent</i></p> | <p>Financial literacy program developed and under implementation</p> <p>Electronic Fund Transfer Clearing System (EFTCS) fully operational</p> | <p><u>Ongoing Projects:</u></p> <ul style="list-style-type: none"> • Bhutan Private Sector Development SIL • DPC1 • Access to Finance TA to banks (IFC) <p><u>Non-lending</u></p> <ul style="list-style-type: none"> • Access to Finance AAA • Poverty Mapping • E-Governance TA • ICT Sector Policy TA • SME finance TA (IFC) <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • PSD/ICT/Knowledge Society SIL • DPC2 • Possible support for SME finance (IFC) • Possible support for financial institutions through trade-line, credit-line and equity investments (IFC) |
| 1.4 Strengthen corporate governance of state-owned enterprises | <p>Large State-owned corporate sector would benefit from gaining in efficiency</p> | <p>Improved corporate governance for SOEs as measured by the number of SOEs implementing new Corporate Governance framework</p> | <p>New corporate governance framework under implementation</p> | <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • Corporate Governance TA (FY11-12) |

| Country Long-Term Goals | Major Issues and Challenges | Outcomes and Indicators | CPS Milestones | Bank Program and Partners |
|--|--|--|--|--|
| | | <i>Baseline: 0</i> <i>Target: 5</i> | | |
| Results Cluster 2. Employment and skills development | | | | |
| 2.1. Diversify learning options to meet skills demand and enhance employability through: (a) increasing access to and choice of learning options, and (b) increasing private sector participation. | <p>Mismatch between labor market demand and skills of job seekers</p> <p>Lack of practical preparation and technical/vocational skills of job seekers</p> <p>Lack of capacity in the private sector to deliver training</p> <p>Disconnect between vocational training and university education</p> | <p>Competency-based curricula in place as measured by number of new or revised learning offerings <i>Baseline: 5 in 2010</i> <i>Target: 10 in 2014</i></p> <p>Increased number of graduates trained through public private partnerships (e.g. tourism, ICT, nursing) <i>Baseline: 20</i> <i>Target: 1,000</i></p> <p>Increased access to tertiary education as measured by the number of people who transition from vocational to tertiary education programs (<i>indicators to be determined under new project</i>)</p> | <p>Promising occupations prioritized by MOLHR and institutional arrangements for curriculum development in place</p> <p>Criteria defined for competitive selection of private training institutes</p> <p>Revised policy on tertiary level entry implemented</p> <p>RGoB defines incentive structure for firms to take on apprentices</p> | <p>Ongoing Projects:</p> <ul style="list-style-type: none"> • IDF Grant MOLHR • PSD • BUPD2 • EDP • DPC1 <p>Non-lending</p> <ul style="list-style-type: none"> • Youth Employment Study ESW • HE Sector Note ESW • Urbanization, Growth and Employment Study ESW <p>Pipeline:</p> <ul style="list-style-type: none"> • DPC2 • Knowledge Society Project • BUPD3 • Possible support for the education sector (IFC) |
| Area of Engagement 2. SPATIAL PLANNING AND PUBLIC SERVICES | | | | |
| Results Cluster 3: Integrated Sustainable Urban-Rural Development | | | | |
| 3.1. Improve urban living standards through increased access to quality services | Rapid growth of urban populations, particularly in Thimphu, with insufficient infrastructure and municipal services | <p>Increased access to urban services in selected Thimphu local areas plans (LAPs) as measured by access to roads, water and sewage</p> <p><u>Roads</u> <i>Baseline: 0</i> <i>Target: 200 plots / 12km roads constructed</i></p> <p><u>Piped Water</u> <i>Baseline: 0</i> <i>Target: 250 households</i></p> | Construction of water, sewerage and water infrastructure underway | <p>Ongoing Projects:</p> <ul style="list-style-type: none"> • BUDP2 • DPC1 <p>Non-lending</p> <ul style="list-style-type: none"> • Urbanization and Growth Study ESW • Rural Development Strategies ESW • Construction Sector Assessment ESW |

| Country Long-Term Goals | Major Issues and Challenges | Outcomes and Indicators | CPS Milestones | Bank Program and Partners |
|--|---|---|---|---|
| | <p>Limited institutional capacity for urban planning and management, including financial management and human resources</p> | <p><u>Sewerage</u> Baseline: 0 Target: 250 households</p> <p>Improved management of municipal services and finance as indicated by (a) increased collection of property taxes as measured by the percentage of the total due to be collected, and (b) increased cost recovery for municipal services as measured by charges/costs received as a proportion of total costs incurred in the provision of municipal services</p> <p><u>Property taxes</u> Baseline: 45 percent Target: 70 percent</p> <p><u>Municipal services</u> Baseline: 40 percent Target: 60 percent</p> | <p>Property tax records computerization underway</p> <p>System of training in place</p> | <ul style="list-style-type: none"> • Poverty Mapping TA • Disaster Management TA • Solid Waste Management support for City of Thimphu (Bank-IFC joint) • PPP TA to support bus service in Thimphu (IFC) • Tax Administration TA <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • BUDP3 • DPC2 |
| <p>3.2. Increase the appeal of rural life by creating opportunities for farm and non-farm employment and income generation</p> | <p>Lack of access to markets for the delivery of agricultural products because of poor maintenance of existing roads and a limited rural road network</p> | <p>Improved access to markets through: (i) establishment of road user group for road maintenance as measured by the number of road user groups, and (ii) the construction of new farm roads as measured by kilometers of new roads</p> <p><u>Community groups</u> Baseline: 0 Target: 80</p> <p><u>Roads</u></p> | <p>Development of reporting and monitoring system for community-based road maintenance</p> <p>Identification of new roads to be constructed</p> | <p><u>Ongoing Projects:</u></p> <ul style="list-style-type: none"> • DRDP • RAP2 • DPC1 <p><u>Non-lending</u></p> <ul style="list-style-type: none"> • Urbanization and Growth Study ESW • HD PER ESW • Youth Employment Study ESW • Rural Development Strategies ESW • Poverty Mapping ESW |

| Country Long-Term Goals | Major Issues and Challenges | Outcomes and Indicators | CPS Milestones | Bank Program and Partners |
|--|--|---|---|--|
| | <p>Lack of non-farm employment in rural areas leading to increased urban drift</p> <p>Lack of skills development opportunities in rural areas</p> <p>Untapped potential for expanding the range of agricultural products</p> | <p><i>Baseline: 0</i> <i>Target: 80</i> Increased number of rural dwellers acquiring new skills as measured by the number of people trained</p> <p><i>Baseline: 0</i> <i>Target: (indicator to be determined under new project)</i></p> <p>Increased markets for selected agricultural products on a pilot basis (<i>indicators to be determined under new project</i>)</p> | <p>Analytical work to inform the project design</p> <p>New skills development programs established in rural areas</p> <p>Consultations with stakeholders, including private sector, completed</p> | <ul style="list-style-type: none"> Country Social Development ESW Disaster Management TA Possible A2F support for rural finance (IFC) <p>Pipeline:</p> <ul style="list-style-type: none"> Integrated Rural Development Project Knowledge Society Project DPC2 GAFSP Possible support for agribusiness (IFC) |
| 3.3 Decrease in the loss of life and assets through the development of local and institutional capacity for disaster preparedness and adaptation to climate change | | <p>Improved community-level preparedness with local communities trained and effectively implementing disaster preparedness and adaptation plans and activities</p> <p><i>Baseline: 0</i> <i>Target: 9</i></p> <p>Improved national preparedness with disaster preparedness plans developed in vulnerable dzongkhags</p> <p><i>Baseline: 0</i> <i>Target: 3</i></p> | | <p>Ongoing Projects:</p> <p>Non-lending</p> <ul style="list-style-type: none"> JSDF Seed Fund for “Building climate and disaster resilient communities in Bhutan” proposal. Proposed JSDF project for “Building climate and disaster resilient communities in Bhutan”. GFDRR TA for disaster management |
| Results Cluster 4: Access to Quality Public Services | | | | |
| 4.1 Improved access to and quality of social services through evidence-based resource allocation and management | Lack of information on the costs of and access to services for informing resource allocation | <p>Improved allocation of resources in social sectors as evidenced by development of MYRBs</p> <p><i>Baseline: 0</i> <i>Target: 2 sectoral MYRBs</i></p> | Completion of public expenditure review | <p>Ongoing Projects:</p> <ul style="list-style-type: none"> DPC1 <p>Non-lending</p> <ul style="list-style-type: none"> Poverty Mapping ESW HD PER ESW |

| Country Long-Term Goals | Major Issues and Challenges | Outcomes and Indicators | CPS Milestones | Bank Program and Partners |
|--|---|---|---|--|
| | <p>Fiscal pressure constraining the sustainability of public service provision</p> <p>Uneven quality of social services delivery</p> | <p><i>developed</i></p> <p>Service delivery standards and criteria in place as evidenced by annual reporting to the National Assembly <i>Baseline: not reported</i> <i>Target: reported</i></p> | <p>Completion of the second phase of poverty mapping exercise</p> <p>Service delivery standards online for 50 percent of agencies</p> | <ul style="list-style-type: none"> • HE Sector Note ESW • Rural Development Strategies ESW • Construction Sector Assessment ESW • Poverty Mapping ESW • Management of Hydropower Revenues TA • MTFE and MYRB TA • Public Financial Management Report ESW <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • Knowledge Society Project |
| <p>4.2 Expanded and diversified system of higher education</p> | <p>Heavy reliance on public provision of tertiary education</p> <p>Programs and research capacity limit international recognition and the creation of a knowledge-based society</p> | <p>Identification of strategic partnerships with outside tertiary education institutes <i>Baseline: 2</i> <i>Target: 6</i></p> <p>Quality assurance system in RUB established as measured by the number of programs and degrees covered <i>Baseline: 2</i> <i>Target: 6</i></p> | <p>Roundtable with stakeholders to discuss the results of the study</p> <p>Expressions of interest and familiarization visits to/from international institutes</p> <p>Establishment of Bhutan Accreditation Council</p> | <p><u>Ongoing Projects:</u></p> <ul style="list-style-type: none"> • EDP <p><u>Non-lending</u></p> <ul style="list-style-type: none"> • HD PER • HE Sector Note <p><u>Pipeline:</u></p> <ul style="list-style-type: none"> • DPC2 • Possible support for the education sector (IFC) |

Annex 2: CAS Completion Report

Country: Bhutan
Date of CAS: November 18, 2005
Period covered by the CAS CR: FY06-FY09
CAS CR completed by: Niels Planel **Title:** Consultant **Date:** September 1st, 2009

The objective of this CAS Completion Report (CAS CR) is to evaluate the effectiveness of the World Bank's Country Assistance Strategy for the Kingdom of Bhutan for FY06-FY09, by examining the extent to which expected CAS outcomes were achieved. The Bank's performance in designing and implementing the CAS toward achieving these outcomes is also assessed. Finally, the CAS CR identifies lessons relevant to the design and implementation of the next CAS for Bhutan.

A. Government Objectives and the CAS Context

When the 2005 CAS was being formulated, Bhutan had continued its progressive opening up to the world, especially through tourism. During this process, the country had experienced rapid social and economic development as a result of prudent macroeconomic management, beneficial exploitation of hydropower resources, and substantial support from development partners. Nestled between China and India in the eastern Himalayas, the topography of Bhutan provides the country with enormous hydropower potential in addition to substantial forest resources and biodiversity. The country had started to exploit hydropower resources through a mutually beneficial arrangement for capital development support in exchange for concession on hydropower sales to India.

Driven by its hydropower development and strong donor support, Bhutan has enjoyed robust economic performance, with GDP growth averaging over 6 percent per annum over the past two decades. At the same time, electricity export revenues have strengthened the role of the public sector in the economy. In contrast, the private sector had remained small, and a substantial portion of the population continues to be engaged in subsistence agriculture.

The CAS was prepared following the completion of the country's Poverty Reduction Strategy Paper (PRSP), which was based on the Ninth Five-Year Plan (9FYP). The 9FYP was framed by Bhutan's specific development vision of increasing Gross National Happiness, and reflected the efforts of the Royal Government of Bhutan (RGoB) to improve the well-being of the Bhutanese despite the challenges imposed by the country's mountainous geography and location. Since RGoB became a member of IFC in December 2003, it was also the first CAS jointly prepared by IDA and IFC.

The timing and net impact of the Tala Hydropower Project (1020MW) was deemed to be critical during the CAS period for maintaining growth, sustaining RGoB's efforts to expand access to better infrastructure and services, meeting increasing recurrent costs, and ensuring sound fiscal and debt management.

Bhutan has enjoyed peace and stability and following the adoption of a new constitution, the country moved to a constitutional monarchy. However, since the system of governance changed during the CAS period, some priorities originally drawn in the CAS results matrix were reformulated. The first parliamentary elections, held in January 2008, also were a major distraction. One notable consequence has been the slight mismatch between what was originally planned in the CAS and a few outcomes.

B. CAS Objectives and Outcomes

The World Bank's CAS for FY06-09 aligned itself with the goals and priorities of the 9FYP. Specifically, the CAS supported development based on three pillars: i) Expanding Access to Better Infrastructures and Social Services, and Connecting Communities to Market; ii) Promoting Private Sector Development and Employment; iii) Strengthening Management of Public Resources, and Monitoring and Evaluation of Development Outcomes. The first pillar was considered essential since

access was one of the most critical challenges for Bhutan. The Bank Group specifically supported efforts by RGoB to expand and improve rural road access, improve quality and coverage of urban services in selected towns, promote access to quality education, and prevent the spread of HIV/AIDS. The second pillar was deemed fundamental to ensure the twin goals of rapid growth and employment generation for youth. As a consequence, and in line with the priorities of the 9FYP, the Bank helped Bhutan in reducing critical constraints to private sector development and increase agricultural productivity and diversification. The third pillar was chosen to strengthen macroeconomic framework and policies, improve public expenditure management and bolster poverty monitoring and evaluation, as emphasized in the JSAN of the 9FYP. Additionally, the Bank supported crosscutting efforts related to decentralization, good governance, and environmental management. The Bank assisted in improving controls, planning and execution procedures, and transparency and accountability.

Overall, in terms of achievement of its outcomes, the CAS is rated **Moderately Satisfactory**:

- The outcomes under the **Infrastructures Pillar** are rated **Moderately Satisfactory**. The positive rating reflects the fact that most of the expected outcomes were achieved in a moderately satisfactory or satisfactory manner. Some projects did not take into account the priorities stated in the CAS, such as increasing access to adequate urban services in Thimphu and will only do so in the FY10-13 CAS, but the Bank delivered tangible results in line with its overall strategy.
- The outcomes under **Private Sector Pillar** are rated **Satisfactory**. Under the Development Policy Grant, the Bank achieved all its objectives in a satisfactory manner, resulting in an enhanced investment climate for private sector development and helping support steady growth. Moreover, the agriculture productivity increased during the course of the CAS implementation and farmers benefited from better access to market, reduction in transportation costs and access to agricultural services.
- The outcomes under the **Public Resources Pillar** are rated **Moderately Satisfactory**. While clear targets were set during the design of the CAS, procurement became a major issue during the implementation period and priorities changed. This also reflects the fact that RGoB's new governance influenced the outcomes of the pillar. However, the Bank took into account RGoB's weak capacities in terms of procurement and acted to strengthen them.
- Finally, the outcomes regrouped in the **Cross Cutting Issues Pillar** are rated **Satisfactory**. The projects under this Pillar delivered the expected outcomes and met the Bank's objectives while supporting decentralization, good governance and environmental management.

Pillar I

At the time of CAS preparation, access was one of the most critical challenges for Bhutan. Accordingly, the first pillar focuses on access to infrastructure, services, and markets. The original key objectives envisioned for the CAS under this pillar were to: i) improve rural road access and quality of road network; ii) increase access to adequate urban services in Thimphu and selected towns; iii) improve access to and quality of education; and iv) change in risky behaviors and better treatments of STIs. One of the major Analytic and Advisory Activities (AAA) was the Bhutan Urban Strategy, which provided input for the Tenth Five-Year Plan (10FYP).

Table 1. Summary Assessment of Bank Outcomes under the Pillar I

| Infrastructures Pillar Objectives and CAS Outcomes | Assessment of Bank | Bank Instruments |
|---|---|--|
| <p><i>Expanding Access to Better Infrastructure and Social Services, and Connecting Communities to Markets</i></p> <p>Outcome 1: Improve rural road access and quality of road network</p> <ul style="list-style-type: none"> • Reduction in travel time and transportation costs on rural access roads receiving Bank support • Reduction in time taken to walk to motorable road by one half • Rural roads management and road practices improved <p>Outcome 2: Increase access to adequate urban services in Thimphu and selected towns</p> <ul style="list-style-type: none"> • Satisfactory urban service delivery as confirmed by beneficiaries • % of serviced urban land added in areas supported by the Bank <p>Outcome 3: Improve access to and quality of education</p> <ul style="list-style-type: none"> • Increase in school enrolment • Increases in # of teachers and improvement of teachers' skills • Improvements in Math and English skills of grade 6 students • Improvements in passing rate in public examinations for grades 10 and 12 students <p>Outcome 4: Change in risky behaviors and better treatments of STIs</p> <ul style="list-style-type: none"> • Increase of persons reporting condom use with last non-regular sex partners • % increase of patients with selected STIs treated at health care facilities • Successful implementation of Bank-financed prevention programs targeting high-risk populations and high transmission areas | <p>Moderately Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Moderately Satisfactory</p> | <p><u>IDA-Financed Projects:</u> Rural Access Project (closed in FY06); Decentralized Rural Dvpt; Education II (closed in FY06); Education Dvpt Project; HIV/Aids and STI Prevention & Control; Urban Dvpt Project; Dvpt Policy Grant I & II (closed in FY06 & 08); Urban Dvpt (closed in FY08); Second Rural Access; Decentr. Rural Dvpt</p> <p><u>AAA:</u> Bhutan Urban Strategy (FY06); Fiscal Decentralization (FY07); Decentralization: Lessons & Challenges (FY09)</p> |

Outcome 1: Improve rural road access and quality of road network

Improving the level of accessibility has been incremental in reducing poverty and has influenced several outcomes, such as education, economic growth and cross-cutting issues. The Rural Access Project played a critical role in expanding access to better infrastructure and social services, and

connecting communities to markets by achieving a significant reduction in travel time and transport costs. Travel time to reach hospitals and markets was reduced by 76 percent (versus 50 percent as set at appraisal), on average, and transport costs has declined by 75 percent (versus 50 percent as set at appraisal). The travel time to school in the project areas declined from more than six hours to around one hour at the end of the project. A wider acceptance of and adherence to environmental safeguards in construction and maintenance practices resulted from the implementation of the project, with the National Environmental Commission now mandating Environmentally Friendly Road Construction (EFRC) approaches in all roads projects under the purview of various agencies.

Since 2007, the Second Rural Access Project has built on the progress made so far and provides new connectivity to remote villages, supports EFRC approaches and puts the accent on building capacity for maintenance and rural road management. All improvement works envisaged during the appraisal have been completed.

Outcome 2: Increase access to adequate urban services in Thimphu and selected towns

Increasing access to adequate urban services in ten towns of Bhutan was critical to support RGoB's objective of achieving carefully planned growth of secondary towns. The Urban Development Project increased serviced urban lands, allowing 100 per cent of the selected town areas to get piped water coverage at the end of the project (June 2006). However, households' connections had yet to be provided when the project closed. As of June 2006, a total of forty-four employees were trained in the operation and maintenance of urban services and infrastructure financed under the project, while no systemic operation and maintenance regime existed at the start. Surveys also showed that citizens' satisfaction with the project's results has been high, although there were some shortcomings in the treatment of the data. Even though the design of the CAS' results matrix included Thimphu in the outcome, the Urban Development Project did not affect the capital and the indicators capture the impact of the project on selected secondary towns. The Second Urban Development Project will focus exclusively on Thimphu. Due to delays in project preparation of the proposed Second Urban Development Project, the project has not commenced during this CAS period. A National Urban Strategy as well as a Thimphu's City Development Strategy were formulated with IDA's assistance, and provided inputs for the 10FYP.

Outcome 3: Improve access to and quality of education

Through its support since 1988, the Bank has successfully contributed to good progress on educational outcomes in Bhutan. Beginning with support to the primary education, the Bank has progressively extended its assistance to secondary education, under a co-financing arrangement with the Swiss Development Corporation (SDC). The Education Development Project extends support to middle and higher education on the basis of the sector development strategy underpinning the 9FYP/PRSP. Overall implementation progress has remained apace with the project target for additional strident places expected to be exceeded.

Outcome 4: Change in risky behaviors and better treatments of STIs

Prevalence of HIV in Bhutan continues to be very low at less than 0.1 percent and condom use with last non-regular partner was higher than projected at project start-up. While condom use is high, a very concentrated epidemic could emerge in population groups having multiple concurrent sex partners, and/or injecting drug use behaviors if safe behavior is not consistently adopted. To date, these groups appear to be extremely small. The Bank project has made important contributions to improve awareness about HIV and how to prevent it. It has also contributed to building the evidence base for future action. RGoB was effective in reaching the general population but encountered difficulties with high risk groups, as to date, the only risk group identified are sex workers, as Bhutan does not follow the transmission pattern found elsewhere. To strengthen the effectiveness of STI treatment, treatment protocols have been modified on the basis of a gonococcal susceptibility study and new guidelines were developed and adopted (by May 2006). By June 2007, training of prescribing staff at all hospitals

increased from 9,249 (2004) to 27,636 (2008). In an effort to improve corporate governance and operational efficiency in the state owned enterprises (SOEs), RGoB established Druk Holding and Investments (DHI) in November, 2007, and transferred its shares in twelve companies to DHU. With a view to fostering the ICT sector, the RGoB enacted the Bhutan Information, Communication & Media Act in 2006, aimed at encouraging local and foreign investment in the ICT and media industry by providing a modern regulatory framework that encourages a convergence of information, computing, media, and communications technologies, as well as facilitating privatization and competition.

Through the BT Private Sector Development project, an incentive framework was adopted by the Cabinet to facilitate FDI in the IT-enabled services sector. The revised FDI policy built on this framework.

Outcome 2: Increase agricultural productivity and diversification in geogs

The Decentralized Rural Development project has shown good progress in its implementation, notably in community irrigation schemes, agricultural extension services in six project *dzonkhags* and increased food and cash crop production. A 29 per cent increase in food crop production (rice & maize) as well as a 23 per cent increase in cash crops (potato & mandarin) for targeted *geogs* resulted from the implementation of the project. Training on vegetable production, nursery development and other high value crop production such as walnuts and mushrooms have been given to nearly 1400 households. These households have taken up improved agriculture technologies (improved seeds). This extension through the DRDP funding has included those households who were not covered under regular extension activities of the *dzongkhags* since they have been targeted at households newly connected to markets through the infrastructure works. The irrigation component has made satisfactory progress in terms of achieving its physical target. In terms of the originally planned 45 kms of new construction, a revised target of 44.3 km is set to be completed by June 2010. To date, 39.8 km of new channels have been completed. Currently the revised target for renovation of the channels is 218 km of which 164 km has been completed. The PDO appears to be achievable as a result of good progress in the construction of Farm Roads, Power Tiller Tracks, community irrigation schemes, construction and operation of RNR (renewable natural resource) centers and agricultural extension services in six project *dzonkhags*, thereby leading to better access to market, reduction in transportation costs and access to agricultural services.

Due to the improvement of road access, the Rural Access Project has also enabled farmers to reach produce to markets with reduced time and damage in transits.

Pillar III

With an expected substantial increase in revenue from hydropower exports, improving controls, planning and execution procedures, and transparency and accountability were to be given a high priority. Increased public investment also made more urgent the need to tackle the limited capacity for measuring development results. Under the Public Resources Pillar, the key outcomes envisioned for the CAS were to: i) improve budget management and public financial management, and ii) improve capacity for monitoring and assessment of development outcomes. The DPG I & II and an IDF grant (Improving Public Financial Management) has been critical in supporting the PFM sector in Bhutan.

One of the main components of a sound public procurement system is the existence of a centralized government body to manage, oversee and support the public procurement system. As part of the reforms to improve public expenditure and to ensure good governance, RGoB has undertaken various steps towards creating an efficient, effective, transparent, and fair national procurement system. The Bank, in collaboration with the donor group in Bhutan, has been working with the government in the following areas: (i) renewing the procurement manual and its accompanying standard bidding documents and request for proposals, (ii) creating a procurement policy unit, (iii) addressing the need for procurement grievance mechanisms, (iv) assessing the readiness for using e-procurement, and (v) building the capacity of national institutions responsible for training people on public procurement.

Items (i) and (ii) have been completed to date with an IDF grant under implementation to strengthen the newly formed Public Procurement Policy Division under the Ministry of Finance. Item (v) above is also being addressed through a three year \$1.5m Institutional Capacity Building Project for Procurement which became effect in July 2008. For items (iii) and (iv) above the RGoB commissioned a policy note and report respectively to analyse the best way forward in those two areas of the reform. Since the delivery of those two documents by the Bank in 2007, no progress has been made, but the RGoB remains committed to take up these two components of the reform in 2009 and 2010.

An official order was issued in April of 2008 for the establishment of the Public Procurement Policy Division (PPPD) in the Ministry of Finance. Given the importance of a strong PPPD, the Bank made a grant of US\$484,000 the main focus of which is to strengthen the PPPD. The IDF also supports the continued regulatory reform of the procurement legislation and access to information, public awareness and e-GP. The full-scale implementation was expected to start during the summer of 2009.

Under the ADB funded project (Financial Sector Development Project), the process of selection of international consultants to provide technical assistance for the determination of accounting standards for Bhutan has been completed. Supported by technical assistance provided by the World Bank the Department of Public Accounts has adjusted the Government annual financial statements (2006-07) to comply with IPSAS (Cash basis) requirements for financial reporting and identified the next steps required for full adoption of IPSAS. An IDF grant is presently supporting some important initiatives underway, including selection of international consultants to help RGoB consolidate and strengthen its internal audit function.

Outcome 2: Improve capacity for monitoring and assessment of development outcome

The Bank began supporting statistical issue in FY08 through the *TF for Statistical Capacity Building* (TFSCB) which aimed to build capacity of the National Statistical Bureau (NSB) and assist the preparation of the National Statistics Development Strategy (NSDS), which is the master plan to reform the statistical system. The strategy was finalized with consultation with stakeholders in October 2008. Following that effort, the *NLTA for poverty monitoring (FY09-10)* supports the NSDS implementation, particularly on improvements of poverty monitoring instruments, strengthening the statistical Geographical Information System (GIS) capacity, establishment of a new data dissemination system, and assistance for the statistical law preparation. The component of the NLTA on GIS is to create a multi-topic database at the *geog* level for policy planning and coordinate data from different ministries and make them more usable both for M&E and for planning. Poverty mapping is another area of M&E on poverty where Bhutan is gaining capacity since FY09. The preliminary results of poverty mapping were shared with the NSB and the GNHC in June 2009. Efforts on poverty mapping will make M&E more efficient at the *geog* level; it will support the effort presented in the 10th plan to introduce a new formula-based resource allocation to local governments based on local poverty incidence.

RGoB is moving in the right direction to gain more understanding of poverty and vulnerability. Capacity building on poverty and vulnerability monitoring and analysis are supported by the ongoing NLTA for poverty monitoring. So far, NSB still does not have full capacity to carry out analysis on poverty by itself, but it has many educated staff and a sufficient technical foundation to build upon. A

Bank team has delivered training courses to staff from NSB and GNHC on poverty analysis and poverty mapping and will continue engaging in capacity building on poverty analysis. A population and housing census was conducted in May 2005 and the results were published in mid 2006. The Census was carried out with support from United Nations Population Fund (UNFPA).

It should also be noted that the governance system having changed following the adoption of a new constitution, the priorities of RGoB evolved over the CAS period and some projects suffered from a lack of appropriate monitoring.

Cross-cutting issues

Decentralization, good governance and environmental management involved crosscutting efforts, and the Bank selectively supported these during the CAS period, focusing on efforts that would have the greatest impact and were critical to achieving the three strategic objectives or pillar of the CAS. Key results envisioned under the Cross-Cutting Issues Pillar were i) to increase capacity for decentralized rural development; ii) to improve capacity for decentralized school management; and iii) increase environmental management capacity at the national, sector, and local level.

Table 4. Summary Assessment of Bank Outcomes under Cross-Cutting Issues

| Crossing Cutting Issues Objectives and CAS Outcomes | Assessment of Bank | Bank Instruments |
|--|--------------------|---|
| <p><i>Cross Cutting support to Decentralization, Good Governance & Environmental Management</i></p> <p>Outcome 1: Increase capacity for decentralized rural development</p> <ul style="list-style-type: none"> • Priorities of targeted <i>dzongkhags</i> adequately implemented • Transfer of resources to local level improved • Capacity for EA of farm roads and irrigation works improved | Satisfactory | <p><u>IDA-Financed Project:</u> Capa Bldg; Decentr. Rural Dvpt; Dvpt Supp. Grant I & II (closed in FY06 & 08); Sustain. Land Mngt Project (GEF, FY06), DPFIS (FY09)</p> |
| <p>Outcome 2: Improve capacity for decentralized school management</p> <ul style="list-style-type: none"> • Number of approved positions filled with qualified people • Measurable improvement in management & supervision of by <i>Dzongkhag Education Officers</i> and school management board | Satisfactory | <p><u>AAA:</u> Country Sys. Assess. (FY06); Harmonization of Fiduciary Sys. (FY06); Fiscal Decentr. (FY07); Decentr. Challenges (FY09)</p> |
| <p>Outcome 3: Increase environmental management capacity at the national, sector, and local level</p> <ul style="list-style-type: none"> • Mitigation of road construction impact and maintenance of rural access roads improved • Environmentally sound management of biomedical waste instituted • Promotion of sustainable land management practices in selected areas • Capacity to apply national social and environmental safeguards strengthened | Satisfactory | |

Outcome 1: Increase capacity for decentralized rural development

The Decentralized Rural Development project has proved successful so far. While the targeted population is learning by doing, the local governments are managing the project in a satisfactory manner. The project is building the capacity of the *dzongkhags* and improving the public financial management at the same time. The transfer of resources to local level was improved and the DRDP funds are now managed by the *dzongkhags*. The project has implemented various training courses for *dzongkhag* and Geog project staffs. 28 separate trainings in the field of rural roads, irrigation, financial management, community mobilization and socio-economic baseline survey have been provided to

about 1600 officials. The capacity for Environmental Assessment (EA) of farm roads and irrigation works has been improved through the training of 60 extension agents.

Outcome 2: Improve capacity for decentralized school management

This outcome has been satisfactorily achieved through of capacity building among MOE personnel at all levels (central, dzongkhag, school) during SEP. Training using both long- and short-term fellowships included areas such as school administration and management, procurement, human resource management, vocational training, aptitude testing and public finance and budgeting, among others. A school management guide has been developed and regular school monitoring by EMSD, DEOs and focal persons has been institutionalized. There are now 273 personnel at MOE with strengthened capacity and a total of 43 DEOs/Assistant DEOs in the country's 20 dzongkhags. Education monitoring has been identified by MOE as a priority area for education system development. Training was provided to education officials at all levels to carry out school-level monitoring and support functions.

Outcome 3: Increase environmental management capacity at the national, sector, and local level

The Sustainable Land Management (SLM) project has been effective in so far as it has introduced a new, bottom-up approach for land planning. Following the initial focus on the pilot on-the-ground investments at the beginning of the project, efforts are now being made to extend and mainstream SLM approaches in other sector policies and programs. The project has supported the development of rules and regulations for implementation of the revised Land Act of 2007 and enhancing understanding of rangeland management issues that would later contribute to the revision of grazing policy and regulations. RGoB, the Bank, DANIDA and UNDP also conducted a joint review to harmonize their inputs. At this stage of the project implementation, 174 farmers in Radi, 91 in Nanghkor and 104 farmers in Phuentsholing are practicing sustainable land management techniques (369 farmers overall).

The Rural Access Project has succeeded in raising awareness regarding the need to adopt environmentally sustainable construction practices, and many important generic outputs have been generated to promote EFRC, such as Environmental Codes of Practice and EFRC guidelines, standard bidding documents, etc, which have found a wider application in road development projects in the country. The National Environmental Commission has mandated EFRC application in all road projects under the responsibility of various agencies.

As part of the effort to support the Paris Declaration of March 2005 on Aid Effectiveness and the strengthening and use of developing country systems, the Bank Board approved the use of Bhutan's national policies to address environmental safeguards associated with the Rural Access II Project.

The Bank has also financed several inputs aimed at environmentally sound waste management. The Bank has developed Infection Control and Healthcare Waste Management (IC & HCWM) guidelines, training for their application and procured an autoclave for the main hospital and supplies for waste segregation. Burial pits for waste were also built according to a plan that was developed and agreed with the Bank.

C. Measuring Bank Group Performance

1. Quality of Products and Services

Lending

During the CAS period, four World Bank projects came to closure and ICRs were prepared for each. Development Policy Grants I and II were assessed in the same ICR. All the ICRs were reviewed by the Independent Evaluation Group (IEG). Table A4 presents the results of completed ICRs and

corresponding IEG ratings. Overall, the projects' ratings were good, with a majority of projects rated Satisfactory. There is mostly consistency between the ICR and IEG ratings on the outcomes, although of the four projects reviewed by the IEG, the borrower's performance was rated one category below the ICR ratings for three projects.

During the CAS period, the Quality Assurance Group (QAG) conducted a Quality Assessment of Lending Portfolio (QALP-1) for two projects: the HIV/AIDS and STI Prevention and Control project and the Sustainable Land Management project. There was a Quality of Supervision Assessment (QSA) for the Education Development Project. While the Land Management project obtained a positive rating, the likelihood of achieving DOs of the HIV/STI project was deemed Moderately Unsatisfactory/Unlikely. QAG rated the overall quality of supervision of the Education Development Project as Moderately Satisfactory.

Table 5. QALP-1 and QSA Reviews in the CAS period

| QALP-1 | Date Approved | Assessment Date | Overall Rating |
|-------------------------------------|----------------------|------------------------|-----------------------|
| HIV/AIDS & STI Prevention & Control | 06/17/2004 | 06/03/2008 | 4 |
| Sustainable Land Management | 01/17/2006 | 10/16/2008 | 2 |
| QSA | | | |
| Education Development Project | 08/21/2003 | 9/15/2006 | 3 |

Economic and Sector Work

Overall, the Bank has been proactive in the field of Economic and Sector Work (ESW), with a total of 11 ESWs, 4 Technical Assistances (TA) and 2 IDF grants undertaken during the CAS period. Several among them have been critical in fostering the Bank's program in RGoB. The Bhutan Urban Strategy provided inputs for the Tenth Five-Year Plan (10FYP). An IDF grant (Improving Public Financial Management) has been deemed essential in supporting the PFM sector in Bhutan.

In the health sector, the Ministry of Health has requested inputs on health financing and options for private sector contribution both in financing and provision. The Bank has been planning a workshop in the fall of 2009 which should lead to some future ESW to assist RGoB in its decision-making process.

2. Portfolio Performance

During the CAS period, the number of projects remained constant, with around five projects a year, representing an average of US\$ 61 million and commitment varying from US\$ 44 million to US\$ 72.5 million. The average disbursement ratio for Bhutan during this period was 25.3 percent.

Table 6. Portfolio Performance Indicators

| Indicator | FY06 | FY07 | FY08 | FY09 |
|--------------------------------|-------------|-------------|-------------|-------------------|
| Number of projects | 3 | 5 | 6 | 7 |
| Net Commitment Amount (US\$ M) | 44 | 62 | 65 | 72.5 |
| % at Risk | 0 | 20 | 17 | 14.3 |
| % Commitments at Risk | 0 | 11 | 9 | 8 |
| Realism (%) | NA | 0 | /* | Not available yet |
| Proactivity (%) | NA | NA | NA | Not available yet |
| Disbursement Ratio | 12 | 32 | 27.6 | 29.7 |

Source: QAG's FY06ARPP (.36 of 80), FY07 ARPP (p.36 of 83) and FY08 ARPP (p.37 of 77 – Statistical Appendice)
/* Not mentioned

D. Aid Coordination

During the CAS period, the Bank has worked effectively with its development partners. Since the Bank did not have a country office in RGoB, the CAS was developed through regional meetings held when the Country Director was in-country, and in consultation with development partners. Key missions were organized and recognized the need for coordination. Due to the resource constraint for several Bank projects in Bhutan, a few TTLs believe a better coordination among donors could help deliver improved results in the future.

The Bank was the only donor working on HIV at the beginning of the CAS period, with the exception of the UN agencies making modest contributions in each of their own areas. Joint missions with Danida have been carried twice, to review the health sector overall (and HIV within it). The Global Fund to Fight AIDS, TB and Malaria (GFATM) has now been involved for the last 18 months, but coordination is extremely limited.

As part of the donor harmonization effort, Danida has been providing support for eleven new natural resource proposals through the Sustainable Land Management project, amounting to over US\$500,000.

The Asian Development Bank (ADB) provided the original assistance to the government in the mid 1990s to create procurement rules and regulations, which were incorporated in Chapter 17 of the Financial Manual. Recognizing that their procurement rules were due for some updating to align themselves with internationally accepted best practice and to cater to the changing Bhutanese context, RGoB requested assistance from the World Bank in September of 2005.

On PFM, the close collaboration and synergy with other development partners' inputs has been positive. Under the ADB funded project (Financial Sector Development Project), the process of selection of international consultants to provide technical assistance for the determination of accounting and auditing standards for Bhutan has been completed.

The ADB has been the main donor supporting the financial sector so far. The Bank has engaged in the sector through a component of the Bhutan PSD project by supporting the development of a national payment system, an area not covered under ADB support. This component complements a pillar of the Development Policy Grant on fostering private sector dynamism by enhancing access to credit. The Bank and ADB have maintained close coordination in both projects by informing each other of their respective activities, and commenting on the design of the projects, in order to ensure the complementarity of ADB and WB support in financial sector development.

Development partners are also endeavoring to help RGoB improve the effectiveness of public spending. The Bank, IMF, and UNDP teams are supporting RGoB's efforts to develop a sound multi-year fiscal framework and improve public expenditure management. Development partners are working together to promote harmonization around the country's national fiduciary and safeguard systems. The Bank's ongoing public financial management work has undertaken comparisons of national and international public sector accounting and auditing standards, and is moving toward alignment or adoption of international standards of accounting and auditing in a phased manner, using an incremental approach, in collaboration with other donors, including ADB. To strengthen the functioning of procurement systems in Bhutan, the Bank and Danida are collaborating on a series of procurement reform measures, which include the development of the Procurement Manual, Standard Bidding Documents, and a Policy Note on Grievance Mechanisms in Procurement, among other key initiatives in this area. Over the last year, the ADB has been collaborating with the Bank's procurement team to further the united donor approach to support RGoB to modernize its public procurement system.

A workshop to review progress under DPG1 & 2 was held in April 2008 and attended by the representatives from all the major donors, and their inputs were reflected in the ICR. Additional donor consultations to discuss the new DPG reforms were organized in October 2008.

E. Client Feedback

There was no Client Survey conducted during the CAS period. A close collaboration with the client and the Bank's flexibility was appreciated by RGoB.

F. Lessons for the Next CAS

Overall, the CAS outcomes have been achieved in a mostly satisfactory manner or are currently under satisfactory implementation. Under the four Pillars, access to better infrastructure and social services were expanded and communities were connected to markets, private sector development and employment were promoted, PFM was strengthened and the cross cutting issues were addressed. On an operational note, some indicators included while the CAS was being designed were not in any project due to the changes in RGoB's priorities resulting from new governance. There are several broad lessons:

- *Capacity* is a major issue constraining the RGoB's reform efforts, and progress was strongest where adequate capacity either already existed, or was mobilized as a part of the deepening engagement in a given area (e.g. procurement).
- Meaningful progress on key reforms was also easier when leveraged with *investment projects* in related areas. This was evident in the case of Bank financing for private sector development, education, procurement, and HIV/AIDS, which were developed in synergy with the three budget support operations approved during the CAS period.
- While *attribution* is difficult in several of the areas of policy and institutional reforms supported by the CAS, effort is needed to identify suitable intermediate output and outcome indicators. Past experience suggests that this can be constrained by lack of data in Bhutan. Given short time horizons under operations, data on outcomes may not be available if they are not collected frequently. One possible approach may be to indicate baseline indicators, note subsequent developments without specific attribution, and articulate the causal relationship expected. In cases where outcome targets are not readily quantifiable, or there are data limitations, a compromise could be to identify qualitative progress indicators.
- Understanding the poor's socio-economic environment is the next important step for effective policy planning. A joint analytical product such as a poverty assessment will be a vehicle to enhance the level of understanding of poverty in Bhutan; it will engage the government and enhance capacity.
- At the sectoral level, *coordination* among ministries and agencies remains a challenge. A number of line ministries have established, or are in the process of establishing M&E systems. While there are obvious sector specific issues to be addressed, national planning and monitoring would benefit from the standardization of a number of indicators across sectors.
- Overall, the lack of external assessment made it harder to monitor the progress achieved through the Bank-financed projects. No Client Survey was carried out to assess the client's satisfaction with the Bank's support. The absence of a CAS Progress Report did not allow having a general overview of the evolution of the outcomes contained in the FY06-09 CAS Results Matrix. Including these analytical tools in the course of implementation of the FY10-13 CAS is strongly recommended.

- Due to the lack of a proper modernized procurement system in Bhutan, RGoB requested the Bank to provide them with assistance to develop the sector in September 2005. Although procurement may not have been included during the creation of the CAS, and hence no indicators included to measure success, the Bank did consider procurement reforms to be relevant and in line with the third pillar of the CAS and the cross cutting theme of good governance. As already elaborated on above a reform program was put in place and significant progress has been made to date. There are currently two grants that are under implementation, which will continue to strengthen the national procurement system, namely, the Institutional Capacity Building Project for Procurement and the PPPD Strengthening IDF. More work will still need to be done on reforming the system in particular in the areas of complaints mechanisms and developing electronic procurement. Additionally, Bhutan has been selected to be one of the pilot countries for Use of Country Systems. It is therefore recommended that procurement reform is included in the next CAS as well with specific indicators and goals included.
- Several TTLs have observed that due to limited resources allocated to supervise projects in Bhutan, better donor coordination is critical in order to harmonize efforts made in several sectors and to deliver better results.
- IFC and the Bank Bhutan team have been working collaboratively to support the development of the private sector. However, the Kingdom faces growing challenges in creating productive employment opportunities for the educated and semi-skilled population. Support in skills enhancement and employment generation will be critical in the next few years. The nationwide enterprise survey conducted in FY09 provides useful data analysis for designing a program of support aimed at employment generation in the next CAS.

Table A1: CAS Completion Matrix

| Strategic Objectives | Outcomes | Selected indicators (as of September 1 st , 2009) | Lessons Learned |
|--|---|---|---|
| <p>Pillar I - Expanding Access to Better Infrastructures and Social Services, and Connecting Communities to Markets</p> | <p>1. <i>Improve rural road access and quality of road network</i></p> <p>2. <i>Increase access to adequate urban services in Thimphu and selected towns</i></p> <p>3. <i>Improve access to and quality of education</i></p> <p>4. <i>Change in risky behaviors and better treatments of STIs</i></p> | <p>Moderately Satisfactory -Reduction in travel time and transportation costs on rural access roads receiving Bank support. Target: 50% reduction in transport costs and travel time. Actual value: 50-75% reduction in transport costs and 75% reduction in travel time.</p> <p>-Reduction in time taken to walk to motorable road by one half for targeted communities. Target: 3400 beneficiary households within 1 to 3 days of walking to the nearest road head. Actual value: 3188 households.</p> <p>-Rural roads management and road practices improved Target: Wider acceptance of environmental safeguards. Actual value: National Environmental Commission now mandating EFRC application</p> <p>Satisfactory -Satisfactory urban service delivery as confirmed by beneficiaries Target: 80% of citizens satisfied with the improved municipal services Actual value: citizens' satisfaction → water 81%, SWM 21%, roads 68%, footpaths 50%, markets 55%, street lighting 30%</p> <p>-% of serviced urban land added in areas supported by the Bank Target: No data Actual value: No data.</p> <p>Satisfactory -Increase in school enrolment Target: 64% for grades 7-10; 33% for grades 11-12. Actual value: 70.1 for grades 7-10; 35.2% for grades 11-12</p> <p>Number of new teachers trained: 1998: 194 / 1999: 249 / 2000: 239 / 2001: 437 / 2002: 337 / 2003: 403 Target: 495 Actual value: 807</p> <p>-Improvements in passing rate in public examinations for grades 10 & 12 students Target: Pass rates: 95% (gr. 10); 95% (gr. 12) Actual value: 91.83% (gr. 10); 90.49% (gr. 12)</p> <p>Moderately Satisfactory -Increase of persons reporting condom use with last non-regular sex partners Target: 60% (among priority groups); 30% (among general population) Actual value: NA yet for priority groups; 73% of unmarried respondents, 76% of married (extramarital rel).</p> <p>-% increase of patients with selected STIs treated at health care facilities Target: 60% Actual value: 69%</p> | <ul style="list-style-type: none"> Development of rural road network in Bhutan is expensive but unavoidable to facilitate economic development and poverty reduction. Impacts on most of the previously isolated rural populations are positive and demand for accessibility is huge. However, a better leveraging of the IDA resources would be essential, as well as a better aid coordination among donors. Most of the civil works were completed. However, the project design should have included house connections for the water component. The capacity of the <i>dzongkhags</i> in procurement, financial management and monitoring remains weak, and the project should have provided more TA from the very beginning. Monitoring the results has been difficult because the M&E capacities were non-existent. In order to further expand both the quantity and the quality of the teaching staff, more attention should be devoted to the selection of candidates (not only on academic results), to the pass mark for graduation (with 40% mark, all trainees graduate) and the attribution of posts to new graduates (equitable distribution of the best ones between rural and urban areas, primary and secondary) Condom distribution and targeted condom promotion need improvement. Efforts to reach out to most at risk groups has been insufficient, in part because (a) there are no NGOs that could more easily work with these populations, and (b) it is still unclear who the risk groups are in Bhutan as they don't follow the pattern found elsewhere. A greater effort still needs to be made |

| | | | |
|--|---|--|--|
| | | -Successful implementation of Bank-financed prevention programs targeting high-risk populations and high transmission areas Target: 2500 HIV tests conducted through VCT at HISC Actual value: 2098 tests conducted as for 2008. | on the prevention of STIs and on increasing the information base. |
| Pillar II - Promoting Private Sector Development and Employment | <p>1. Obtain a reduction in selected critical constraints to private sector development</p> <p>2. Increase agricultural productivity and diversification in geogs</p> | <p>Satisfactory</p> <p>-Development of more flexible labor laws and employment policies Target: Labor and Employment Act to be submitted to the National Assembly. Actual Value: Act enacted, Rules and Regulations drafted Target: 3 weeks to issue approval for foreign workers recruitment. Actual value: 9 days</p> <p>-Reduction of administrative barriers hindering business start up and operation Target: 47 days for a firm to register in Bhutan. Actual value: 43 days.</p> <p>-Establishment of legislation conducive to domestic and foreign investment Target: NA Actual value: # of FDI registration certificates rising from 8 in 2005 to 12 in 2007</p> <p>Satisfactory</p> <p>-15-20% increase in food crop production from baseline for targeted geogs Target: 20% increase Actual value: 29% increase in food crop production (rice & maize)</p> <p>-20-30% increase in cash crops from baseline for targeted geogs Target: 30% increase Actual value: 23% in cash crops (potato & mandarin)</p> <p>-Improved irrigation and farming practices in targeted geogs Target: NA Actual value: 60 water user associations formed and trained in improved irrigation techniques</p> <p>-Increased adoption of crop varieties by targeted households Target: NA Actual value: Training on vegetable production, nursery development and other high value crop production such as walnuts and mushrooms given to nearly 1400 households</p> | <ul style="list-style-type: none"> Given that the DPG program was multi-sectoral, it was difficult to get individual donors into all components across the board - but different donors picked up selected components and worked with the Bank. The design of the project was very good: While infrastructure needed by the country is built, there is a strong ownership. The technology transfer has been good and there is evidence that a real activity is taking place at the local level. However, the project timeframe was too short and an extension was necessary. |
| Pillar III - Strengthening Management of Public Resources and Public Financial Management | <p>1. Improve budget management and public financial management</p> <p>2. Improve capacity for monitoring and</p> | <p>Satisfactory</p> <p>-Predictable budget preparation and execution, underpinned by MTF Target: MTF circulated and budget # increasingly in conformity. Actual value: Achieved as per timeline.</p> <p>-Significant reduction in variation between planned budget and actual expenditures at the sectoral level Target: NA Actual value: Not measured</p> <p>-Timeliness and accuracy of financial reporting Target: NA Actual value: Not measured</p> <p>-Adoption of selected international accounting & auditing standards Target: NA Actual value: Not measured</p> <p>Moderately Satisfactory</p> <p>-Publication of data from first Census of population and revision of baseline for key</p> | <ul style="list-style-type: none"> Adoption of international accounting and auditing standards is quite typically a medium and long term reform and requires substantial technical assistance and institutional capacity to be achieved with the CAS period At the sectoral level, coordination among ministries and agencies remains a challenge. While there are obvious sector specific |

| | | | |
|--|---|--|--|
| | assessment of development outcomes | <p>indicators Target: Publication of data; Actual value: Published in 2006</p> <p>-Better understanding of poverty and vulnerability Target: NA Actual value: Training of staffs from NSB and GNHC on poverty analysis and poverty mapping</p> <p>-More reliable M&E systems that effectively help measure progress under five year plans/PRSP Target: NA Actual value: Finalization of National Statistics Development Strategy in 2008</p> | issues to be addressed, national planning and monitoring would benefit from the standardization of the number of indicators across sectors. |
| <p>Cross Cutting Objectives - Cross Cutting support to Decentralization, Good Governance & Environmental Management</p> | <p>Outcome 1: Increase capacity for decentralized rural development</p> <p>Outcome 2: Improve capacity for decentralized school management</p> <p>Outcome 3: Increase environmental management capacity at the national, sector, and local level</p> | <p>Satisfactory</p> <p>-Priorities of targeted Dzongkhags adequately implemented Target:Implementation Actual value: Implemented</p> <p>-Transfer of resources to local level improved Target: NA Actual value: DRDP funds managed by the Dzongkhags</p> <p>-Capacity for EA of farm roads and irrigation works improved Target: NA Actual value: 60 extension agents trained</p> <p>Satisfactory</p> <p>All DEOs have M.Ed. degrees. Asst. DEOs now assigned to all dzongkhags. The need for new school construction is identified at the dzongkhag level. Admission in class IX is carried out by dzongkhags. Chukha Dzongkhag piloted procurement of school stationary in 2006 (initially was carried out by the education central stores). Target: all DEOs M.Ed. degrees Actual value: all DEOs M.Ed. degrees</p> <p>Satisfactory</p> <p>-Mitigation of road construction impact and maintenance of rural access roads improved. Target: Wider acceptance & adoption of EFRC methods as RGoB policy for all road construction. Actual value: Target achieved for 90%.</p> <p>-Environmentally sound management of biomedical waste instituted Target: NA Actual value: Development of IC & HCWM guidelines, training for their application & procurement of an autoclave for the main hospital and supplies for waste segregation</p> <p>-Promotion of sustainable land management practices in selected areas Target:30% increase Actual value: 174 farmers in Radi, 91 farmers in Nangkor and 104 farmers in Phuentsholing practicing SLM techniques</p> <p>-Capacity to apply national social and environmental safeguards strengthened Target: Adoption of EFRC guidelines Actual value: Guidelines adopted.</p> | <ul style="list-style-type: none"> • The design of the project was very good: While infrastructure needed by the country is built, there is a strong ownership of the process. The technology transfer has been good and there is evidence that a real activity is taking place at the local level. However, the project timeframe was too short and an extension was necessary. • Targets under the Second Education Project were well tailored and consistent with overarching civil service reforms being undertaken simultaneously in government, including introduction of a position classification system. Reforms in the education sector under SEP were supported by this agenda. • New tools and new technologies, however costly at first, would help. Delays in fund flows to the geogs have become an issue that needs to be dealt with. |

Table A2: Planned Lending Program and Actual Deliveries

| CAS Plans | | | Current Status | Disbursed |
|--------------|--------------------------------------|-------------|------------------|-------------|
| FY | Projects | US\$M | Status | US\$M |
| 04 | Education Development Project | 32.6 | Active | 27 |
| | HIV/Aids and STI Prevention/Ctrl | 5.7 | Active | 4.2 |
| 05 | Decentralized Rural Dvpt | 7.0 | Active | 4.9 |
| 06 | Sustainable Land Management | 7.6 | Active | 2.4 |
| 07 | BT Private Sector Dvpt | 8.0 | Active | 1.2 |
| | 2 nd Rural Access Project | 10.0 | Active | 4.6 |
| 08 | Inst. Cpty Bldg | 1.5 | Active | 0.1 |
| Total | | 72.4 | Sub-Total | 44.4 |

Data source: Operations Portal 2

Table A3: Planned Non-lending Services and Deliveries: FY06-09

| CAS Plans – AAA, TA, Economic and Sector Work | | | Current Status | |
|---|--|--------------|------------------|------------|
| FY | | US\$ (1,000) | Status | US\$M |
| 06 | Bhutan Country Economic Report | 10 | Closed | 38 |
| | ROSC Assessment Study | 75 | Closed | 117 |
| | Doing Business Indicators | 10 | Closed | 13 |
| 07 | Hydropower Sector Study | 50 | Closed | 0* |
| | Assessment of Procurement | | | |
| | Grievance Mechanism | 10 | Closed | 31 |
| | Bhutan National Urban Strategy | 40 | Active | 75 |
| 08 | Central Procurement Policy & Institutional Development | 40 | Closed | 29 |
| | Improvement of SBDs and SRFPs | 40 | Closed | 68 |
| 08 | Country System Assessment | 50 | Closed | 114 |
| | Determinants of Learning Achievement | 140 | Closed | 72 |
| 09 | Bhutan ROSC – Accounting & Auditing | 72 | Active | 54 |
| | Youth & Employment | 80 | Active | 140 |
| | Bhutan Invst Climate Assessment | 70 | Active | 70 |
| | Pension TA | 15 | Active | 7 |
| | NLTA to Bhutan ICT Sector | 100 | Active | 89 |
| | Strengthening Pub Procurement Policy | 480 | Active | 50 |
| | IDF: Public Financial Mngt | 25 | Active | 9 |
| Total | | 1307 | Sub-Total | 976 |

Data Source: Operations Portal

* This fact was checked: it appears that the TTL didn't charge any time to this code.

Table A4: Projects Closed During the CAS Period

| Code | Project | Amt (\$ M) | App. FY | Closing Date | ICR Rating for: | | | | IEG Rating for: | | | |
|---------|----------------------|------------|---------|--------------|-----------------|----------------------|-----------|-----------|-----------------|----------------------|-----------|-----------|
| | | | | | Outcome | Risk to Dvpt Outcome | Bank Perf | Bor. Perf | Outcome | Risk to Dvpt Outcome | Bank Perf | Bor. Perf |
| P059481 | Rural Access Project | 11.36 | 1999 | 06/30/06 | S | Negligible to Low | S | S | S | Negligible to Low | S | S |
| P057570 | Urban Dvpt Project | 11.84 | 1999 | 06/30/06 | MU | Moderate | MS | S | MU | Moderate | MS | MS |
| P078807 | Policy Grant I | 15.00 | 2006 | 04/30/07 | S | Negligible to Low | S | HS | S | Negligible to Low | S | S |
| P104931 | Policy Grant II | 12.00 | 2007 | 06/30/08 | S | Negligible to Low | S | HS | S | Negligible to Low | S | S |

Outcome: HS=Highly Satisfactory, MS= Moderately Satisfactory, S=Satisfactory, MU=Moderately Unsatisfactory, U=Unsatisfactory

Annex 3: Progress on Achieving MDGs

| Goal / Target / Indicator | Status |
|---|---|
| <p>GOAL 1 : ERADICATE EXTREME POVERTY AND HUNGER <i>Target 1 : Halve by 2015 the proportion of people living below the poverty line</i> <i>Target 2 : Halve by 2015, the proportion of the people who suffer from hunger</i></p> <ul style="list-style-type: none"> • % of pop. below minimum level of dietary energy consumption • % of under-weight under-five children • % of under-height under-five children | <p>On track On track Needs attention Achieved Needs attention</p> |
| <p>GOAL 2 : ACHIEVE UNIVERSAL PRIMARY EDUCATION <i>Target 3 : Ensure, by 2015, children everywhere, boys & girls alike, will be able to complete a full course of primary schooling</i></p> <ul style="list-style-type: none"> • Gross Primary enrolment ratio • Net primary Enrolment ratio • Proportion of pupils starting grade 1 who reach grade 5 • Proportion of pupils starting grade 1 who reach grade 7 | <p>Achieved On track On track On track</p> |
| <p>GOAL 3 : PROMOTE GENDER EQUALITY AND EMPOWER WOMEN <i>Target 4 : Eliminate gender disparity in primary & secondary education preferably by 2005 & in all levels of education no later than 2015</i></p> <ul style="list-style-type: none"> • Ratio of girls to boys in primary education • Ratio of girls to boys in secondary education • Ratio of females to males in tertiary institutes | <p>On track Achieved Needs attention</p> |
| <p>GOAL 4 : REDUCE CHILD MORTALITY <i>Target 5 : Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</i></p> <ul style="list-style-type: none"> • Under-five mortality ratio (per 1000 live births) • Infant mortality ratio (per 1000 live births) • Proportion of children covered under immunization program | <p>On track On track On track</p> |
| <p>GOAL 5 : IMPROVE MATERNAL HEALTH <i>Target 6 : Reduce by three quarters, between 1990 & 2015, the maternal mortality ratio</i></p> <ul style="list-style-type: none"> • Maternal mortality ratio (per 100,000 live births) • Births attended by skilled health personnel | <p>On track On track</p> |
| <p>GOAL 6: COMBAT HIV-AIDS, MALARIA AND OTHER DISEASES <i>Target 7 : Have halted by 2015 and begun to reverse the spread of HIV-AIDS</i></p> <ul style="list-style-type: none"> • HIV cases detected • Contraception prevalence rate <p><i>Target 8 : Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases</i></p> <ul style="list-style-type: none"> • No. of malaria cases & incidences (cases per 100,000) • No. of tuberculosis cases & incidences (cases per 100,000) | <p>Needs attention Needs attention</p> <p>On track On track</p> |
| <p>GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY <i>Target 9 : Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources</i></p> <ul style="list-style-type: none"> • Proportion of land area covered by forest • Ratio of protected area to surface area for maintaining biological diversity • CO2 (per capita) emission • Proportion of population using solid fuels (wood, charcoal & dung) <p><i>Target 10 : Halve, by 2015, the proportion of people without sustainable access to safe drinking water & sanitation</i></p> <ul style="list-style-type: none"> • Proportion of population without sustainable access to an improved | <p>On track On track</p> <p>Lack of data On track</p> |

| | |
|---|---|
| <ul style="list-style-type: none"> water source • Proportion of population without access to improved sanitation | Achieved Achieved |
| <p>GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT</p> <p>Target 14 : In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</p> <ul style="list-style-type: none"> • Youth unemployment rate <p>Target 18 : In cooperation with the private sector, make available the benefits of new technologies, especially information and communication technology</p> <ul style="list-style-type: none"> • Fixed telephone lines in service • Telephone density (per 100 persons) • Computers in use (per 100 persons) • Internet users (per 100 persons) | Needs attention On track On track On track Insufficient data |

Sources: UNDP Bhutan, Toward Gross National Happiness: A Journey With UNDP. Annual Report 2008-2009

Annex 4: CPS Consultations

World Bank

Two rounds of in-country consultations with the Royal Government were carried out at the central and district levels. Although at the time no Bank staff were permanently based in Bhutan, on the Bank side, these consultations involved a number of sector colleagues who sought to participate and the presence of the Country Director. This first round of in-country consultations at the central level took place in September 2009. This included bilateral discussions with line ministries with which the World Bank Group has existing program activities. Discussions were also held with the Ministry of Finance which provided the Bank team with an overall framework in which the Bank-RGoB partnership program would be configured vis-à-vis priority sectors, lending modalities (e.g. development policy operations, specific investments, etc.) and notional sequencing of operations over the CPS period. This round of consultations ended with a half-day's round-table discussion involving director- and secretary-level RGoB officials as well as the heads of policy and planning divisions. This seminar was held to present the CPS process and solicit feedback on how the Bank's support could be best placed.

Discussions were also held with the Gross National Happiness Commission (GNHC) which is responsible for planning and coordinating development activities through bilateral partners and the United Nations system. GNHC also carries out monitoring and evaluation of national development plan activities.

A clear message from the first round of in-country consultations was that Bhutan is transitioning quickly and a new set of challenges is emerging. Line ministries articulated sector-specific challenges which they thought the Bank program could effectively address. The theme of youth unemployment and the lack of opportunity for school leavers was a common thread in these discussions. A second key area for which line ministries expressed the need for Bank support was in rural infrastructure, particularly roads. The Bank team was informed during the course of nearly every discussion of the strong desire on the part of the populace for expanded rural access. A key lesson from these discussions was the extent to which decision-makers now seek to respond to the demands of the electorate under Bhutan's new system of democratic governance.

A second round of in-country consultations was held in December 2009 jointly with IFC to consult with stakeholders at the municipal and district levels. This included a field visit to Bhutan's second largest urban center, Phuntsholing, to discuss urban development with municipal authorities, as well as visit the country's only industrial estate and hold discussions with private sector and para-statal entities operating there. This round also included a full-day round table discussion in Chhukha Dzongkhag which included the participation of all dzongkhag-level sector officers (e.g. agriculture, education, health, engineering, administration and finance) and dzongkhag planning officers. On RGoB's part, the discussion was led by the Dzongdag (governor) of the district.

This round of discussion reinforced what the team heard at the central level, i.e. the importance of addressing the growing problem of youth unemployment, shifting settlement patterns characterized by increasing urban drift, and the importance of ensuring the provision of quality services and infrastructure, especially access roads, to rural populations. One particularly enlightening, albeit startling, issue discussed was the emergence of youth delinquency problem in secondary, peri-urban and/or dzongkhag headquarter towns. This underscored the strong pull of youth from farms and villages upon the completion of or during schooling.

Consultations were held with civil society through bilateral discussions with local civil society organizations (e.g. Royal Society for the Protection of Nature, Worldwide Fund for Nature, Center for Media and Democracy, etc.), as well as with representatives of the media. A press conference was held after the second round of in-country consultations and wide media coverage followed, particularly through a number of Bhutan's newly established newspapers. Consultations were also held with development partners through a presentation at a UNRC-chaired development partner forum. The World Bank Group's notional lending and AAA programs were outlined, as well as the process for CPS preparation. A key lesson from these consultations was that civil society organizations would like to feel a greater part of the development process and, to that end, sought engagement with the Bank in whatever way possible. This includes regular consultations and information sharing. It also emerged from both civil society and development partners that the World Bank Group's analytical and technical expertise is highly valued and important for helping define issues which other development partners seek to address.

After two rounds of in-country consultations with RGoB, civil society, development partners and media, a series of meetings were held with the Department of Public Accounts, Ministry of Finance to finalize the over-arching strategic framework for the CPS (i.e. areas of engagement, results clusters and crossing cutting themes) and notional year-wise lending and AAA program. These discussions underscored the importance to the Royal Government of budget support, and RGoB's preference of using specific investment credits for 'hard core infrastructure'.

In July 2010, the Bank's Managing Director (MD), Dr. Ngozi Okonjo-Iweala, made a three-day visit to Bhutan. An audience was granted by His Majesty the King. Bilateral discussions were held with the Prime Minister, Minister of Finance, Minister of Economic Affairs, and Foreign Secretary. Informal discussions were also held with a limited number of development partners and the heads of constitutional bodies (e.g. Anti-Corruption Commission, Office of the Attorney General and the Office of the Auditor General). Interactions during the MD's visit highlighted Bhutan's importance as a biodiversity hotspot and potential carbon sink, its key role in the region for promoting wildlife conservation, and the importance of establishing a mechanism for managing what will be increasing wealth through hydropower revenues and as a means of mitigating risks to the economy from its heavy reliance on a single commodity.

The establishment of the World Bank Group's first country office has also afforded a number of opportunities to engage the RGoB, private sector, development partners, civil society and media on the challenges facing the country and the role of the World Bank Group as a development partner.

This series of consultations progressively built up a body of knowledge and understanding which was sharpened and distilled at each stage. It also provided the World Bank Group team the chance to better understand how the new system of democratic governance is functioning with newly defined roles and responsibilities of various entities, both in RGoB and civil society, and the new challenges faced by Bhutan as a result, in part, of its previous development success.

IFC

Given that this is a joint WB-IFC Bhutan CPS, IFC representatives have participated in joint consultations with the Bank in Phuentsholing in November 2009, as well as participated in joint consultation meetings with Ministry of Finance officials to discuss the CPS strategic pillars and potential programs areas, both on the Investment and Advisory sides, that IFC could develop under the CPS.

Soon after the joint WB-IFC CPS process was initiated, Mr. Rashad Kaldany, IFC Vice President responsible for regions, including South Asia, visited Bhutan in early December 2009. The VP was

accompanied by senior members of IFC regional management responsible for the Investment and Advisory programs in Bhutan. During his visit, he hosted a luncheon with leaders from the private sector representing key sectors, which included the financial sector, tourism, education and telecom, among others, to discuss their views on the issues and challenges of the private sector taking an expanded role in contributing to Bhutan's national economic development. The VP held bilateral discussions with the Finance Minister in order to better understand RGoB's priorities and discuss how to align them with IFC strategic priorities and areas of expertise. The VP paid a courtesy call on the Prime Minister to seek his views on potential areas for IFC to engage in helping develop the private sector in Bhutan.

Following the VP's visit to Bhutan, IFC had a number of subsequent missions by IFC sector specialists in Financial Markets, Investment Climate and PPP Infrastructure. In early February 2010, Financial Markets investment and Access to Finance (A2F) advisory teams conducted a joint mission to Bhutan, meeting with the Royal Monetary Authority MD and Ministry of Finance to discuss the key issues facing the financial sector in Bhutan and the impacts of the global financial crises on the financial sector. The joint mission held separate meetings with the senior management of all four commercial banks to discuss key issues and challenges facing the banks, especially since the number of banks had doubled in 2010 (thereby increasing competition). The main purpose of the mission was to identify and validate potential areas for IFC to focus on in devising its investment and advisory strategy for inclusion in the CSP.

In addition to the mission to consult with relevant stakeholders in the financial sector, between February and July, 2010, IFC's Investment Climate (IC) team held numerous consultation meetings with senior RGoB officials, BCCI leadership and member association representatives, plus other relevant stakeholders to define and refine the strategy to take forward implementing the Regulatory Simplification project in Bhutan. As a result of these consultations, the Regulatory Simplification will be the first advisory project approved and implemented under the new Bhutan CPS. This has been factored into the CPS and discussed with WB SASFP colleagues for potential collaboration.

Given RGoB's priority to develop strategic infrastructure, Mr. Laurence Carter, Director, IFC's Advisory Services in Public-Private Partnerships, visited Bhutan in July 2010 to hold bilateral discussions with Minister and Secretary of the Ministry of Information and Communication, the Finance Secretary, Secretary GNHC, Executive Director Thimphu City Corporation and DHI. The purpose of this mission was to share lessons learned from IFC's global experience designing and implementing PPP structures to develop infrastructure (e.g. solid waste management, hydropower projects) and deliver social services (e.g. health, education) in this area, identify areas for IFC to build awareness around PPPs and identify possible priority infrastructure projects that the RGoB could take forward on a PPP basis. IFC has incorporated the comments and guidance received during these consultation meetings into the CPS.

Annex 5: Gender Mainstreaming in the Bhutan CPS

The Annex aims to inform the CPS with an understanding of gender issues. The vision for the gender issues in the CPS is drawn from the cross-cutting theme of the 10FYP which features the theme of women in development as an integral part of the country's five-year plans. The 10FYP identifies that the two key cross-cutting policy measures for gender equality are: (i) strengthening gender awareness and sensitization at all levels; and (ii) improving information through collection, analysis and dissemination of gender-disaggregated data. Given the commitment of RGoB, gender issues have been integrated into the CPS.

Preliminary diagnostics of gender equality reveals that Bhutan performs remarkably well in terms of gender equality, but many challenges remain. This annex explores key indicators on women's status in Bhutan—institutions, education, reproductive health, and participation in economic and governance. It also links challenges with CPS activities.

Institutions and gender

Bhutan's culture fosters gender equality. In terms of ownership rights, women in Bhutan enjoy rights to financial autonomy. Matrilineal inheritance systems grant women access to land as well as ownership. An estimated 60 per cent of rural women have land registered in their names and a majority of Bhutanese women work in the agricultural sector.

Women enjoy equal access to productive resources and protection under the law. Bhutan is one of the original signatories of CEDAW in 1980. Bhutanese inheritance law provides for equal rights for all children, regardless of sex or age. Because of this general view of equality, however, the country has not yet established specific laws to protect against the discrimination of women; some traditions and norms continue to limit women's roles.

Education and reproductive health status

Gender equality in basic education has been achieved, but challenges remain in higher education. The ratio of female to male primary enrollment has reached roughly 100 percent in recent years. Equality continues in the secondary education where the ratio of female to male enrollment is at 91 percent in 2006, similar to that of the Lower Middle Income countries. However, the gap widens considerably at the tertiary level of education. Female students account only for about 50 - 60 percent of the number of males at the university level, markedly lower than the South Asia average of 70 percent (DDP, World Bank).

On reproductive health, the coverage of antenatal care in Bhutan is high. The BLSS 2007 data shows that, on average 88 percent of new mothers receive antenatal care. Even in rural areas, access is as high as 86 percent of pregnant women. On this dimension, Bhutan performs better than the Lower Middle Income Countries' average of 83 percent (DDP, World Bank).

On the other hand, contraceptive prevalence is relatively low at 35 percent of women aged 15-49. This figure is lower than the average for South Asia (53 percent) and of Lower Middle Income Countries (65 percent). However, the story is more complete when considering the knowledge of modern contraceptives. As many as 72 percent of reproductive age women have knowledge of modern contraceptives, but decide not to use them. The overwhelming majority (83 percent) report that they do not use contraceptives because they are not concerned. Most importantly, very few women respond that they do not use contraceptives because of husbands' objection (2.8 percent).

Women's participation in politics, government and business

Female labor force participation one of the MDG indicators. According to the Labor Force Survey of 2009, labor force participation rate of women is almost as high as that of men (65 percent vs. 73 percent), while the South Asia average of female and male labor force participation rates are merely 37 percent and 82 percent, respectively (DDP, World Bank). According to the 2010 Investment Climate Assessment (ICA), participation of women as business owners is twice as high compared to the regional average and on par with OECD levels.

However, few women hold high ranking positions in government and the private sector. Only 10 percent of female workers hold jobs as regular paid employees, compared to 30 percent of male workers. Women account for 48 percent of the labor market (LFS, 2009), yet make up only 31 percent of civil servants. The share of women is even smaller at the top of the career ladder. Among executive level civil servants, only seven percent are women (RCSC Statistics).

In the political arena, only 10 out of 72 members of Parliament are women; these can be divided into four out of 47 in the National Assembly and 6 out of 25 in the National Council. Only one among 205 Gups (village heads) is a woman and there are no female Dzongdas (District Administrators).¹⁴

Conclusion and CPS activities

Bhutanese women are more fortunate than their peers in other South Asian countries insofar as Bhutanese culture and social institutions provide a foundation for equality between men and women. Such foundations appear to contribute to gender equality in basic education and labor force participation. However, wide gender gaps can be found in many areas such as participation in the political arena. As Bhutanese society is transforming, attention should be paid to opportunities for women in the future.

The CPS addresses gender issues both in the context of lending and non-lending activities. The ICA report has sparked interest in gender issues vis-à-vis private sector development. These will be addressed further in AAA and trust fund-supported activities. A piece of gender-informed Economic and Sector Work will be conducted as a part of the Poverty Assessment AAA (as suggested in the Gender Guidance note).¹⁵ Other possible AAA incorporating gender includes the Access to Finance TA, the Higher Education Sector Note and the Urbanization and Growth Study. Gender issues are cross-cutting in nature and will be addressed in a variety of sectors. Results on gender progress of sectors will be tracked through gender-disaggregated and gender sensitive data which are increasingly available through support by the World Bank Group and other development partners on survey and administrative data collection.

The CPS raises awareness on gender issues in Bhutan. Moreover, results of AAA activities on gender can be used to showcase Bhutan as one of few developing countries where men and women are quite equal. Therefore, it may offer a 'success' or 'positive' story overall.

¹⁴ The Journalist, Vol. 1 Issue 32, July 25, 2010.

¹⁵ <http://intresources.worldbank.org/INTGENDER/Resources/CasGuidanceOct15.pdf>

Annex 6: Development Partner Involvement in Key Sectors

| Development Partner | Area(s) of Engagement |
|--|---|
| Asian Development Bank | roads, urban, rural infrastructure, financial sector, private sector |
| United Nations Development Program | rural development, urban development, health, education, governance, disaster risk reduction, labour and employment, private sector development, gender, institutional capacity building, human resource development, social protection |
| UNICEF | education, health, water and sanitation, gender, institutional capacity building, human resource development |
| UNFPA | education, health, water and sanitation, gender, institutional capacity building, human resource development |
| World Health Organization | health, institutional capacity building, human resource development |
| World Food Program | rural, education, health, social protection |
| Food and Agriculture Organization | agriculture, rural development |
| IFAD | agriculture |
| Helvetas / Swiss Development Cooperation | education, culture, rural infrastructure, renewable natural resources, civil society, state sectors |
| Austrian Coordination Office | electrification, hydropower, efficient ovens, tourism |
| Japan International Cooperation Agency | agriculture, power, roads, telecommunications, health, education, good governance |
| SNV (Netherlands) | water, sanitation and hygiene, smallholder cash crops, forest products, pro-poor sustainable tourism |
| Liaison Office of Denmark | education, health, urban development, environment, governance, decentralization, media |
| Save the Children (US) | early childhood care and education, basic education, adolescent and youth development, child protection |

Annex 7: Public and External Debt Dynamics¹⁶

1. **Background.** Bhutan's public and publicly guaranteed (PPG) debt declined to 59 percent of GDP at end 2008/09, about 30 percentage points of GDP below its 2005/06 peak. The sharp decline in public debt was driven by the completion of the Tala hydropower project that was financed by India, which boosted economic output by 20 percent in 2007, and by the onset of the repayment of the associated rupee debt. Reflecting the favorable fiscal outturns in recent years, domestic debt, all denominated in local currency and held by domestic financial institutions, has also declined. External debt, which accounts for more than 97 percent of total public debt, continues to be dominated by the mostly Indian rupee-denominated hydropower sector debt (37 percent of GDP).

2. **Key Assumptions.** The 2009 Joint IMF / World Bank Debt Sustainability Analysis (DSA) takes into account Bhutan's planned expansion in its power generation capacity, and looks at debt dynamics over 2008/09-2029/30. In addition to the Punatsangchu I and Dagachu projects, included in the 2007 DSA, the baseline scenario incorporates two new hydropower projects, Punatsangchu II and Mangdechu. Both projects will be financed by the Government of India (GoI) through a combination of loans and grants. Similar to the spike in real GDP when Tala was commissioned in 2006/07, Punatsangchu I, Mangdechu and Punatsangchu II will substantially boost economic growth as they come on stream in 2016/17, 2018/19 and 2019/20, respectively. In the interim, growth will be supported by the hydropower construction activities and the commissioning of Dagachu in 2013/14. External financing for non-hydropower sector activities is expected to remain predominantly from multilateral and bilateral donors at concessional terms.

3. **Outlook for External Debt.** Bhutan's external debt to GDP ratio will continue to trace the cycles of the hydropower sector. The Present Value (PV) of external debt as a share of GDP is projected to rise by over 40 percentage points between 2009/10 and 2014/15 to 110 percent, as disbursements for new hydropower projects go up.¹⁷ The debt ratios remain above the Low Income Country – Debt Sustainability Analysis (LIC-DSA) indicative threshold for strong policy performance countries until 2022/23 for the PV of external debt to GDP, and until 2017/18–2019/20 for the PV of external debt as a share of exports and revenue. However, the commissioning of the new hydropower projects, which also marks the start of the debt repayment, puts the debt ratios on a steady downward trajectory. The debt service-to-export ratio is expected to remain below the indicative LIC-DSA thresholds for the entire projection period. The debt service-to-revenue ratio may temporarily breach the indicative threshold as Puna II and Mangdechu's debt service begins; however, it is expected to remain below the threshold for the rest of the projection period. The high level of foreign reserves, projected to average 10 months of imports and 50 percent of GDP over the period when indicative thresholds are breached (i.e. 2009/10-2023/24), provides further cushion in the unlikely event of debt repayment difficulties. Sensitivity analyses show that Bhutan's external debt profile is sustainable under most alternative scenarios. While the debt ratios are most vulnerable to exchange rate and export growth shocks, as well as unfavorable financing terms, under almost all alternative scenarios considered, the debt ratios decline over time, and eventually fall below the thresholds.

4. **Outlook for public debt.** The public debt dynamics follows closely that of the external debt. The PV of public debt-to-GDP ratio is expected to rise to 120 percent in 2014/15 until the commissioning

¹⁶ This section is based on a Joint IMF / World Bank Debt Sustainability Analysis undertaken in 2009, for the IMF's *Bhutan – Staff Report for the 2009 Article IV Staff Consultations*, December 8, 2009.

¹⁷ The PV of external debt is calculated assuming the standard discount rate of 4 percent for both rupee and convertible currency debt. Using a discount rate for rupee denominated debt of 11.25 percent in view of the higher inflation and risk-free long-term interest rates in India, lowers the various PV of debt ratios substantially: the PV of debt-to-GDP ratio peaks at 89 percent, while the PV of debt-to-revenue ratio peaks at 430 percent in 2014/15. The PV of debt-to-exports ratio remains below the indicative threshold.

of the new hydropower projects, and then rapidly decline until it reaches 15 percent of GDP by end 2029/30. In light of Bhutan's strong economic performance, external financing is projected to shrink as a share of GDP, making room for domestic financial markets to play a larger role in financing the development agenda. Sensitivity analyses show that the public debt ratios remain on a declining path over the long term under various stress tests. Not surprisingly, given the large share of external debt in total public debt and the analysis above, overall public debt is most vulnerable to shocks to the exchange rate. It will also be important to contain fiscal deficits to ensure the sustainability of public debt.

5. **Overall assessment.** The DSA suggests moderate risk of debt distress over 2008/09–2029/30. The policy-related LIC-DSA thresholds are breached for several indicators due to debt on account of hydropower projects. However, these hydropower projects bring strong growth dividends, boosting the average real GDP growth and exports. Sensitivity analyses show that the public debt profile is sustainable under most scenarios, and the debt ratios decline over time and eventually fall below the LIC-DSA thresholds. Despite breach of thresholds in the initial period of the analysis, a rating of moderate risk of debt distress is supported by: (i) Bhutan's strong track record of project implementation; (ii) commercial viability of new hydropower projects; and (iii) Bhutan's close economic and political ties with India which render minimal the commercial risks of these projects, as India is both the main provider of financing for hydropower projects and the main consumer of the projects' output.

STANDARD ANNEXES

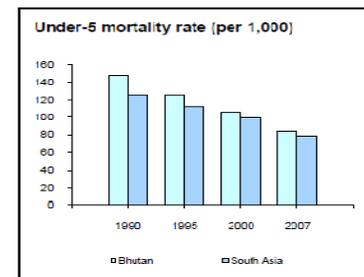
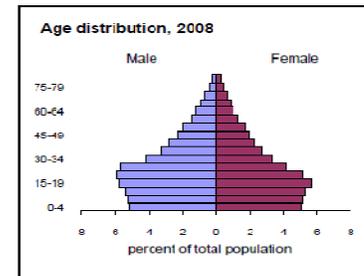
Annex A2: Bhutan at a glance

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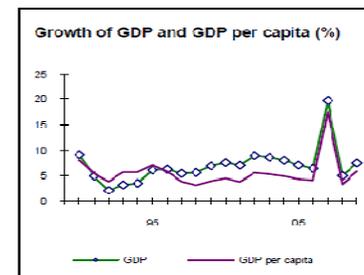
Bhutan at a glance

9/21/10

| Key Development Indicators (2009) | Bhutan | South Asia | Lower middle income |
|--|--------|------------|---------------------|
| Population, mid-year (millions) | 0.70 | 1,545 | 3,703 |
| Surface area (thousand sq. km) | 47 | 5,131 | 32,309 |
| Population growth (%) | 1.5 | 1.5 | 1.1 |
| Urban population (% of total population) | 33 | 29 | 41 |
| GNI (Atlas method, US\$ billions) | 1.4 | 1,487 | 7,675 |
| GNI per capita (Atlas method, US\$) | 2,030 | 963 | 2,073 |
| GNI per capita (PPP, international \$) | 4,820 | 2,697 | 4,593 |
| GDP growth (%) | 7.4 | 5.6 | 7.4 |
| GDP per capita growth (%) | 5.8 | 4.1 | 6.1 |
| (most recent estimate, 2003–2009) | | | |
| Poverty headcount ratio at \$1.25 a day (PPP, %) | 26 | 40 | .. |
| Poverty headcount ratio at \$2.00 a day (PPP, %) | 49 | 74 | .. |
| Life expectancy at birth (years) | 66 | 64 | 60 |
| Infant mortality (per 1,000 live births) | 56 | 58 | 45 |
| Child malnutrition (% of children under 5) | .. | 41 | 25 |
| Adult literacy, male (% of ages 15 and older) | 65 | 73 | 87 |
| Adult literacy, female (% of ages 15 and older) | 39 | 50 | 73 |
| Gross primary enrollment, male (% of age group) | 111 | 110 | 110 |
| Gross primary enrollment, female (% of age group) | 111 | 105 | 106 |
| Access to an improved water source (% of population) | 81 | 87 | 86 |
| Access to improved sanitation facilities (% of population) | 52 | 33 | 52 |



| Net Aid Flows | 1980 | 1990 | 2000 | 2009 ^a |
|--|------|------|------|-------------------|
| <i>(US\$ millions)</i> | | | | |
| Net ODA and official aid | 8 | 46 | 53 | 87 |
| <i>Top 3 donors (in 2008):</i> | | | | |
| Japan | 0 | 7 | 7 | 20 |
| Denmark | 0 | 3 | 8 | 14 |
| European Commission | 0 | 2 | 1 | 8 |
| Aid (% of GNI) | 7.6 | 15.5 | 12.7 | 7.0 |
| Aid per capita (US\$) | 19 | 84 | 95 | 126 |
| Long-Term Economic Trends | | | | |
| Consumer prices (annual % change) | 9.9 | 10.0 | -4.0 | 4.0 |
| GDP implicit deflator (annual % change) | 6.2 | 6.4 | 4.7 | 6.3 |
| Exchange rate (annual average, local per US\$) | 7.9 | 17.5 | 44.9 | 49.1 |
| Terms of trade index (2000 = 100) | .. | .. | .. | .. |
| Population, mid-year (millions) | 0.4 | 0.5 | 0.6 | 0.7 |
| GDP (US\$ millions) | 137 | 281 | 428 | 1,259 |
| <i>(% of GDP)</i> | | | | |
| Agriculture | 43.5 | 36.3 | 28.4 | 17.6 |
| Industry | 14.6 | 24.1 | 35.3 | 45.0 |
| Manufacturing | 4.3 | 7.7 | 8.5 | 6.4 |
| Services | 42.0 | 39.6 | 36.3 | 37.4 |
| Household final consumption expenditure | 87.4 | 57.0 | 52.6 | 14.6 |
| General gov't final consumption expenditure | 20.5 | 15.9 | 20.4 | 22.0 |
| Gross capital formation | 34.2 | 32.4 | 48.2 | 53.9 |
| Exports of goods and services | 16.5 | 28.6 | 30.5 | 68.0 |
| Imports of goods and services | 51.2 | 32.7 | 51.3 | 48.3 |
| Gross savings | .. | 21.7 | 25.9 | 75.6 |



1980–90 1990–2000 2000–09
(average annual growth %)

| | | |
|------|-----|------|
| 2.6 | 0.2 | 2.4 |
| 6.8 | 5.0 | 8.8 |
| 5.5 | 1.6 | 1.9 |
| 16.4 | 6.3 | 12.0 |
| 13.6 | 8.8 | 4.7 |
| 9.9 | 7.2 | 9.6 |
| .. | .. | -2.4 |
| .. | .. | 8.6 |
| .. | .. | 5.1 |
| .. | .. | 22.6 |
| .. | .. | 10.9 |

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. Group data are through 2008. .. indicates data are not available.
a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

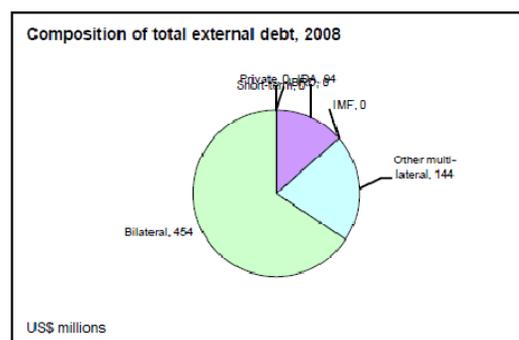
| Balance of Payments and Trade | 2000 | 2009 |
|---|-------|------|
| <i>(US\$ millions)</i> | | |
| Total merchandise exports (fob) | 114 | 573 |
| Total merchandise imports (cif) | 185 | 527 |
| Net trade in goods and services | -82 | 50 |
| Current account balance as a % of GDP | -4.3 | 26.9 |
| | -10.1 | 21.4 |
| Workers' remittances and compensation of employees (receipts) | .. | .. |
| Reserves, including gold | 217 | 600 |

Central Government Finance

| | 2000 | 2009 |
|------------------------------------|------|------|
| <i>(% of GDP)</i> | | |
| Current revenue (including grants) | 40.9 | 40.3 |
| Tax revenue | 10.3 | 9.4 |
| Current expenditure | 19.3 | 19.4 |
| Overall surplus/deficit | -4.0 | -2.6 |
| Highest marginal tax rate (%) | | |
| Individual | .. | .. |
| Corporate | .. | .. |

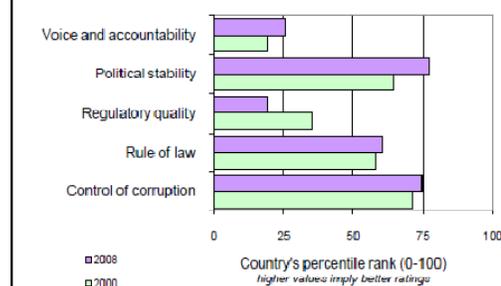
External Debt and Resource Flows

| | 2000 | 2009 |
|---|------|-------|
| <i>(US\$ millions)</i> | | |
| Total debt outstanding and disbursed | 204 | 1,036 |
| Total debt service | 7 | 103 |
| Debt relief (HIPC, MDRI) | .. | .. |
| Total debt (% of GDP) | 47.6 | 82.3 |
| Total debt service (% of exports) | 4.6 | 15.6 |
| Foreign direct investment (net inflows) | .. | .. |
| Portfolio equity (net inflows) | .. | .. |



| Private Sector Development | 2000 | 2009 |
|--|------|------|
| Time required to start a business (days) | .. | 46 |
| Cost to start a business (% of GNI per capita) | .. | 8.0 |
| Time required to register property (days) | .. | 64 |
| Ranked as a major constraint to business (% of managers surveyed who agreed) | 2000 | 2008 |
| n.a. | .. | .. |
| n.a. | .. | .. |
| Stock market capitalization (% of GDP) | 11.0 | .. |
| Bank capital to asset ratio (%) | .. | .. |

Governance indicators, 2000 and 2008



Source: Kaufmann-Kraay-Mastruzzi, World Bank

| Technology and Infrastructure | 2000 | 2008 |
|--|------|------|
| Paved roads (% of total) | 60.7 | 62.0 |
| Fixed line and mobile phone subscribers (per 100 people) | 3 | 41 |
| High technology exports (% of manufactured exports) | 0.0 | 0.1 |

Environment

| | | |
|---|---------|---------|
| Agricultural land (% of land area) | 14 | 15 |
| Forest area (% of land area) | 66.8 | 68.0 |
| Terrestrial protected areas (% of surface area) | .. | 26.4 |
| Freshwater resources per capita (cu. meters) | 159,201 | 113,572 |
| Freshwater withdrawal (billion cubic meters) | 0.4 | .. |
| CO2 emissions per capita (mt) | 0.70 | 0.57 |
| GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent) | .. | .. |
| Energy use per capita (kg of oil equivalent) | .. | .. |

| World Bank Group portfolio | 2000 | 2008 |
|--|------|------|
| <i>(US\$ millions)</i> | | |
| IBRD | | |
| Total debt outstanding and disbursed | .. | .. |
| Disbursements | .. | .. |
| Principal repayments | .. | .. |
| Interest payments | .. | .. |
| IDA | | |
| Total debt outstanding and disbursed | 26 | 94 |
| Disbursements | 4 | 9 |
| Total debt service | 0 | 2 |
| IFC (fiscal year) | | |
| Total disbursed and outstanding portfolio of which IFC own account | 0 | 8 |
| Disbursements for IFC own account | 0 | 0 |
| Portfolio sales, prepayments and repayments for IFC own account | 0 | 1 |
| MIGA | | |
| Gross exposure | .. | .. |
| New guarantees | .. | .. |

Note: Figures in italics are for years other than those specified. 2008 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

9/21/10

Development Economics, Development Data Group (DECDG).

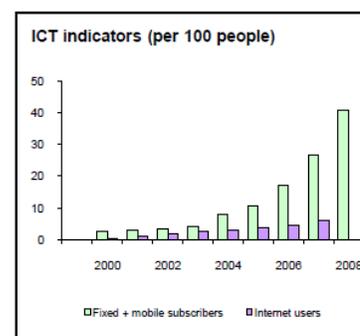
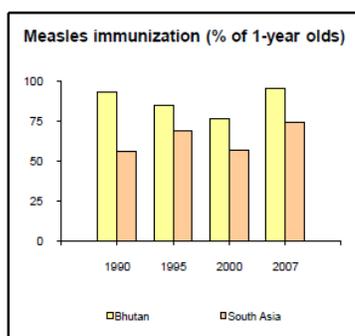
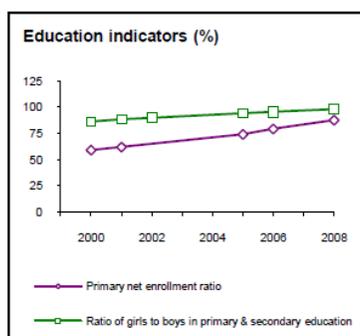
Millennium Development Goals

Bhutan

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

| | Bhutan | | | |
|--|--------|------|------|------|
| | 1990 | 1995 | 2000 | 2008 |
| Goal 1: halve the rates for extreme poverty and malnutrition | | | | |
| Poverty headcount ratio at \$1.25 a day (PPP, % of population) | .. | .. | .. | 26.2 |
| Poverty headcount ratio at national poverty line (% of population) | .. | .. | .. | .. |
| Share of income or consumption to the poorest quintile (%) | .. | .. | .. | 5.4 |
| Prevalence of malnutrition (% of children under 5) | .. | .. | 14.1 | .. |
| Goal 2: ensure that children are able to complete primary schooling | | | | |
| Primary school enrollment (net, %) | 55 | .. | 59 | 87 |
| Primary completion rate (% of relevant age group) | .. | 29 | 52 | 84 |
| Secondary school enrollment (gross, %) | 13 | 21 | 41 | 56 |
| Youth literacy rate (% of people ages 15-24) | .. | .. | .. | .. |
| Goal 3: eliminate gender disparity in education and empower women | | | | |
| Ratio of girls to boys in primary and secondary education (%) | .. | .. | 86 | 98 |
| Women employed in the nonagricultural sector (% of nonagricultural employment) | .. | .. | 19 | .. |
| Proportion of seats held by women in national parliament (%) | 2 | 2 | 2 | 9 |
| Goal 4: reduce under-5 mortality by two-thirds | | | | |
| Under-5 mortality rate (per 1,000) | 148 | 125 | 106 | 84 |
| Infant mortality rate (per 1,000 live births) | 91 | 79 | 68 | 56 |
| Measles immunization (proportion of one-year olds immunized, %) | 93 | 85 | 76 | 95 |
| Goal 5: reduce maternal mortality by three-fourths | | | | |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | .. | .. | .. | 440 |
| Births attended by skilled health staff (% of total) | .. | 15 | 24 | 56 |
| Contraceptive prevalence (% of women ages 15-49) | .. | 19 | 31 | 35 |
| Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases | | | | |
| Prevalence of HIV (% of population ages 15-49) | .. | .. | .. | 0.1 |
| Incidence of tuberculosis (per 100,000 people) | 540 | 428 | 340 | 246 |
| Tuberculosis case detection rate (% of all forms) | 68 | 83 | 80 | 85 |
| Goal 7: halve the proportion of people without sustainable access to basic needs | | | | |
| Access to an improved water source (% of population) | .. | .. | 81 | 81 |
| Access to improved sanitation facilities (% of population) | .. | .. | 52 | 52 |
| Forest area (% of total land area) | 64.6 | 65.7 | 66.8 | 68.0 |
| Terrestrial protected areas (% of surface area) | .. | .. | .. | 26.4 |
| CO2 emissions (metric tons per capita) | 0.2 | 0.5 | 0.7 | 0.6 |
| GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent) | .. | .. | .. | .. |
| Goal 8: develop a global partnership for development | | | | |
| Telephone mainlines (per 100 people) | 0.3 | 1.0 | 2.5 | 4.0 |
| Mobile phone subscribers (per 100 people) | 0.0 | 0.0 | 0.0 | 36.5 |
| Internet users (per 100 people) | 0.0 | .. | 0.4 | 6.6 |
| Personal computers (per 100 people) | .. | .. | 0.9 | 2.5 |



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

9/21/10

Development Economics, Development Data Group (DECDG).

**Annex B2: Selected Indicators of Bank Portfolio Performance and Management
As of 9/14/2010**

| Indicator | 2008 | 2009 | 2010 |
|---|-------------|-------------|-------------|
| Portfolio Assessment | | | |
| Number of Projects Under Implementation ^a | 7 | 7 | 8 |
| Average Implementation Period (years) ^b | 2.4 | 3.4 | 3.9 |
| Percent of Problem Projects by Number ^{a, c} | 14.3 | 0.0 | 0.0 |
| Percent of Problem Projects by Amount ^{a, c} | 8.0 | 0.0 | 0.0 |
| Percent of Projects at Risk by Number ^{a, d} | 28.6 | 14.3 | 0.0 |
| Percent of Projects at Risk by Amount ^{a, d} | 17.6 | 8.0 | 0.0 |
| Disbursement Ratio (%) ^e | 25.5 | 29.5 | 39.9 |
| Portfolio Management | | | |
| CPPR during the year (yes/no) | no | no | no |
| Supervision Resources (total US\$'000) | 862 | 899 | 772 |
| Average Supervision (US\$'000/project) | 86 | 77 | 69 |

| Memorandum Item | Since FY 08 | Last Five FYs |
|---|--------------------|----------------------|
| Proj Eval by OED by Number | 12 | 1 |
| Proj Eval by OED by Amt (US\$ millions) | 88.9 | 12.1 |
| % of OED Projects Rated U or HU by Number | 16.7 | 0.0 |
| % of OED Projects Rated U or HU by Amt | 17.8 | 0.0 |

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex B3: IDA Program Summary
As of 10/18/2010

| Proposed IDA Base-Case Lending Program a | | | | |
|---|-----------------------------|----------------|---|--|
| <i>Fiscal Year</i> | <i>Proj. ID</i> | <i>US\$(M)</i> | <i>Strategic Rewards (H/M/L) b</i> | <i>Implementation Risks (H/M/L) b</i> |
| FY11 | DPC1 | 24.75 | H | L |
| | Regional Wildlife Project | 0.75 | M | M |
| FY12 | Improving Rural Livelihoods | 12.0 | H | M |
| FY13 | DPC2 | 20.0 | H | L |
| | PSD/Knowledge Society SIL | 8.0 | H | M |
| FY14 | Urban Project 3 | 12.45 | H | M |

**Annex B4: Summary of Nonlending Services
As of 10/18/2010**

| Product | Completion FY | Cost (US\$000) |
|--|--------------------------|---------------------------|
| <u>Recent Completions</u> | | |
| Bhutan Public Financial Management Report | 2010 | 64 |
| Bhutan Investment Climate Assessment | 2010 | 175 |
| Non-lending TA to ICT Sector | 2010 | 66 |
| NLTA on Poverty Monitoring and Statistics | 2010 | 173 |
| Bhutan e-Gov Road Map | 2010 | 50 |
| Bhutan - Pensions TA | 2010 | 35 |
| <u>Underway/Planned</u> | | |
| Human Development Public Expenditure Review ESW | 2011 | |
| Investment Climate Follow-up TA | 2011 | |
| Higher Education Subsector Note ESW | 2011 | |
| Solid Waste Management in Thimphu TA (WB-IFC) | 2011 | |
| Poverty Monitoring TA | 2011 | |
| e-Government Follow-up TA | 2011 | |
| JSDF Seed Fund for 'Building Resilience of Communities against Disasters and Climate Change' Project | 2011 | |
| Bhutan Risk and Recovery Program (GFDRR grant) | 2011 | |
| | | |
| Youth Employment Study ESW | 2012 | |
| DPC-2 related AAA | 2012 | |
| Access to Finance Advisory (WB-IFC) | 2012 | |
| Building Public-Private Partnerships TA | 2012 | |
| Rural Development Strategies ESW | 2012 | |
| Medium-Term Fiscal Framework and MYRB TA | 2012 | |
| ICT Sector Policy and Regulatory Issues TA | 2012 | |
| Country Sustainable Development Analysis ESW | 2012 | |
| Auditing and Accounting TA | 2012 | |
| Decentralization and Sub-National Strengthening TA | 2012 | |
| Agricultural Marketing Study TA | 2012 | |
| | | |
| Public Procurement IDF | 2013 | |
| Poverty Assessment ESW | 2013 | |
| Construction Sector Assessment ESW | 2013 | |
| National Transport Plan ESW | 2013 | |
| Disaster Risk Management TA | 2013 | |
| Tax Administration TA | 2013 | |
| Urbanization and Growth Study ESW | 2013 | |
| JSDF support for 'Building Resilience of Communities against Disasters and Climate Change' | 2013 | |
| | | |
| Management of Hydropower Revenues TA | 2014 | |
| Decentralization TA | 2014 | |
| Corporate Governance TA | 2014 | |
| Environmental Safeguards IDF | 2014 | |

Annex B6: Key Economic Indicators

As of 9/14/2010

| Indicator | Actual | | | | Estimate | | Projected | | |
|---|--------|------|------|------|----------|------|-----------|------|------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 |
| National accounts | | | | | | | | | |
| (as % GDP at current market prices) | | | | | | | | | |
| Gross domestic product | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Agriculture ^a | 23 | 22 | 20 | 17 | 17 | 15 | 14 | 13 | 12 |
| Industry ^a | 38 | 37 | 42 | 45 | 45 | 46 | 48 | 50 | 52 |
| Services ^a | 39 | 41 | 38 | 37 | 38 | 38 | 38 | 37 | 36 |
| Total Consumption | 71 | 72 | 71 | 73 | 65 | 56 | 54 | 51 | 51 |
| Gross domestic fixed investment | 55 | 42 | 31 | 29 | 45 | 59 | 60 | 61 | 61 |
| Government investment | 10 | 11 | 12 | 12 | 12 | 10 | 10 | 9 | 10 |
| Private investment | 46 | 31 | 19 | 17 | 33 | 49 | 51 | 51 | 51 |
| (includes increase in stocks) | | | | | | | | | |
| Exports (GNFS) ^b | 28 | 37 | 56 | 47 | 37 | 36 | 33 | 30 | 29 |
| Imports (GNFS) | 62 | 51 | 52 | 52 | 49 | 48 | 45 | 41 | 37 |
| Gross domestic savings | 29 | 28 | 29 | 27 | 35 | 44 | 46 | 49 | 49 |
| Gross national savings ^c | 38 | 40 | 42 | 40 | 45 | 49 | 49 | 52 | 51 |
| Memorandum items | | | | | | | | | |
| Gross domestic product (US\$ million at current prices) | 772 | 882 | 1013 | 1282 | 1212 | 1412 | 1578 | 1744 | 1924 |
| Gross national product per capita (US\$, Atlas method) | 1210 | 1320 | 1650 | 1770 | 2020 | .. | .. | .. | .. |
| Real annual growth rates | | | | | | | | | |
| (% , calculated from 2000 prices) | | | | | | | | | |
| Gross domestic product at market prices | 7.5 | 6.7 | 13.2 | 11.7 | 6.8 | 9.2 | 10.0 | 10.5 | 10.7 |
| Real annual per capita growth rates | | | | | | | | | |
| (% , calculated from 2000 prices) | | | | | | | | | |
| Gross domestic product at market prices | 4.6 | 6.1 | 5.3 | 11.2 | 9.6 | 4.8 | 7.2 | 8.0 | 8.6 |

(Continued)

Annex B6 - Key Economic Indicators - Bhutan

(Continued)

| Indicator | Actual | | | | Estimate | | Projected | | |
|--|--------|------|------|------|----------|------|-----------|------|------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 |
| Balance of Payments (US\$m) | | | | | | | | | |
| Exports (GNFS) ^b | 267 | 382 | 660 | 689 | 534 | 609 | 650 | 685 | 754 |
| Merchandise FOB | 212 | 312 | 573 | 599 | 456 | 519 | 548 | 570 | 624 |
| Imports (GNFS) ^b | 570 | 525 | 610 | 832 | 732 | 845 | 930 | 983 | 1026 |
| Merchandise FOB | 461 | 435 | 527 | 671 | 601 | 693 | 738 | 773 | 798 |
| Resource balance | -304 | -143 | 50 | -144 | -198 | -236 | -281 | -298 | -272 |
| Net current transfers (including official current transfers) | 69 | 105 | 96 | 117 | 86 | 150 | 174 | 182 | 214 |
| Current account balance (after official capital grants) | -235 | -38 | 145 | -27 | -113 | -86 | -107 | -116 | -58 |
| Net private foreign direct investment | 9 | 6 | 73 | 30 | 18 | 21 | 23 | 25 | 26 |
| Long-term loans (net) | 66 | 78 | 18 | -13 | 88 | 120 | 143 | 221 | 251 |
| Official | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Private | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Other capital (net, including errors and omissions) | | | | | | | | | |
| Change in reserved | -17 | 112 | 122 | 45 | 113 | 113 | 152 | 254 | 365 |
| Memorandum items | | | | | | | | | |
| Resource balance (% of GDP at current market prices) | -39 | -16 | 5 | -11 | -16 | -17 | -18 | -17 | -14 |
| Public finance (as % of GDP at current market prices)^e | | | | | | | | | |
| Current revenues | 31 | 35 | 37 | 35 | 35 | 39 | 35 | 31 | 27 |
| Current expenditures | 18 | 18 | 17 | 19 | 19 | 21 | 20 | 19 | 18 |

(Continued)

Annex B6 - Key Economic Indicators - Bhutan

(Continued)

| Indicator | Actual | | | | Estimate | | Projected | | |
|--|--------|------|------|------|----------|------|-----------|------|------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 |
| Current account surplus (+) or deficit (-) | 13 | 18 | 20 | 17 | 16 | 19 | 15 | 12 | 9 |
| Capital expenditure | 20 | 18 | 17 | 19 | 17 | 27 | 23 | 20 | 18 |
| Foreign financing | 1.3 | 2.1 | 2.3 | 1.5 | 2.5 | 4.5 | 3.2 | 1.6 | 1.4 |
| Monetary indicators | | | | | | | | | |
| M2/GDP (at current market prices) | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Growth of M2 (%) | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Private sector credit growth/total credit growth (%) | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Consumer price index (% growth rate) | 4.8 | 5.2 | 5.1 | 6.8 | 6.1 | 4.0 | 4.0 | 4.0 | 4.0 |
| GDP deflator (% growth rate) | 6.0 | 4.8 | 4.3 | 4.5 | 6.3 | .. | .. | .. | .. |

- a. If GDP components are estimated at factor cost, a footnote indicating this fact should be added.
- b. "GNFS" denotes "goods and nonfactor services."
- c. Includes net unrequited transfers excluding official capital grants.
- d. Includes use of IMF resources.
- e. Should indicate the level of the government to which the data refer.
- f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex B7: Key Exposure Indicators
As of 9/14/2010

| Indicator | Actual | | | | Estimate | | Projected | | |
|---|----------|--------|--------|--------|----------|-------|-----------|-------|-------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 |
| Total debt outstanding and disbursed (TDO) (US\$m) ^a | 670 | 757 | 778 | 772 | 721 | 879 | 1033 | 1226 | 1458 |
| Net disbursements (US\$m) ^a | 38 | 36 | 20 | 13 | 24 | 54 | 40 | 18 | 14 |
| Total debt service (TDS)(US\$m) ^a | 35 | 25 | 26 | 89 | 79 | 87 | 89 | 90 | 94 |
| Debt and debt service indicators(%) | | | | | | | | | |
| TDO/XGS ^b | 263 | 208 | 123 | 118 | 140 | 154 | 166 | 181 | 195 |
| TDO/GDP | 87.4 | 92.2 | 70.9 | 63.9 | 59.6 | 61.3 | 63.1 | 65.5 | 68.4 |
| TDS/XGS | 0.1 | 0.1 | 0.1 | 0.3 | 12.8 | 12.1 | 11.3 | 10.5 | 9.7 |
| Concessional/TDO | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| IBRD exposure indicators (%) | | | | | | | | | |
| IBRD DS/public DS | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Preferred creditor DS/public DS (%) ^c | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| IBRD DS/XGS | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| IBRD TDO (US\$m) ^d | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Of which present value of guarantees (US\$m) | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Share of IBRD portfolio (%) | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| IDA TDO (US\$m) ^d | 65.60461 | 69.712 | 79.412 | 95.302 | 108.965 | 112.1 | 130.5 | 148.8 | 167.1 |
| IFC (US\$m) | | | | | | | | | |
| Loans | | | | | | | | | |
| Equity and quasi-equity ^e | | | | | | | | | |
| MIGA | | | | | | | | | |
| MIGA guarantees (US\$m) | | | | | | | | | |

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex B8: Operations Portfolio (IBRD/IDA and Grants)

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 9/14/2010

| Closed Projects | | 13 | | | | | | | | | | | Difference Between | |
|------------------------|--|-----------|--|--|--|--|--|--|--|--|--|--|---|--|
| | | | | | | | | | | | | | Expected and Actual | |
| | | | | | | | | | | | | | Disbursements^{a/} | |
| | | | | | | | | | | | | | Orig. Frm Rev'd | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | Fiscal Year | |
| | | | | | | | | | | | | | Implementation | |
| | | | | | | | | | | | | | Progress | |
| | | | | | | | | | | | | | Supervision Rating | |
| | | | | | | | | | | | | | Development | |
| | | | | | | | | | | | | | Objectives | |
| | | | | | | | | | | | | | Project ID | |
| | | | | | | | | | | | | | Original Amount in US\$ Millions | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Orig. | |
| | | | | | | | | | | | | | Frm Rev'd | |
| | | | | | | | | | | | | | Difference Between | |
| | | | | | | | | | | | | | Expected and Actual | |
| | | | | | | | | | | | | | Disbursements^{a/} | |
| | | | | | | | | | | | | | Orig. Frm Rev'd | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | Fiscal Year | |
| | | | | | | | | | | | | | Implementation | |
| | | | | | | | | | | | | | Progress | |
| | | | | | | | | | | | | | Supervision Rating | |
| | | | | | | | | | | | | | Development | |
| | | | | | | | | | | | | | Objectives | |
| | | | | | | | | | | | | | Project ID | |
| | | | | | | | | | | | | | Original Amount in US\$ Millions | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Orig. | |
| | | | | | | | | | | | | | Frm Rev'd | |
| | | | | | | | | | | | | | Difference Between | |
| | | | | | | | | | | | | | Expected and Actual | |
| | | | | | | | | | | | | | Disbursements^{a/} | |
| | | | | | | | | | | | | | Orig. Frm Rev'd | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | Fiscal Year | |
| | | | | | | | | | | | | | Implementation | |
| | | | | | | | | | | | | | Progress | |
| | | | | | | | | | | | | | Supervision Rating | |
| | | | | | | | | | | | | | Development | |
| | | | | | | | | | | | | | Objectives | |
| | | | | | | | | | | | | | Project ID | |
| | | | | | | | | | | | | | Original Amount in US\$ Millions | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | IDA | |
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| | | | | | | | | | | | | | Orig. | |
| | | | | | | | | | | | | | Frm Rev'd | |
| | | | | | | | | | | | | | Difference Between | |
| | | | | | | | | | | | | | Expected and Actual | |
| | | | | | | | | | | | | | Disbursements^{a/} | |
| | | | | | | | | | | | | | Orig. Frm Rev'd | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | Fiscal Year | |
| | | | | | | | | | | | | | Implementation | |
| | | | | | | | | | | | | | Progress | |
| | | | | | | | | | | | | | Supervision Rating | |
| | | | | | | | | | | | | | Development | |
| | | | | | | | | | | | | | Objectives | |
| | | | | | | | | | | | | | Project ID | |
| | | | | | | | | | | | | | Original Amount in US\$ Millions | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Orig. | |
| | | | | | | | | | | | | | Frm Rev'd | |
| | | | | | | | | | | | | | Difference Between | |
| | | | | | | | | | | | | | Expected and Actual | |
| | | | | | | | | | | | | | Disbursements^{a/} | |
| | | | | | | | | | | | | | Orig. Frm Rev'd | |
| | | | | | | | | | | | | | Undisb. | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | Fiscal Year | |
| | | | | | | | | | | | | | Implementation | |
| | | | | | | | | | | | | | Progress | |
| | | | | | | | | | | | | | Supervision Rating | |
| | | | | | | | | | | | | | Development | |
| | | | | | | | | | | | | | Objectives | |
| | | | | | | | | | | | | | Project ID | |
| | | | | | | | | | | | | | Original Amount in US\$ Millions | |
| | | | | | | | | | | | | | IBRD | |
| | | | | | | | | | | | | | IDA | |
| | | | | | | | | | | | | | GRANT | |
| | | | | | | | | | | | | | Cancel. | |
| | | | | | | | | | | | | | Undisb. | |
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Annex B8: Statement of IFC's Held and Disbursed Portfolio

International Finance Corporation

Report Run Date: 09/10/2010

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Accounting Date as of : 08/31/2010

Page 1

Region(s): South Asia

Country(s) : Bhutan

| Commitment | Institution | LN | ET | QL + QE | GT | RM | ALL | ALL | LN | ET | QL + QE | GT | RM | ALL | ALL |
|------------------------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|-----------|-----------|-----------|-----------|-------------|-------------|
| Fiscal Year | Short Name | Cmtd - IFC | Cmtd - IFC | Cmtd - IFC | Cmtd - IFC | Cmtd - IFC | Cmtd - IFC | Cmtd - Part | Out - IFC | Out - IFC | Out - IFC | Out - IFC | Out - IFC | Out - IFC | Out - Part |
| 2004 | BRPL | 7.24 | 0 | 0 | 0 | 0 | 7.24 | 0 | 7.24 | 0 | 0 | 0 | 0 | 7.24 | 0.00 |
| Total Portfolio | | 7.24 | 0 | 0 | 0 | 0 | 7.24 | 0 | 7.24 | 0 | 0 | 0 | 0 | 7.24 | 0.00 |

BHUTAN

- SELECTED CITIES AND TOWNS
- ⊙ DZONGKHAG (DISTRICT) CAPITALS
- ⊕ NATIONAL CAPITAL
-  RIVERS
-  MAIN ROADS
-  RAILROADS
-  GEOG (SUB-DISTRICT) BOUNDARIES
-  DZONGKHAG (DISTRICT) BOUNDARIES
-  INTERNATIONAL BOUNDARIES



OCTOBER 2010
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