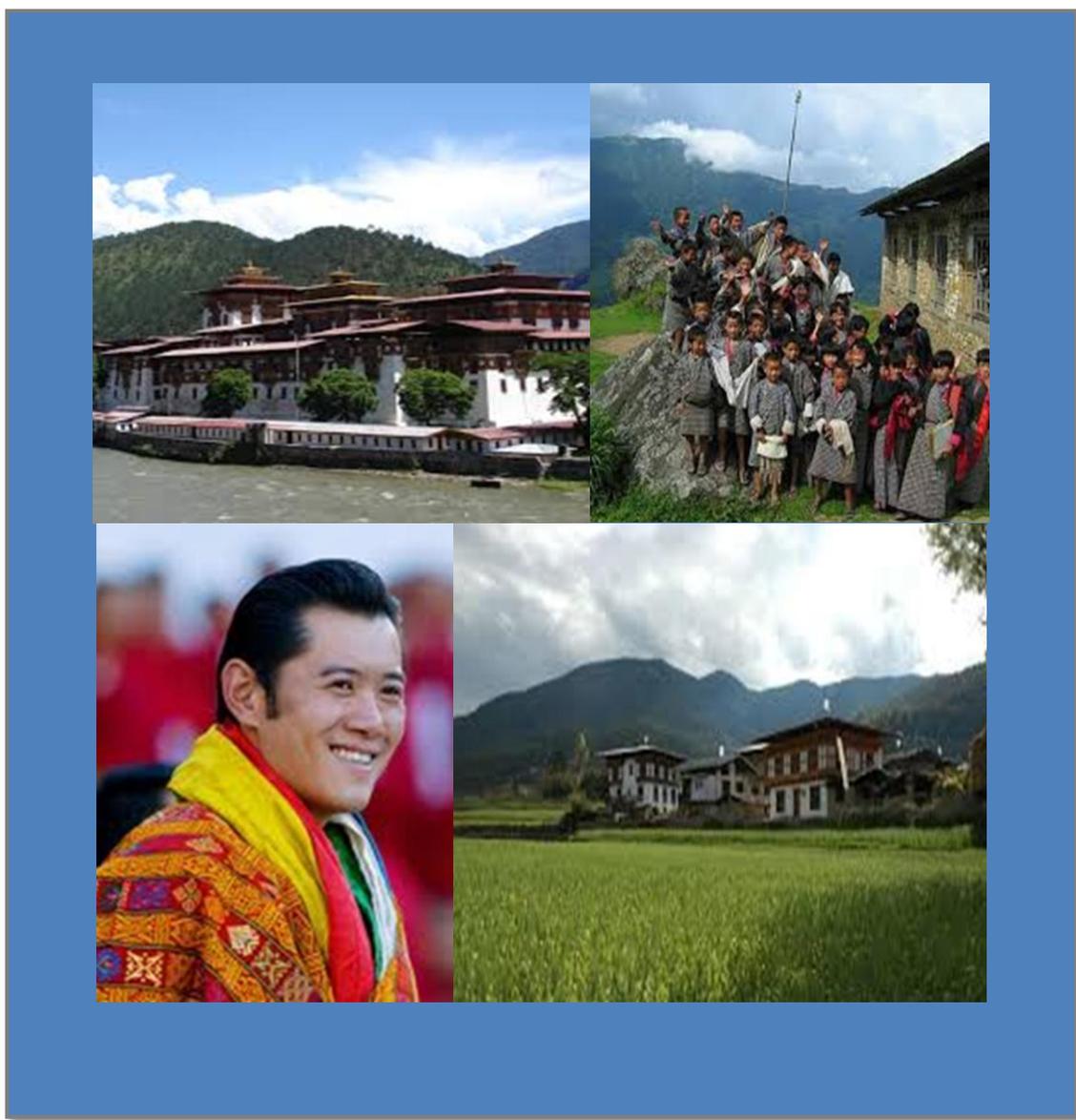




World Bank Group - Bhutan Partnership Country Program Snapshot



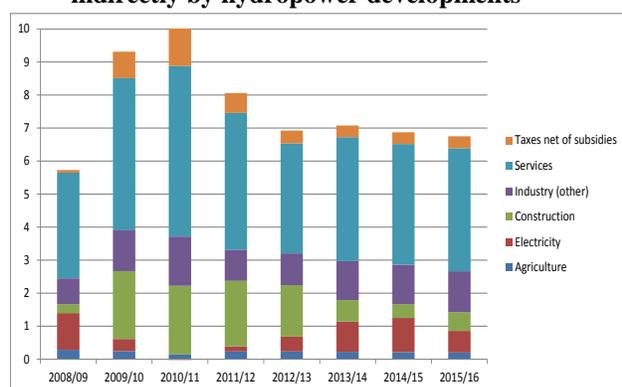
September 12, 2013

Recent Economic and Sector Developments

Growth Performance

Bhutan's growth remains strong, at an average annual rate of over 8 percent. GDP growth in fiscal year 2013 is estimated to have moderated to 6.9 percent (see below), following the rupee shortage and subsequent measures that drastically slowed credit expansion. Hydropower is estimated to contribute a third of GDP, and a fifth of economic growth, including direct and spillover activities. The construction of ongoing and pipeline hydropower projects will continue to be the major drivers of growth.

Figure 1: Economic growth is driven directly and indirectly by hydropower developments



Source: Bhutan Statistical Office and Staff calculations

The overheating episode, which started in 2011, has ended, though its effects linger. Rapid private-sector credit growth—widely held to be a cause of the rupee shortage—has significantly dampened, following a drastic credit crunch with the Royal Monetary Authorities (RMA) putting a sudden stop to new construction and personal loans in an attempt to curtail the demands for rupees.

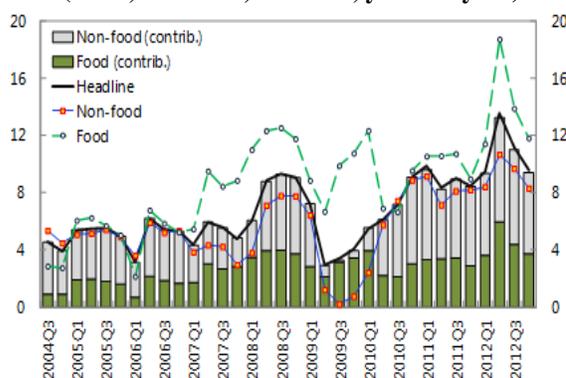
With the recently approved budget featuring an expansionary stance, combined with off budget quasi-fiscal spending, it seems more unlikely that the authorities will succeed in curtailing aggregate demand on the sole basis of tightened credit. The fiscal year 2014 budget is announced to have a higher budget deficit of 3.7 percent combined with an off-budget “stimulus plan of around 4 percent of GDP executed through the banking system” (see below).

The recent slowing of the Indian economy and the Indian Rupee's sharp depreciation are having a negative, albeit still limited, impact on the Bhutanese economy. The first impact is from imported fuel prices. Bhutan is highly dependent on trade with India, with four-fifths of Bhutan's imports originating there, and its currency is pegged to the Indian Rupee. Foreign exchange denominated debt service will be higher in domestic currency. Despite the economic turmoil, the Government of India has indicated its full support for the 11th five-year plan (2013-2018).

Inflation

Inflation is accelerating, mostly as a result of the effects of higher fuel prices imported from India. Nevertheless, year-on-year inflation was 5.5 percent during the second quarter of 2013, compared to 8.4 percent in the first quarter. Prices of fuel and gas jumped by 6.3 percent in July following the removal of subsidies by India.

Figure 2: Inflation and Relative Price Trends (Food, non-food, headline, year-on-year)



Source: Bhutan Statistical Office and Staff calculations

Fiscal Performance

Bhutan continues to depend on donor funding to finance its capital expenditures. The FY2013 fiscal position is estimated to be a moderate deficit of 0.9 percent of GDP, down from the previously-estimated 1.6 percent, following the incorporation of donor grants not initially foreseen.

The FY 2014 budget proposed in September by the newly elected government and recently

approved by the National Assembly is yet another example on how exposed the country is to donor financing. A sharp drop of project grants from India, combined with an expected decline in nominal terms of tax collection, will lead to a significant increase in the deficit to an estimated 3.8 percent of GDP. Tax revenues have been impacted this year by a change in excise duty refunded from India to just a single year, compared to 2 years in the past. Given the tight budget constraints under which the government is operating, electoral promises could not be fulfilled.

Table 1: Fiscal framework

	2012/13	2013/14
% Nominal GDP	Revised	Budget
Revenue & Grants	36.9	26.3
Domestic Revenue	20.7	19.2
Grants	15.5	7.1
Outlay	37.8	30
Total Expenditure	38.5	31.7
Current	18.2	16.8
Capital	20.3	14.9
Net lending (NL)	-0.7	-1.7
Fiscal Balance	-0.9	-3.7
Memorandum Item		
Nominal GDP (Nu. in mill)	102,149.10	113,892.90

Source: Government of Bhutan, Ministry of Finance, Macroeconomic Framework Coordination Committee.

The overall fiscal deficit for FY14 could well reach close to 7.8 percent of GDP, taking into account the off-budget Ngultrum 5 billion (4 percent of GDP) economic stimulus plan announced by the new government to “restart lending to productive and priority sectors”. Funded by India, the plan will be executed outside the budget with the funds being mostly channeled through the banking sector.

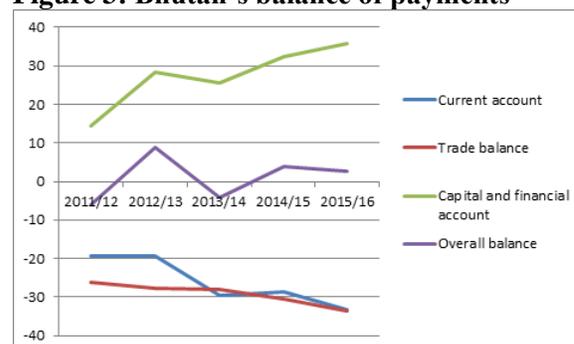
Trade

Export revenues from sales of electricity are expected to improve in step with better monsoon rains in the current year. Since no new hydropower projects have become operational since 2006, the fluctuation in export revenues reflects the vagaries of hydrological flows. Exports of minerals and mineral-based products account for nearly one-half of total exports, with hydropower exports comprising a further 40 percent. India receives almost 90 percent of Bhutanese electricity production, and

is expected to ensure future demand for Bhutan’s electricity. No major spike in electricity export revenue is expected in the next four or five years, until the Punatsangchhu I and II plants come on-stream with the potential to more than double power generating capacity.

The tourism sector has turned into an important contributor of export revenues in recent years. Tourist arrivals and revenues (from convertible currency-paying tourists) have been expanding at an average of 15 percent per year in the 5 years to 2012. Some 44,000 tourists arrived into Bhutan in 2012, earning the country US\$ 60 million in convertible currency. About an equal number of tourists arrive by land, mainly from India, but the statistics are not up to date on this segment. In 2013, year-to-date (i.e. January to August) arrivals and revenues showed only a modest increase of less than 3 percent, although the peak autumn tourist season is now underway progress.

Figure 3: Bhutan’s balance of payments



Source: Royal Monetary Authority and Ministry of Finance

Bhutan runs a growing capital account deficit projected at 30 percent of GDP this fiscal year. It is essentially financed by donor resources, of which India contributes the most through loans and grants to finance hydropower development. Gross international reserves had grown to US\$938 million at end-June 2013, or about 11 months of merchandise imports.¹

Financial Sector

¹ The Constitution requires that foreign exchange reserves should be maintained at 12 months of essential imports.

Bhutan's financial sector compares relatively well with the rest of South Asia, with a private credit ratio of 49.1 percent of GDP in 2011; in line with the South Asia average of 47 percent. The financial sector is dominated by banks the country's stock market lists only 20 companies, which is hardly surprising given a nation this size.

Significant investments in financial sector infrastructure occurred in the last 3 years. Among others, the use of electronic payments in commercial banks is more widespread, and a fully functional Credit Information Bureau (public registry bureau) is now in place. Banking regulations and supervision have also been strengthened and access to financial services has progressed, although unequally.

Access to financial services has improved. For instance, the percentage of adults with a loan account almost tripled between 2007 and 2011 to 14.2 percent. The geographical coverage of bank branches has also risen, but remained at a low average of two branches per 1,000 km² in 2011. Policy efforts to improve financial inclusion brought the launch in 2011 of a countrywide financial literacy campaign. In addition, with the support of the World Bank, the government developed in 2012 a financial inclusion policy to draw out policy objectives and strategies to increase financial inclusion.

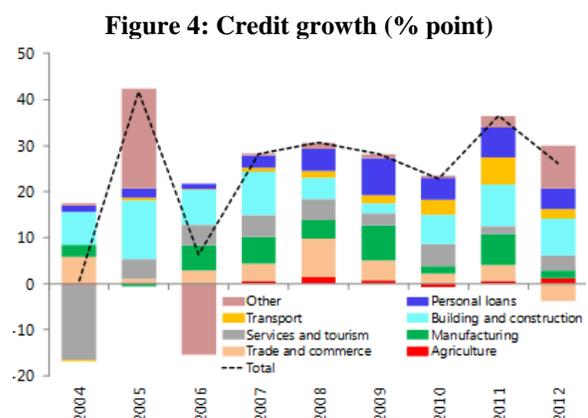
Banking regulation and supervision are being strengthened, with the establishment of the new Royal Monetary Authority (RMA) Act. In addition, the Financial Services Act of 2011 and associated regulations aimed to better regulate the activities of various financial service providers, including non-bank financial institutions. In addition, the overall financial sector environment has improved as financial services have expanded: electronic payment systems are being adopted by commercial banks, and the Credit Information Bureau is becoming operational.

Bank credit to the private sector has grown in recent years. Credit to private sector stood at 49 percent of GDP in 2012, above the average of the South-Asia region (47 percent of GDP). Factors that contributed to the credit boom

included robust economic growth, spillover effects from large hydro projects, expansion of the financial system with the increased number of banks, large salary increases in the public sector, and demographic factors such as urban migration and high demand for housing.

Policy measures have slowed private sector credit growth. The liquidity squeeze – coupled with measures taken by the RMA to contain the rupee shortage in March 2012 (including a freeze on new loans to the construction and transport sectors) – appears to have dramatically slowed credit growth. Credit growth eased from 33.8 percent in December 2011 to 12.4 percent by December 2012. Banks' lack of liquidity could evolve into a credit crunch with negative repercussions for the economy.

Emergency prudential measures have been taken by the central bank, the Royal Monetary Authority. Some measures initially considered to be temporary, such as the total ban on new lending in the housing and transport sectors, are still in place. Other measures have been recently announced, including increased risk weightings that may result in several banks falling below the statutory minimum capital adequacy ratio of 10 percent.

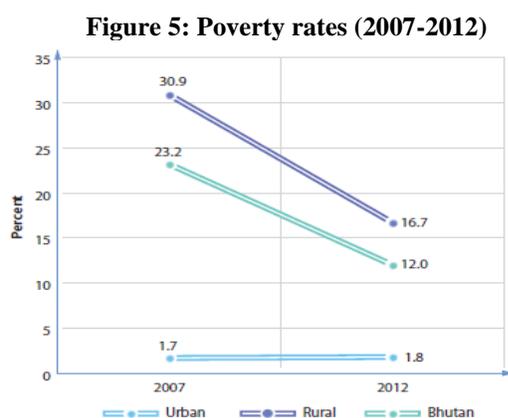


Poverty and Statistical Capacity Building

Bhutan is a star performer in poverty reduction with only 12 percent of the population below the national poverty line in 2012, having fallen from 23 percent in 2007. Bhutan is the third-least poor county in South Asia behind Maldives and Sri Lanka, with 4

percent of the population classified as poor in 2010 when relying on the US\$1.25/day international poverty line, and barely 1.7 percent of the population below this benchmark in 2012. This remarkable progress is founded on very robust high per-capita annual GDP growth of 5 percent.

Multidimensional indicators of poverty suggest that as much as a quarter of the population lived in need in 2010, based on results in four of the 13 indicators. In the same year, Bhutan's innovative Gross National Happiness Index (GNHI) indicated that nearly half the population has yet to reach sufficient happiness levels as per GNHI measurements based on 33 indicators.



The remaining concerns are regional disparities in poverty reduction and persistence of poverty in some dzongkhags (districts) and urban areas. A new poverty assessment will shed light on ways to address these concerns and there is a potential need for an urgent census of poor households. The new government manifesto for its first 100 days mentions the conduct of such a census to identify households that are below the poverty line and help them with formal social transfers to the poor households.

Bhutan provides equal access to public services. Nearly all (98 percent) of the population has access to improved water sources, and there is little disparity in this respect between poor and the non-poor households. At least 80 percent of households have access to improved sanitation, with a

disparity of around 15 percent between poor and non-poor households in both urban and rural areas. Nearly all (97 percent) of households in urban areas, including the poor, have electricity whereas in rural areas, however, only 69 percent of poor households have power. Only 21 percent of poor households have television, compared to 59 percent in non-poor households.

Bhutan's statistical system is considered fragile with limited human resources, absence of legal framework, data weaknesses and poor data coordination. However, notable progress has been made in remedying data weaknesses in select areas such as price data collection and dissemination using a map portal. Updating the 2008 National Statistical Development Strategy and resources to implement such a strategy are relevant areas of Bank engagement with the government.

Private Sector

Bhutan's economy remains dominated by state-owned enterprises (SOEs), with private sector contributing a mere 8 percent of total national revenue. Advantages include a stable and low-corruption environment, reasonably good human development (including widespread knowledge of English), access to low-cost and reliable electricity, preferential access to the large Indian market, and easy access to skilled and unskilled labor from India. Against these advantages, private sector development is limited by the absence of scale economies, unequal access to finance, mismatched skills of the labor force, and the lack of adequate infrastructure.

To spur private sector development, a number of policies and laws have been formulated. These include the Economic Development Policy and the amended foreign direct investment policy and rules and regulations. Forthcoming policies include the industrial infrastructure development policy (governing economic zones), the licensing protocol, the mineral development policy, the renewable energy policy, the micro, small, and medium enterprises (MSME) policy, the consumer protection bill, and the enterprise

registration act. With the support of the World Bank, Bhutan launched its first high-technology park in 2012 as a public-private partnership.

Despite reforms, Bhutan's ranking in ease of doing business in 2013 remains in the last tier, having decreased to 148 (out of 185 economies) from 142 in 2012, suggesting that more needs to be done. The private sector remains small, and while 15- to 24-year-olds represent 20 percent of the Bhutanese population, unemployment among these youth remains high. To stimulate the business sector, a new policy addressing public-private partnerships has been drafted.

Health

Bhutan has sustained its investments in health over the last two decades and made remarkable progress. In 2010-11, public health expenditure stood at 4 percent of GDP and 9 percent of government spending, considerably higher than in other South Asian countries. The expansion of the network of health facilities now ensures that 90 percent of the population lives within 3 hours' walk to a health facility. There are 25 traditional medicine clinics at Basic Health Units, and more than two functioning ambulances at each district hospital.

Access to health services is satisfactory, with their utilization and quality requiring improvement. The 2008 Constitution declared that the state will provide basic public health services free of cost to all citizens. Currently, all health services (barring a handful of dental, cosmetic, and other services) continue to be provided by the government free of charge. Nevertheless, some outreach centers are very remote and require health workers, the unsung heroes of the country's public health system, to endure long walking hours (or even days) prior to reaching the remote facilities.



The most significant health problem is the high rate of malnutrition. Though there has been improvement in recent years, it is nevertheless still estimated that some 35 percent of Bhutanese preschool children are stunted. The government finalized the draft of the National Food and Nutrition Security policy during 2012. Although the burden of non-communicable diseases is growing, the health services continue to spend most of their resources at the district level on traditional infectious diseases such as common cold, diarrhea, skin diseases, and conjunctivitis. In addition, alcoholism remains a significant health challenge.

Education

Bhutan's education expenditures are equally strong. Public education expenditure stood at 7.3 percent of GDP and 16.7 percent of total government spending (Ministry of Finance, 2012). These figures are among the highest in the South Asia region. The Constitution provides for the state to ensure free education up to Grade 10 for all children of school-going age, and to make technical and professional education generally available, and higher education equally accessible to all on the basis of merit. At the same time, this progress has led to a refocus by development partners on other priorities, which may make it difficult to sustain high education spending.

Table 2: Poverty and Social indicators

	2000	2007	2012
Population below poverty line (%)	36.3	23.2	12.0 ¹
GNI per capita, Atlas method US\$	780	1,640 ²	2,420
Gross primary enrolment (%) ³	72	106	110
Human development index	0.58 ⁴	0.61 ⁵	0.54 ⁶
Infant mortality (per 1,000 live births) (‰)	68.4	56.2	43.7 ⁷

Source: UN Publications, UNDP, World Bank, Bhutan National Statistics Bureau

¹ Bhutan Poverty Analysis, 2012

² 2008

³ Percent of school age population

⁴ 2003

⁵ 2006

⁶ World Human development index 0.69; Global ranking: 140

⁷ 2010

Bhutan is on track to achieve the Millennium Development Goals (MDGs) in education by the end of the 10th five-year plan for 2008-2013. Bhutan has established and grown an organized public education system since the 1960s. This diversified sector now includes over 650 schools and institutes, more than 180,000 students, and nearly 9,000 teachers. Notably, gender parity has been achieved up to Grade 10. Females constitute nearly 50 percent of enrolment in higher secondary education and nearly 40 percent at the tertiary level. The gross enrolment ratio was 71 percent at the secondary level and 30 percent at tertiary level in 2011 (World Development Indicators, 2011).

A key challenge is that, despite high enrolment and levels of public financing, learning levels remain low. Poverty remains key among constraints on enrolment and attendance, as corroborated by data from the Bank's poverty analyses, demonstrating that those groups of villages where fewer children attend school tend to be those with comparatively higher poverty rates. This is mainly due to the high out-of-pocket expenditure for households.

A preponderance of education service delivery is provided through the public sector. The exception is higher secondary education (Grades 11-12) where 50 percent of the students are in private institutions. The 11th five-year plan's proposal to expand student numbers will require more intensive collaboration with the private sector and attention to school mapping to attenuate the

existing inequitable pattern of participation in secondary education.



There is a growing role of private institutions and financing in the tertiary sub-sector. The government's expansion plans for tertiary education are ambitious, but essential for Bhutan to build up a human resource base to support a knowledge-based economy. Student intake is to increase to 15,000 (from just over 5,000 currently). To keep this from overburdening public expenditures, a greater role for the private sector is seen, but this raises new issues of quality and relevance. Since it will take the Education City Project some years to become operational, the Royal University of Bhutan is the main reference point for the quality assurance and accreditation framework.

The government's has decided to adopt a single quality assurance model for both public and private tertiary institutions. This will involve endorsement of accreditation as the mode of quality assurance (as distinct from solely audit or assessment); and structure the Quality Assurance and Accreditation implementation procedures in three tiers, whereby "accreditation" is the third tier, preceded by registration and licensing of institutions (tier one) and self-appraisal and peer review (tier two).

Social Protection

There is no formal system of social protection in Bhutan. The lack of safety nets – particularly for those outside of public sector employment – leaves the majority of the population vulnerable to shocks and risk. Employment opportunities for youth are limited, particularly at higher-level managerial jobs, and change in social structures and rapid urbanization is likely to leave many elderly rural poor without informal or social safety nets.

The coverage of Bhutan’s pension system is limited to civil servants and joint-sector companies. These groups encompassed a little less 7 percent of the population in 2012. In addition, the armed forces are covered under a separate scheme. The participation in National Pensions and Provident Fund extends across some part of the formal sector workforce beyond higher income groups and a similar proportion of the elderly are receiving some benefits from the system. This influences the decisions of the young people of Bhutan entering the labor market with a majority of youth focused on entering the limited opportunities in the public sector.

Employability of Bhutanese youth is a key priority. The government is seeking to bring down the youth unemployment rate from 7.3 percent in 2012 to 5 percent or less by the end of the next plan period (2013-2018). With this context, the Ministry of Labor and Human Resources has decided to develop a social protection strategy, which will provide more equity of social protection to those who work across different sectors.

There are some existing specialized grant programs such as scholarships, and welfare schemes, distributed by His Majesty the King, or a few non-governmental organizations (NGOs), but few are integrated into social assistance, social insurance, or labor market programs. There is also little coordination. There is low coverage of target groups, as most of the poorest 20 percent have no social protection coverage. Other support to the elderly only exists through family and social networks.

Agriculture

Bhutan is predominantly an “agriculture-based society”. Smallholder subsistence farmers who occupy the majority of the arable land and produce most of the crop and livestock products, dominating the shape of the agriculture sector. According to a 2011 Labor Force Survey Report of the Ministry of Labor and Human Resources, the agriculture sector provided livelihoods to 68.4 percent of the total population, contributing 14.3 percent of the total GDP.

While the contribution of the agriculture sector to GDP has been declining, it continues to be an important sector. It is particularly important as a source of employment and reducing poverty. The sector’s growth remained insufficient to adequately address poverty, and attain food security. Immigration from rural to urban areas, particularly by youth and men looking for a more modern life style, has resulted in the feminization of the agriculture sector, particularly in the under-served areas.



A range of policies are needed to improve rural life and maintain rural population. Physical access to rural areas (and between rural areas and markets) needs to be improved, as dispersed and small-scale production hinders adoption of good agriculture practices. Greater access to credit and technology is needed, and sustainable approaches to pest and wild life encroachment are needed. Other issues include loss of agricultural land for other development, lack of infrastructure (such as irrigation, farm roads, and post-harvest storage,) labor shortages, and the scarcity of existing market traders and wholesalers.

The agriculture sector is in the process of developing its contribution to the 11th five-year plan for 2013-2018. To achieve eradication of poverty to less than 10 percent by the end of 2018, the sector needs to grow at an annual rate of 4 percent. The 11th five-year plan is expected to adopt a multi-dimensional approach to develop the under-served regions. To achieve this, the Ministry of Agriculture and Forestry has a mandate to improve food security and nutrition, improve rural livelihoods to overcome poverty, and sustainable management and utilization of natural resources.

Environment and Cultural Heritage

Environmental conservation is a cornerstone of Bhutan's unique development approach.

Bhutan remains endowed with dense and virtually untouched forests, abundant water resources and diverse wild species. Nevertheless, it confronts chronic pressures, primarily related to land degradation and biodiversity loss due to development and population growth. Land degradation can stem from inappropriate agriculture production and mining practices, overgrazing, and excessive forest harvesting, as well as solid waste disposal in and around population centers. Threats to biodiversity include illicit forest harvesting, human-wildlife conflict, poaching, and habitat fragmentation arising from land development projects.

A particularly important element is the need for integrated water management. Despite the positive outlook for water availability, incipient challenges relate to the sustainability of urban water supply systems and functionality of existing rural water supply schemes. Ongoing soil erosion and deforestation threaten watershed conditions and their functional integrity. Concern over water quality stems from the rise in domestic and industrial waste generation along with improper disposal, as well as run-offs from agricultural fields and urban centers.

The government has taken several important steps to preserve the environment. Bhutan's environment policies include mandating a minimum forest cover of 60 percent of the country's total land area in the Constitution, and increasing the proportion of land under protected area status to around 50 percent from 26 percent in 2000. It has established a permanent Land Management Unit for sustainable land management, and a plan for the Bhutan Trust Fund for Environmental Conservation to adopt more modern governance and business practices. It has also launched a wildlife crime unit within the Department of Forest and Park Services, including an online reporting system on wildlife offenses. Protection of the environment is also embedded in its Gross National Happiness

policies, including the need for investments to meet basic environmental and cultural standards.



Bhutan has also taken steps to preserve its cultural heritage. Protection of its culture is one of the four pillars of Bhutan's unique Gross National Happiness vision. It is also a key economic driver throughout the tourism industry. Accordingly, the conservation of heritage monuments needs to be prioritized in synergy with the development of urban infrastructure and services.

Disaster Risk Management

Bhutan is highly prone to disasters and climate-related risks. Its rugged topography, and geographic and climatic features make it prone to flooding, landslides, glacial lake outburst floods, drought, and earthquakes. Over the past 40 years, several earthquakes above a magnitude of 6 on the Richter scale have occurred. According to the World Bank report on Natural Disaster Hotspots (2005), risk areas amount to 31.3 percent of Bhutan's total area, and 60.8 percent of population is at high mortality risk from multiple hazards.

The frequency and intensity of extreme weather events appears to be increasing. The country has become increasingly vulnerable to glacial lake outburst floods, floods, drought, forest fires and loss of vegetation and biodiversity. Heavy seasonal monsoon rains and glacial melt contribute to flooding and landslides. Of the 2,674 glacial lakes that exist in Bhutan, 25 have been identified as potentially dangerous. This poses not only a threat to the development of hydropower in the country but also a threat to food security.

The government adopted the Disaster Management Act in 2013 to strengthen the disaster management system. The Act decentralizes disaster management activities, empowers the cross-cutting with the legal status to implement disaster reduction strategies and emphasizes a consultative process at the village level. The Department of Disaster Management under the Ministry of Home and Cultural Affairs (the national coordinating agency) is formulating a comprehensive National Disaster Risk Management Strategy for Bhutan. It is expected to result in the formation of a National Disaster Management Authority under the leadership of the Prime Minister. Key challenges include strengthening preparedness and early warning systems, mainstreaming disaster risk management, including in construction, and strengthening disaster response capacity.

Urban Development

Bhutan is undergoing a rapid transition from a rural economy to an urban society. The average annual urban population growth rate has been around 4 percent since 2007. The Bhutan National Urban Strategy (NUS, 2008) projects that by 2020, the country will be most likely 60 percent urbanized. As Bhutan evolves into a more urbanized society, the government recognizes the country's unique challenges in urban development, namely the rapid rates of urbanization, and the limited availability of serviced land.

The urbanization rate across the country is skewed toward the Western region. Thimphu and Phuentsholing are the two most favored destinations for migrants. Through the enactment of the Local Government Act (2009) and the approval of the Municipal Finance Policy (2012), the government has established four autonomous cities (Thimphu, Phuentsholing, Gelephu, and Samdrup-Jokhar). Under the proposed National Urban System, these centers would play an important role as future engines of growth.



Bhutan is relatively well positioned to meet the challenge of rapid urbanization, given its low population. Nevertheless, urban institutional and governance systems need to be strengthened. Spatial planning is also needed, as lack of affordable housing for lower-income groups is becoming a critical issue. Another important issue is to provide for jobs for an increasingly urban youth population.

Energy

Hydropower development has underpinned the rapid growth of Bhutan's economy. The total installed capacity of existing hydropower plants is 1,488 megawatts (MW). Of total annual power generated, 80 percent is exported to India after meeting domestic consumption. Power exports account for the largest source of national revenue in the form of taxes and dividends, generating more than 40 percent of government revenue. Power exports also contribute to 25 percent of GDP, and hydropower infrastructure development contributes another 25 percent of GDP through the construction sector.

However, power generation can get disrupted during winter months. During wet seasons existing hydropower plants can generate sufficient electricity to meet domestic demands and power exports. Nevertheless, since all the existing plants are run-of-the-river, the total generation capacity drastically drops to around 288 MW during the winter dry seasons, being December–March. This low capacity does not meet the system peak demand during winter dry seasons. To deal with the seasonal power shortage, industrial loads have been curtailed

during the winter months. Winter power shortages will likely remain until 2016 when the Punatsangchhu-I hydropower plant (1,200 MW) is expected to come online.

In 2008, Bhutan agreed to develop and export 10,000 MW of new capacity with India by 2020. Under the bilateral framework, one project at Punatsangchhu (Stage 1, 1,200 MW) has started construction and contracts for two projects at Punatsangchhu (stage two, at 1,020 MW) and Mangdechhu (720 MW) have been awarded. Seven other large hydropower projects are at various development stages with the Indian government and its own enterprises.

In addition, small- and medium-sized hydropower operations are being developed as public-private partnerships (PPPs). In 2008, the Asian Development Bank (ADB) agreed to finance the Dagachhu hydropower project (126 MW) as the first PPP infrastructure in Bhutan. The project's joint venture was established between Druk Green Power Corp. and India's Tata Power Company. The Department of Hydropower and Power Systems also intends to promote independent power producers as the next step after formulating applicable rules and guidelines.

Hydropower development will require extensive investments in power transmission. While these transmission lines are expected to be developed and aligned with hydropower development, a holistic development approach will be crucial for the network expansion to maximize the investment benefits and minimize any adverse safeguard impacts on transmission corridors.



Bhutan has set an ambitious goal of providing electricity for all by 2015. Mountainous terrain and the resultant difficulties of grid extension have kept some of the rural population without access to clean energy. Traditional fuels, such as kerosene and fuel wood, cause indoor pollution and health burdens. To reduce poverty and stimulate inclusive economic development, the government has embarked on a large-scale rural electrification campaign. As of December 2012, 84 percent of households had access to electricity, supported by the ADB and the Japan International Cooperation Agency. In addition to grid extension to rural areas, households in remote villages may have access to electricity through standalone solar home systems.

Bhutan has also begun to develop renewable energy to diversify the energy supply base through wind, solar, biomass, and small and micro hydropower. Wind power projects have the potential to generate clean energy to supplement hydropower in winter dry seasons. Bhutan also has biogas development potential as an alternative energy source to replace fuel wood for cooking in rural areas. Rural households depend heavily on fuel wood, which emits indoor air pollutants and poses a health hazard. To promote renewable energy, a national policy must be established and financial and fiscal incentives provided to help overcome the entry and financial barriers for development.

Transportation

Transportation is the biggest infrastructure problem encountered by firms in Bhutan according to Bhutan's 2010 Investment Climate Assessment. In rural areas transport connectivity is also a key determinant of affordable access to basic social and economic services. The Bhutan Living Standards Survey (2012) reports that transportation services alone account for approximately 23 percent of the cost incurred where households sought health care to address sickness or injury. In the broader economic context, roughly 40 percent of all firms and 70 percent of large firms surveyed had experienced losses due to ground transportation difficulties.



Bhutan has achieved significant milestones in the transport sector. Investments under the 10th five-year plan have helped increase connectivity towards the official goal of having 85 percent of the population within half a day's walk from the nearest road. Parliament has also passed the Road Act in 2012, which empowers the Department of Roads to coordinate various institutions working in the roads sector. These accomplishments show a strong government commitment to developing Bhutan's transport sector and the institutions that will sustain it into the future. Recent achievements, supported by World Bank projects, include: (i) 67 km of new roads, (ii) 24 km of improved roads; and (iii) Seven newly constructed automobile-capable bridges. Project beneficiaries have experienced a 62 percent reduction in travel time to reach schools, clinics, and other services.

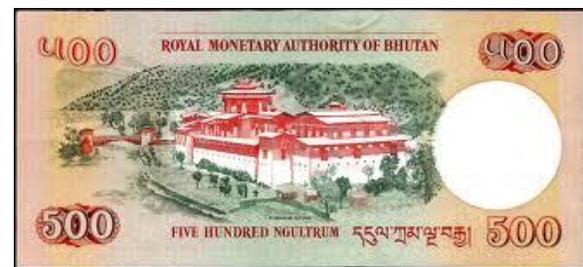
Looking forward, Bhutan Transport 2040 envisages meeting increased demand for rural transport with a dzongkhag (district) road network that is three-and-a-half times its current length with connections to every geog (an administrative reference to a group of villages). Achieving such targets will require approximately 2,500km of new roads. Bhutan Transport 2040 also targets major investments such as (i) widening of the existing East–West Highway (and other key routes) to two lanes; (ii) improving access routes between industrial centers and major border crossings; and (iii) improving various existing alignments along the national highways network to improve safety and travel times.

Improving urban transport services is also a priority. The number of Bhutanese living in

urban areas nearly tripled between 1990 and 2010. Increasing rates of motor vehicle ownership and use have accompanied this trend bringing with them unprecedented impacts on the urban environment (many negative, including emissions, congestion, noise, etc.). Bhutan's urban transport systems are still developing to meet increasing demand for urban mobility. Nevertheless, less than one third of urban households in Bhutan report using public transport in a given month.

Governance, Public Financial Management and Procurement

Bhutan outperforms its neighbors on Transparency's International's Corruption Perception Index. In 2012, Bhutan moved further up the index from 38th to 33rd in recognition of additional steps it has taken to strengthen its anti-corruption legal framework, including passage of the 2011 Anti-Corruption Act, the establishment of an Anti-Corruption Commission, and further strengthening of rules governing asset declaration by public servants in 2012. A key element for improving governance has been an ambitious government-to-citizen program to provide services electronically through community centers, which is particularly important in light of geographical barriers. Similarly, with support from the International Finance Corp. (IFC), the government has developed a government-to-business e-portal to provide a comprehensive inventory of licenses and other information on business processes.



Public financial management reforms are among national priorities. Bhutan over the years has been making progress in the area of accounting, budget execution oversight, control, and reporting. Parliamentarians increasingly pay attention to the budget approval process and also

in reviewing the audit observations through public accounts committee. The public at large has also become more demanding in terms of transparent and efficient government. Nevertheless, further improvement is needed on oversight of public sector entities, predictability in funds available for expenditures, the quality and timeliness of budget reports and financial statements, and effectiveness of internal audits.

Significant progress has been achieved on public procurement reforms. Among the outcomes are: (i) the introduction in 2009 of new procurement rules and regulations, and standard bidding documents for goods, works and services, (ii) the establishment of the Public Procurement Policy Division in August 2008, (iii) the career path and recruitment tools put in place for a procurement profession, (iv) the generally well-functioning procurement market, and (v) a strong framework for control and audit, spearheaded by the Royal Audit Authority and the Anti-Corruption Commission. Because of this progress, the World Bank is moving towards use of country systems for all procurement in Bhutan from end FY2014.

The World Bank Program in Bhutan

The current joint World Bank/IFC-Bhutan Country Partnership Strategy (CPS) covers the period FY11-14. It is aligned with three key strategic frameworks: the Principles of Gross National Happiness; Bhutan 2020 Vision, and the 10th five-year plan (2008-2013). The CPS has two areas of engagement: (i) economic diversification, job creation and financial inclusion and (ii) spatial planning and public services, with two crosscutting themes: capacity building and environmental sustainability.

The World Bank provides around US\$15 million-20 million of new resources from the International Development Association (IDA) per year. There are four ongoing specific investment operations for a net commitment of US\$82 million of IDA resources. These include three country-specific IDA operations (Decentralized Rural Development, Urban Development II, Remote Rural Communities Development), one regional IDA project (Regional Cooperation on Wildlife Protection),

and one Global Environment Facility grant operation (Sustainable Financing for Biodiversity Conservation). In addition, the World Bank manages several small grants for Bhutan on disaster management, corporate governance, public financial management, urban budget processes, and improving resilience to seismic risk.

The World Bank has also extended three development policy operations over the last six years. The World Bank's Board of Executive Directors approved the most recent (Development Policy Credit-2) in November 2012 for a total of US\$36 million. This operation has focused on: (i) Promoting government efficiency and effectiveness through sound fiscal and public financial management and procurement, and strong public administration; (ii) Fostering private-sector development by improving the policy environment and facilitating productive employment opportunities; and (iii) Expanding access to infrastructure in a sustainable manner.

The World Bank also provides knowledge support. Recent analytic work includes a Human Development Public Expenditure Review, a review of higher education, and an Investment Climate Assessment, which served to underpin the most recent budget support operation to improve the policy framework governing private sector development. A poverty assessment, a financial sector assessment, and a green growth study are underway.

The next CPS is scheduled to begin in FY 2015. It is anticipated that many of the themes of the current CPS will continue to resonate. The bulk of IDA financing is expected to continue in the form of development policy lending, supplemented by a limited number of specific investments in key areas, particularly infrastructure, and a robust analytic program. The next CPS probably will also reflect a shift toward a blend of support from IDA and the International Bank for Reconstruction and Development, in keeping with Bhutan's emerging middle-income country status.

International Finance Corporation (IFC)

The IFC has a total committed investment portfolio in Bhutan of over US\$31 million.

The portfolio consists predominantly of IFC's recent equity participation in Bhutan National Bank. The advisory portfolio includes advice in structuring public-private partnerships, improving Bhutan's investment climate, and enhancing access to financial services. IFC continues to explore areas of assistance in hydropower, tourism, manufacturing, agribusiness, health and education sectors among others. IFC's advisory support on investment climate reforms, public-private

partnership development and the financial sector is expected to continue.

Multilateral Investment Guarantee Agency (MIGA)

Bhutan has taken the first step to becoming a member of MIGA by signing the MIGA Convention in January 2013, which will be ratified by parliament in September 2013.

Bhutan: Decentralized Rural Development Project

Key Dates:

Approved: March 21, 2011
 Effective: April 26, 2011
 Closing: December 31, 2013

Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
IBRD/IDA			
Govt.			
Multi-Donor Trust Fund	5.00	3.73	1.27
Total Project Cost	5.00		
*As of June 30, 2013			



Project Background:

The Decentralized Rural Development Project (DRDP) was approved on March 1, 2005 for a credit of US\$7 million. Effective March 21, 2011 under the Global Food Crisis Response Program (GFRP), a grant for US\$5 million was allocated to Bhutan as additional financing for the DRDP to help finance the costs associated with scaled-up activities and to address the impact of the continuing high prices associated with essential food commodities.

Project Development Objective:

The project development objective is to improve market access and increase agricultural output for rural communities in selected areas of Bhutan. The project supports improvements to or rehabilitation of rural infrastructure (rural roads and irrigation) and promotes extension activities particularly for rice, maize, and potato crops to address disease outbreaks and low productivity.

The DRDP additional financing supports three components. The first component focuses on the rehabilitation and construction of irrigation canals and on the improvement of selected roads that support rice, potato and maize production areas. The second component helps farmers improve production of rice and maize through demonstration, knowledge sharing, improved technologies, and capacity building. Finally, the third component focuses on institutional strengthening activities such as capacity-building at the local-level administration, for planning aspects, and for the physical reporting of project implementation performance, to ensure the appropriate transfer of funds to the local level. In addition, capacity-building activities for pest surveillance, financial management, environmental and social screening will be supported.

Results:

1. The project is on course to achieving its targets in improving rural infrastructure (irrigation canals and farm roads) and food crop production (rice, maize and potato). To date the project has benefitted over 5,853 households (target 6,700 households) from improved infrastructure and over 7,952 households (target 8,500 households) through improved extension services.
2. A little more than 34 km of farm roads have been improved, exceeding the project's target of 15 km. Similarly, 130 km out of a required 200 km of irrigation canals have been rehabilitated, and the remaining 70 km of canal are on track to be completely rehabilitated by project closure.
3. In the last cropping season Jan-Feb 2012, 338 tons of basic seeds of potatoes were produced. With the increase in number of contract farmers for seed production – and also with the increase in National Seed Center area for cultivation – total basic seed production is expected to exceed the 700 metric ton target by the project closing date. The multiplication of seeds of new rice, maize, and potato varieties has started, and is expected to be increasingly adopted by farmers. The adaptation rate for improved rice varieties is 45 percent against a project target of 25 percent. On the other hand 34.4 metric tons of Green Leaf Spot disease tolerant maize seeds were produced by community based seed production groups, resulting in 75 percent of affected maize seeds being replaced. The target replacement rate for the project is 80 percent.

Key Partners: Ministry of Agriculture and Forests.

Bhutan: Second Urban Development Project

Key Dates:

Approved: April 29, 2010
 Effective: August 24, 2010
 Closing: December 31, 2015

Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
IDA	12.0	5.0	6.7
Govt.	0.7		
Total Project Cost	12.7	5.0	

*As of June 30, 2013



Project Background:

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

Project Development Objectives:

The project development objectives are to support Bhutan's municipal reform program by strengthening municipal finance and management services in Thimphu and Phuentsholing, and improve infrastructure services in northern Thimphu where no formal services are currently available.

The project consists of three components: (i) municipal finance and management; (ii) Thimphu Northern Area Development; and (iii) capacity building. *Component 1 (US\$1.5 million)* aims to strengthen the institutional systems of Thimphu and Phuentsholing Thromdes (city corporations). The support for city-specific reforms is being done broadly through a strengthening of the local revenue administration systems and processes, and by improving the expenditure management systems and financial management systems and processes of the two Thromdes. This component also supports government policy reforms aimed at setting up a policy framework for municipal financing. *Component 2 (US\$9.3 million)* supports the development of basic infrastructure systems in two 'local area plans' in northern Thimphu, including roads, storm water drainage, water supply, sewerage, and street lighting, as well as support for an increase in low-income housing units in these areas. Under *component 3 (US\$1.2 million)*, resources are being provided for training programs, equipment, technical assistance, and studies based on the needs of Thimphu and Phuentsholing Thromdes. It aims at significant upgrading of each Thromde's capacities in various aspects of their internal work processes and service delivery to citizens through training of operational staff and provision of relevant equipment.

Key Results:

- ✓ Increase in local revenue collection: 50 percent by Thimphu and 40 percent by Phuentsholing.
- ✓ New building permits issued for serviced plots: 175 in two Thimphu Local Area Plans being developed.
- ✓ Number of households with new piped water and sewerage connections: 600 in two Thimphu Local Area Plans.
- ✓ Number of municipal staff trained: 250, with 150 in Thimphu and 100 in Phuentsholing.

Key Partners: Ministry of Works and Human Settlement, Ministry of Finance; Thimphu and Phuentsholing Thromdes.

Bhutan: Sustainable Financing for Biodiversity Conservation and Natural Resources Management

Key Dates:

Approved: May 15, 2013

Effective: *Grant signature expected in July 2013 and effectiveness by September 2013*

Closing: December 31, 2018

Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA			
Other – GEF	4.08	0	4.08
Total Project Cost	4.08	0	4.08

*As of June 30, 2013



Project Background:

As development proceeds apace (with 8 percent average GDP growth in the past three decades), Bhutan is facing pressures on its natural endowment stemming from population growth, agricultural modernization, hydropower and mineral development, industrialization, urbanization, and infrastructure development. In keeping with Bhutan's enduring national commitment to protecting the environment, one of the five main development objectives included in Bhutan's 20-year perspective of development goals (*Bhutan 2020: A Vision for Peace, Prosperity and Happiness*) is environmental conservation. Nevertheless, conservation efforts have been challenged by an inadequate system of prioritizing the wide range of environmental needs, weak institutions and capacity as well as limited financing. In recognition of the constraints, the government established the Bhutan Trust Fund for Environmental Conservation (BT FEC) in 1992. A grant from the Global Environment Facility of US\$10 million (implemented during 1992-97) helped to create a permanent, well capitalized institution. In comparison to BT FEC's notable growth in capital from bilateral donor contributions and careful management of investments, its grant-making performance has been modest and below its potential. With the socioeconomic development needs of a modernizing and growing population especially with the advent of constitutional democracy in 2008, BT FEC's challenge has become more formidable. It needs to gain greater prominence, authority and credibility as an effective and reliable institution for sustained funding of conservation activities and for setting annual conservation priorities.

Project Development Objective:

The project's goal is to improve the operational effectiveness and institutional sustainability of the Bhutan Trust Fund for Environmental Conservation. The project components are: (1) enhancing the operational effectiveness and sustainability of BT FEC by adopting more modern governance and business practices and ensuring the adequacy of its resources and tools going forward; (2) improving conservation management of the high altitude northern areas that support a globally important ecosystem under threat from population growth, patterns of agricultural cultivation, livestock grazing and urbanization; and (3) capacity building for mainstreaming of conservation and sustainable forest and natural resource management approaches into national policies, strategies, and plans.

Results:

Grant effectiveness is expected by September 2013.

Key Partners:

Bhutan Trust Fund for Environmental Conservation; Ministry of Agriculture and Forests, and Royal Government of Bhutan.

Bhutan: Remote Rural Communities Development Project

Key Dates:

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

Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
IDA	9.00	0.30	8.7
Total Project Cost	9.00		

*As of June 30, 2013



Project Background: The Remote Rural Communities Development Project (RRCDP) project area covers 26 geogs (administrative areas containing several villages) in six dzongkhags (districts) located in southwestern and south central Bhutan. The RRCDP is designed to improve living conditions and incomes in the country's poorer and more remote rural areas. The populations in these areas currently rely on subsistence agriculture, and lack roads, irrigation, technologies, and community and social infrastructure that would allow them to improve their incomes and social integration.

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

Component A. Rural Infrastructure: The focus of this component is to connect the communities to larger roads and regional markets and to improve production potential through improved availability of irrigation.

Component B. Community, Marketing and Productive Infrastructure: This component would cover investments in marketing and post-harvest infrastructure, critical community-level infrastructure, and investments identified by producers to increase agricultural productivity.

Component C. Project Management and Institutional Strengthening: This component supports project management, including the monitoring and evaluation functions of the project. It covers: (a) technical and financial management, (b) procurement, and (c) supervision of compliance with environmental and social safeguards. This component will strengthen the capacity of the Ministry of Agriculture and Forests to effectively coordinate implementation and provide procurement support to local communities as needed.

Results:

1. The Remote Rural Communities Development Project became effective mid-November 2012 and had its first implementation support mission in March 2013. It is therefore too soon to assess progress against the project objectives or report on results in relation to the intermediate outcome indicators.
2. The project management team has been taking proactive steps to develop 18-month work plans for the project components; identify geogs where project activities will be first implemented; begin the recruitment process for key staffing positions; and update its operations manual and procurement plans.
3. Key results indicators are:
 - Productivity of crops to increase by at least 20 percent in targeted irrigation systems;
 - Marketed value of agricultural production to rise by 20 percent in the targeted area;
 - Share of beneficiaries with access to critical community infrastructure to climb by 20 percent in targeted area.
4. The project is expected to directly benefit about 6,440 rural households in the project area.

Key Partners: Ministry of Agriculture and Forests.

Bhutan: IFC's equity investment in Bhutan National Bank

Key Dates:

Approved 20 December 2012

Effective: 31 December 2012

Closing: n/a

Financing in million USDollars*:

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA			
Govt.			
Other – IFC	28.5	28.5	0
Total Project Cost			

*As of June 30, 2013



Project Background:

Bhutan faces a set of challenges typical of countries seeking to make a rapid transition from a mostly rural, agrarian society to one characterized by increasing levels of education, a large number of young people looking for more opportunities and, with increased globalization, shifting expectations and aspirations on the part of its population. It is critical for a country with such potential – yet facing a diverse set of challenges – to foster private sector-led growth and poverty alleviation. Strengthening of the banking sector is a key prerequisite in this.

Project Development Objective:

This landmark investment by IFC in a leading commercial bank in Bhutan, is one of IFC's most significant and impactful investments in South Asia. IFC's US\$28.5-million investment for 20 percent stake in Bhutan National Bank (BNB) was IFC's first equity investment in Bhutan, its fourth and largest investment in Bhutan to date, and for the country, the largest investment at that time by a foreign investor. IFC's funding will help expand the bank's outreach into the under-banked population of Bhutan. By capitalizing on BNB's strong platform to reach underserved small and medium enterprises, the expected improved access to finance will help address a key impediment to private sector competitiveness.

Results:

The project will have a strong development impact on many fronts. It will initiate and generate: (i) increased access to finance in Bhutan, a frontier market, with a sizeable under-banked and rural population; which will also support inclusive growth and job creation in the country (ii) benefit Bhutan by providing BNB with access to international best practices in the areas of information technology, risk management, social and environmental management, and corporate governance, (the latter three are initiated) and by assisting the Bank in implementing its new growth strategy and expanding into new underserved market segments; (iii) positive influence on the country's developing financial market and strengthening of the country's investment climate by introducing international guidelines and standards, thereby reducing systemic risk; and (iv) improvement in overall financial intermediation by promoting beneficial competition in the country's banking sector.

Key Partners:

Bhutan National Bank, Royal Monetary Authority, Ministry of Economic Affairs, Ministry of Finance.

Bhutan: Amankora

Key Dates:

Approved:12/11/2003

Effective:

Closing:12/19/2003

Financing in million US Dollars*: US\$10 million

Financier	Financing -	Outstanding	Undisbursed
IFC	US\$10 million	US\$2.9 million	
IDA			
Govt.			
Other	US\$8 million		
Total Project Cost	US\$18 million		

*As of June 30, 2013



Project Background:

The Amankora project involved the construction of five luxury guest-house type resorts at different locations in Bhutan. The project operates under the Amanresorts brand of hotels, which is recognized in the tourism industry for its ability to create high-end resorts in unique, frontier destinations. The project is funded through a long-term loan of US\$10 million and an equity investment of US\$8 million.

Project Development Objective: The project contributes to the development of the tourism sector in Bhutan through the pursuit of the following goals:

- Creating demonstration and catalytic effects with regard to attracting private investment into Bhutan in general and to higher end hotels in particular (The Uma, Taj etc);
- Direct and indirect job creation;
- Supporting the government's 'high value - low impact' approach to expanding the tourism sector in Bhutan by attracting high spending, environmentally conscious and culturally interested visitors to the country;
- Transferring international best practices in hotel management, including service and quality standards, occupational health and safety, and environmental management, by an experienced sponsor to the emerging Bhutanese tourism industry;
- Reducing the risk of the dominance of the Indian Rupee on Bhutan's foreign exchange reserves by generating US dollar revenues for the country; and
- Encouraging utilization of a significant proportion of goods and services required by the resort guests from local sources which will help develop the local supply base and encourage the growth of small and medium enterprises.

Results: Bhutan appeals to world travelers seeking exotic locations and unique habitats. The Amankora project helped address limited hospitality infrastructure to enable the country to take advantage of its natural beauty to attract the tourist trade. The construction of the five lodges has resulted in the creation of more than 200 jobs. These developments have also stimulated an arts community, as local craftspeople, artisans, and performers benefit from tourist spending.

Key Partners:

The sponsors of the Amankora project are: Bhutan Hotels Limited, a company incorporated in Bhutan and fully -owned by Silverlink Holdings Limited, the owner of the Amanresorts brand of luxury hotels; and Bhutan Tourism Corporation Limited, a publicly listed Bhutanese company and the third largest tour operator in Bhutan.

Bhutan: Licensing Simplification Project

Key Dates:

Approved: November 4, 2010

Effective: November 4, 2010

Closing: December 31, 2013

Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA			
Govt.			
Other	\$0.522	\$0.446	\$0.076
Total Project Cost			

*As of June 30, 2013



Project Background:

According to *Doing Business 2010*, Bhutan's ranking in ease of doing business and starting a business was 126 (from 124 in 2009) and 80 (from 66 in 2009) respectively. In this context, the government undertook a broad range of reforms to improve efficiency of its services. Its Economic Development Policy (2010) set the goal of reducing the burden of compliance through elimination of overlapping approvals and streamlining requirements for business start-up and operations by 2011.

As requested by the government, IFC conducted an inventory of business licenses and identified 119 licenses that had been issued by 29 agencies. The inventory also identified business entry constraints such as inefficient and cumbersome procedures related to ex-ante licenses, systemic shortcomings including gaps in the regulatory basis, duplication of information required by different issuing agencies, and poor access to information, which affects both domestic and foreign investors.

To improve business licensing in Bhutan, IFC designed this project to play a special role by focusing on the in-depth analysis of key technical licenses, bringing knowledge of good international practice, and corresponding regulatory changes. In addition, the project covers system-wide reforms to introduce good practice in business licensing and to develop an electronic Licesign e-portal containing information related to business licenses.

Project Development Objective:

This project will help the government improve regulatory requirements underlying selected business licenses and promote streamlining, and achieve at least 25 percent time savings to the private sector due to process streamlining of three selected priority licenses. It also aims for better availability, quality, and transparency of licensing information with a targeted 10 percent reduction in compliance costs for entry licenses made more accessible through improved provision of information.

Licensing Policy: The project is supporting the government to adopt a Licensing Policy to apply international good practices in business licensing.

Information Access: The project is supporting the government to improve information both online (www.g2b.gov.bt) and at the issuing agencies' offices.

Priority License Reform: The project identified three priority licenses namely foreign direct investment (FDI) approval, project approval, and environmental clearance for in-depth reform.

Results:

1. G2B Licensing e-Portal developed and launched.
2. Information about licensing made more broadly available through information charters and brochures for 11 pilot licenses.
3. FDI approval process and policy streamlined, making it significantly quicker to obtain FDI approvals. For the priority sectors, the time reduction is from 213 days to 10.5 days, and compliance cost savings are US\$1.1 million.
4. Domestic project approval for medium and large businesses has been streamlined, making it faster and easier.

The project also aims to contribute to the following impacts by April, 2015 (i.e. three years after project completion):

- US\$1 million in compliance cost savings, and;
- US\$10 million foreign direct investment facilitation.

Key Partners: Ministry of Economic Affairs, Gross National Happiness Commission, National Envir. Commission, Ministry of Finance

