I. Introduction and Context

1.1. Bhutan has made significant economic progress, since opening up to the outside world in the 1960s. The Gross Domestic Product (GDP) of Bhutan grew at an average rate of nearly 9 percent during the Ninth Five-year Plan (2002/03-2007/07). The GDP growth rate in recent years is still robust (averaging between 6-8 percent). The prudent macroeconomic management and rational exploitation of its hydropower resources are mainly responsible for such high growth rates. The per capita Gross National Income of Bhutan in 2009 was $2,020. This figure is higher than other South Asia Region Countries, except the Maldives. Bhutan has made considerable progress in the reduction of poverty (proportion of poor people fell from 36.2 percent in 2000 to 23.2 percent in 2007). However, the poverty remains high in rural areas (30.9 percent compared with 1.7 percent in urban areas).

1.2. Road transport is the dominant transportation mode in Bhutan. The present road network length is approximately 6,000km. The network comprises National Highways (28%), District Roads (8%), Feeder Roads (15%), Farm Roads (23%) and other roads (26%). As of mid-2009 roughly 62 percent roads are paved. The existing roads network, in particular rural roads network, still remains inadequate, in terms of both connectivity and coverage. Roughly one in ten person in Bhutan live more than 6 hours away from a nearest motorable road. A significant proportion of Bhutanese roads are in poor to very poor conditions.

1.3. The country’s transport sector strategy, similar to other national strategies and programs, is framed by Bhutan’s Development Vision, which recognizes maximization of human happiness,
and not only economic progress, as an overarching goal. The development strategy for the transport sector has three broad objectives: (i) to facilitate balanced regional and urban development, support internal trade and commerce, and integrate the relatively isolated central and eastern regions with the rest of the country; (ii) to reduce the cost of international transport and improve logistics of international trade and commerce; and (iii) to improve rural accessibility (especially access to markets, employment, and education, health and social services) in an environmentally sustainable and socially responsible manner.

1.4. Although the achievement of the rural accessibility improvement objective is constrained by several challenges - the country’s rough and fragile terrain, obsolete road construction technology and practices, and insufficient resources - the Rural Access Project (RAP-I), closed on June 30, 2006, succeeded in coping with these challenges. RAP-I successfully constructed 129 km of roads using environmentally friendly methods, built and strengthened the capacity of the public road sector, and supported piloting of community-based contracting for road maintenance works. The Second Rural Access project (RAP II), which is currently being implemented, is a follow-up “repeater” operation and has been designed to replicate the positive lessons and good practices from RAP-I in three new districts of the country. RAP-II wants to achieve the objective of rural access expansion. Rural access expansion was assigned a high priority in PRSP/Ninth Plan and CAS 2006-09\(^1\). These documents reflected the Government of Bhutan (RGoB) and World Bank’s strategies at the time of RAP II design.

1.5 The original project (RAP II) has two components: (i) Component 1: Rural Access; and (ii) Component 2: Capacity Development and Implementation Support. The Rural Access component involves construction of new feeder roads (65km), upgrading of existing roads to all-season feeder road standards (24km) and construction of bridges. RGoB has recently requested the re-allocation of $0.596m of savings from the HIV/AIDS and STI Prevention and Control Project to the Second Rural Access Project. RGoB has indicated that the savings will be used to finance the Otta-sealing of two roads, which have a total length of approximately 18km. The roads are part of Bajo-Shengana road (10.6km) and road to Samdingkha village (7.50km). A portion of the first road has already been improved with low-cost sealing under the original project. These roads are expected to enhance development impact of the investment already made. Under the additional financing these two roads will be constructed. Also minor restructuring of RAP II will be done under the additional financing.

II. Proposed Development Objectives

The Project Development Objective (PDO) of the parent project is: Residents of beneficiary Dzongkhags (Districts) utilize improved rural transport infrastructure and services. No changes are being proposed to the original Project Development Objective under the additional financing. The last implementation review has rated the progress towards the achievement of the development objective and the implementation progress as being satisfactory. The project was reviewed by the Quality Assurance Group in May 2010 and a “satisfactory” rating was awarded.

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\(^1\) CAS 2006-09 was released on November 18, 2005.
III. Preliminary Description

3.1 The proposed additional financing will utilize the capacity already developed within the implementation agency and take into consideration of the lessons learnt during the implementation of the original project.

3.2 The main components of the parent project will continue under the Additional Finance grant. The additional finance for the project will include the following:

   i) **The Road Access Component - Otta-sealing (around US$ 0.596 million, excluding contingencies)** will include the following:

      a) Construction of two roads (Bajo-Shengana road and Samdingkha village road) will be Otta-sealed. The roads have a total length of 18km,

   ii) Proposed additional changes, as part of restructuring of the original project, include the following:

      a) **Change in length of roads for new construction.** Construction of 10 km of new roads.

      b) **Change in road for Otta-Seal pilot.** The road access component of the original project had envisaged that the pilot of Otta-seal would be undertaken on two roads: Riju-Bartsham road and Tangmachu-Takila road. However, due to some reasons those roads could not be Otta-sealed. In place of two roads the Otta-seal piloting was undertaken on Bajo-Shengana road (6.2km).

      c) **Performance Based Maintenance Scheme.** The Capacity Development and Implementation Support Component included the provision of technical assistance to the Pilot Performance Based Maintenance Mechanism. Given that DOR has been piloting a Performance Based Maintenance Scheme using National Work Force on its own initiatives, agreement was reached between Royal Government of Bhutan and IDA to drop this activity.

IV. Safeguard Policies that might apply

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<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
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<tbody>
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<td>Environmental Assessment (OP/BP 4.01)</td>
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<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Safety of Dams (OP/BP 4.37)</td>
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<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
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<td>Projects on International Waterways (OP/BP 7.50)</td>
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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas
V. Tentative Financing
Source: ($m.)
BORROWER/RECIPIENT 0.0
International Development Association (IDA) 0.6
Total 0.6

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