



# Country Partnership Strategy Midterm Review

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July 2009

**Bhutan**  
2006–2010

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 25 June 2009)

Currency Unit	–	ngultrum (Nu)
Nu1.00	=	\$0.0206
\$1.00	=	Nu48.59

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
DP	–	development partner
FAO	–	Food and Agriculture Organization
GDP	–	gross domestic product
GNHC	–	Gross National Happiness Commission
JICA	–	Japan International Cooperation Agency
kg	–	kilogram
kgoe	–	kilograms of oil equivalent
MDG	–	Millennium Development Goal
MfDR	–	managing for development results
MW	–	megawatt
OCR	–	ordinary capital resources
PRSP	–	poverty reduction strategy paper
OECD	–	Organisation for Economic Co-operation and Development
SASEC	–	South Asia Subregional Economic Cooperation
SME	–	small and medium-sized enterprises
SNV	–	Netherlands Development Organization
TA	–	technical assistance
UFW	–	unaccounted for water
UNDP	–	United Nations Development Programme
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	–	United Nations Children's Fund
UNIDO	–	United Nations Industrial Development Organization
UNFPA	–	United Nations Population Fund
WFP	–	World Food Programme
WWF	–	World Wide Fund for Nature

## NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 30 June 2008.
- (ii) In this report, "\$" refers to US dollars.

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## CONTENTS

	<b>Page</b>
I. CURRENT DEVELOPMENT TRENDS AND ISSUES	1
A. Recent Political and Social Developments	1
B. Economic Assessment and Outlook	1
C. Progress in Poverty Reduction	2
D. Risk Assessment	3
E. Implications for the Country Strategy	4
II. IMPLEMENTATION OF THE COUNTRY PARTNERSHIP STRATEGY	5
A. Planned Versus Implemented Assistance	5
B. Progress in the Country Partnership Strategy Focus Areas	5
C. Highlights in Coordination of External Funding and Partnership Arrangements	8
III. PORTFOLIO MANAGEMENT AND PERFORMANCE MONITORING ISSUES	8
A. Portfolio Performance	8
B. Results-Based Performance Monitoring and Evaluation	9
C. Lessons Learned at Midterm Review	10
 APPENDIXES	
1. Country and Portfolio Indicators	23
Table A1.1: Progress Toward the Millennium Development Goals and Targets	23
Table A1.2: Country Economic Indicators	24
Table A1.3: Country Poverty and Social Indicators	25
Table A1.4: Country Environment Indicators	26
Table A1.5: Development Coordination Matrix	27
Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings	35
Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources	36
Table A1.8: Portfolio Indicators—Evaluation Rating by Sector	37
Table A1.9: Portfolio Implementation Status	38
2. Indicative Rolling Country Operations Business Plan	39
Table A2.1: Indicative Assistance Pipeline for Lending Products, 2009–2012	41
Table A2.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2009–2012	42
Table A2.3: Summary Information on Proposed Indicative Lending Products and Services for 2010	45
Table A2.4: Summary Information on Proposed Indicative Nonlending Products and Services for 2010	46
Table A2.5: Updated Priority Sectors and Themes	48

## I. CURRENT DEVELOPMENT TRENDS AND ISSUES

### A. Recent Political and Social Developments

1. In September 2005, when the country partnership strategy (CPS) for Bhutan was endorsed, the country was governed by an absolute monarchy.<sup>1</sup> Since then, a process of democratization has proceeded peacefully and with remarkable continuity and stability in economic management. To provide the institutional foundation for a two-party political system of democratic governance, the National Assembly of Bhutan passed a number of important laws and regulations, including the Public Finance Act, Audit Act, Labor Act, and Environment Protection Act. The offices of an independent attorney general, the Anti-Corruption Commission, and the Election Commission were established by early 2006. Based on adult suffrage, Bhutan's first political-party-based elections for the National Assembly were held on 24 March 2008 with a voter turnout of 79%. The Druk Phuensum Tshogpa party captured 45 of the 47 seats. As a result of its electoral victory, the president of the Druk Phuensum Tshogpa party assumed charge of the Office of the Prime Minister on 9 April 2008. A 10-member cabinet was also sworn in. The first democratically elected Prime Minister and the members of the cabinet have extensive experience of public service. Of these 10 cabinet ministers, five were ministers under the previous administrative regime.

2. On 1 July 2008, the 10th Five-Year Plan<sup>2</sup> was launched. It continues initiatives started under the previous plan and aims to reduce poverty from 23.2% of the population in 2006 to 15.0% by 2013. The priority areas include infrastructure (roads, rural electrification, and urban development) and private sector development while capacity development and decentralized governance are emphasized as crosscutting themes.

### B. Economic Assessment and Outlook

3. Political stability and prudent economic management have contributed to a significant rise in living standards and improvement in development indicators. Since 1998, real gross domestic product (GDP) growth has averaged 7% per year, raising per capita GDP to around \$1,800. GDP growth has been steadily accelerating, from 6.8% in FY2005 to 7.1% in FY2006, 8.5% in FY2007, to 21.4% in FY2008 as the 1,020-megawatt (MW) Tala hydropower project came onstream. Hydropower generation is the main driver of the economy, accounting for about 55% of government revenues and nearly a quarter of GDP. Most of Bhutan's hydropower is exported to India, which is also Bhutan's largest trading partner. Bhutan's currency, the ngultrum, is pegged to the Indian rupee on a 1:1 basis, thus establishing an informal monetary union between the two countries. As a result, price movements in Bhutan closely mirror those in India.

4. At the end of FY2008, Bhutan's current account balance showed a surplus equivalent to 3.9% of GDP. Gross international convertible currency reserves of \$624.3 million were sufficient to meet 14.6 months of merchandise imports and were 1.8 times higher than the outstanding convertible currency debt of \$351 million. The ratio of total external debt to GDP was 61%; while high, the ratio had declined considerably from 84.3% of GDP during FY2006. Convertible currency earnings exceeded \$10 million for the first time and were up 8% on a year-to-year basis in the first half of 2008.

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<sup>1</sup> ADB. 2005. *Country Strategy and Program (2006–2010): Bhutan*. Manila. Since this CPS midterm review is prepared in accordance with the CPS guidelines issued in February 2007, the term "CPS" will be used to refer to Bhutan's country strategy and program (2006–2010),

<sup>2</sup> Bhutan Gross National Happiness Commission. 2008. *Tenth Five Year Plan 2008 – 2013*. Thimphu.

5. The domestic budget balance changed from a surplus of 0.7% of GDP in FY2007 to a deficit of 3.4% of GDP in FY2008 as expenditures growth (41%) exceeded revenue growth (27%). Bhutan maintains a fiscal policy that supports social sector development—the share of health and education expenditures at 30% of total expenditures exceeds the South Asia average. Despite a substantial increase in public spending, the Government has been able to maintain its policy under the Public Finance Act of meeting current expenditure from domestic revenue and containing the overall budget deficit to a maximum of 5% of GDP. The bulk of Bhutan's external debt is in rupees and is linked to hydropower projects financed by India. Debt servicing starts only when the project comes onstream, and most of the rupee debt is self-liquidating. The share of the power sector debt is 43% of GDP.

6. Despite the global economic crisis, growth prospects in Bhutan remain favorable.<sup>3</sup> The Punatsangchhu hydropower project is under construction, several other new hydropower projects are in development,<sup>4</sup> and power demand in India remains strong. Tariffs for power exports to India were increased in 2009, and an automatic tariff-escalator clause was agreed upon. In addition, a new trade route to Bangladesh was agreed upon, which will expand trade between Bangladesh and Bhutan. Although tourism growth will slow in 2009, it is expected to grow by at least 10% a year in the medium term. Further, improvements in rural transport and rural electrification bode well for the development of rural micro and small enterprises, including rural handicraft industries, high-value agriculture, and agro-processing, thus creating jobs and reducing poverty.

### **C. Progress in Poverty Reduction**

7. Bhutan's progress in reducing poverty from 36.3% in 2000 to 23.2% in 2007 keeps the country on track to achieve the income poverty Millennium Development Goal (MDG).<sup>5</sup> While rural poverty (30.9%) was significantly higher than urban poverty (1.7%) in 2007,<sup>6</sup> only 5.9% of the population reported expenditures below that needed to meet minimum food requirements. A decline in the population growth rate from 3.0% per year in 2000 to 1.5% per year in 2007 has also contributed to poverty reduction. Under the 10th Plan, targeted poverty programs will be implemented either by the Government or in partnership with nongovernment organizations and local organizations.

8. Bhutan has made significant and sustained progress in achieving the MDGs and is on track on almost all of them. In terms of the non-income MDGs, Bhutan is on track to reduce hunger; the level of malnutrition among children under 5 years old has already been halved. Bhutan has rapidly increased its gross and net enrollment for primary education and has improved its primary school completion rates, which will enable the country to achieve the universal primary education MDG before 2015. Gender equality has been virtually achieved in primary and secondary schools, and the gap in female access to tertiary training is steadily being closed. Infant mortality declined by 50% between 1990 and 2007 to 41 per 1,000 live

<sup>3</sup> The Royal Monetary Authority estimates growth of 6.2% for Bhutan in FY2008 and forecasts 6.0% growth in 2009. Royal Monetary Authority of Bhutan. 2009. *Annual Report 2007/2008*. Thimphu.

<sup>4</sup> In the 10th Plan, five hydropower projects—Punatshangchu I (1,095 MW), Punatshangchu II (992 MW), Mangdechu (670 MW), Chamkharchu I (670 MW), and Amochu (500 MW)—will be undertaken.

<sup>5</sup> Compared to a world poverty line of \$1.25 a day, calculated at 2005 purchasing power parity, an estimated 27% of the population would have been classified as poor in 2000. A. Bauer et al. 2008. *The World Bank's New Poverty Data: Implications for the Asian Development Bank*. ADB Sustainable Development Working Paper Series. No. 2. Manila.

<sup>6</sup> The Poverty Analysis Report established the poverty line of Nu1,096.94 per person per month, or just under \$1 a day. Bhutan. 2007. *Poverty Analysis Report 2007*. National Statistics Bureau. Thimphu.

births, while child immunization rates rose from 85% in 2000 to 90% in 2007. Maternal mortality was a third of what it was in 1990, but it continues to be relatively high at 255 per 100,000 live births. Bhutan has had notable achievements in reducing the incidence of malaria and tuberculosis, but the spread of HIV/AIDs is a concern (even as incidence remains below 0.01%). Bhutan has achieved its MDGs for water supply and sanitation: 81% of the population has access to safe drinking water and 90% had access to improved sanitation in 2007. Bhutan continues to maintain a high level of forest cover, and it reserves 29% of the total land area as a protected area for biodiversity conservation.

#### **D. Risk Assessment<sup>7</sup>**

9. Steady progress has been made in improving governance, particularly in public sector financial management, corruption control, and fostering transparency in public sector decision making. Throughout this CPS period, Bhutan has been ranked among the top two performers in governance among Asian Development Bank (ADB) developing member countries in the annual country performance assessment. Bhutan's democratization process has enhanced the rule of law and has strengthened checks and balances on the operations of the Government. The National Assembly of Bhutan passed a number of important laws and regulations. These include the Judicial Services Act, Attorney General Act, Information and Communication Act, Local Government Act, Public Finance Act, Audit Act, Anti-Corruption Act, Labor and Employment Act, and the Environment Protection Act. The Office of the Attorney General, the independent Anti-Corruption Commission and the Election Commission were established by early 2006.

10. The Ministry of Finance has a strong analytical capability to monitor expenditures and revenues, and to maintain fiscal discipline. Since 2005, forward budget planning has been strengthened with the implementation of the medium-term expenditure framework and the multiyear rolling budget. With ADB assistance, the Ministry of Finance has introduced a computerized integrated nationwide financial management system linking it with spending agencies in each of the districts. A multiyear rolling public sector investment program has been introduced. With the support of two ADB technical assistance (TA) projects,<sup>8</sup> public debt reporting and monitoring has graduated to a full-fledged debt management system.

11. Alongside growth in public investment, the Government's public procurement policies and practices have improved. The Public Procurement Policy Division, established in the Ministry of Finance, has issued new and updated bidding and tender procedures, which were introduced government-wide on 1 April 2009, and listed on the Ministry of Finance's website (<http://www.mof.gov.bt>). In June 2008, the World Bank approved the Institutional Capacity Building Project for Procurement, which aims to improve procurement outcomes by progressively upgrading the national public procurement system in Bhutan. At the request of the Government, ADB has been providing assistance to the Public Procurement Policy Division to strengthen its capacity to manage public sector procurement. ADB will provide sequential

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<sup>7</sup> A country governance assessment was undertaken as part of the CPS background thematic studies, including assessment of "key issues in sector governance." A full-fledged second governance and anticorruption action plan assessment, which will include governance risk assessment and sector capacity assessments, covering among others procurement and financial management, will be undertaken as part of the preparation of the next CPS.

<sup>8</sup> TA 4871-BHU: Capacity Building of the Department of Aid and Debt Management's Debt Management Unit approved on 20 November 2006 and TA 3893-BHU: Strengthening the Debt Management Capacity of the Department of Aid and Debt Management approved on 04 July 2002.

follow-on assistance, if necessary, and a provision for this is included in the 2010–2012 forward program.

12. In line with its policy of fostering decentralization, the estimated outlays in the 10th Plan will be divided between the central sectors and agencies and the districts based on a 70:30 ratio. However, while institutional capacity has been strengthened considerably in the central Government, local administrations have little experience in the design and management of public expenditure programs. To help overcome local government weaknesses, capacity development programs for local government officials are being established with support from development partners including ADB.

13. Oversight is provided by, among others, the National Assembly's Public Accounts Committee, which oversees the expenditure of public money. The Royal Audit Authority audits all accounts of public sector entities once a year. Institutional mechanisms are in place to resolve the auditor general's comments and, if necessary, for imposing fines. The auditor general submits an annual report to the Prime Minister, and the report is made available to the public through the three newspapers in the country and over the internet. Bhutan scores well on corruption control indicators. In 2008, Bhutan scored 5.2 of 10 in Transparency International's corruption perception index, and was ranked 45th of 180 countries—retaining its position as the least-corrupt country in South Asia.

14. Institutional mechanisms have been established to discourage corruption.<sup>9</sup> At the highest levels, the executive is held accountable for its actions by the National Assembly, which meets twice a year. In addition to the existing Royal Civil Service Commission and the Royal Audit Authority, two more constitutional bodies—the Anti-Corruption Commission and the Election Commission—were established in 2006 to promote and ensure good governance. The Anti-Corruption Commission has been investigating reports of corruption and preventing corruption through education, outreach, and advocacy. The Anti-Corruption Act, passed in July 2006, endowed the commission with substantial investigative powers. Compliance with its investigations is good, and public awareness and discussion of corruption has substantially improved. The Anti-Corruption Commission had received 1,576 complaints as of 30 September 2008—498 complaints in 2006, 791 in 2007, and 287 in 2008. Of the total, 34 cases involving 196 persons were investigated, and 24 were forwarded to the attorney general's office for prosecution. The actions have resulted in the recovery of Nu34 million, some 25.5 hectares of land, and recommendations for policy change and regulatory improvement in three agencies.<sup>10</sup>

## **E. Implications for the Country Strategy**

15. In the Bhutan CPS 2006–2010, the strategy of poverty reduction through assistance for programs and projects in four core sectors (roads, power and rural electrification, urban infrastructure, and financial sector and private sector development) and capacity development in operational sectors and for the overall development management is fully aligned with the development priorities articulated in the 10th Plan. The operational program that is being implemented is fully consistent with the strategy. If anything, the relevance of the CPS has increased as the newly elected Government focuses on accelerating infrastructure development to foster inclusive growth. Based on this feedback from the Government and development partners during the midterm review consultations—and as is evident from the composition of the

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<sup>9</sup> Bhutan also became the 28th member of the ADB–Organisation for Economic Co-operation and Development (OECD) Anti-Corruption Initiative for Asia-Pacific on 3 September 2007.

<sup>10</sup> Bhutan Anti-Corruption Commission. 2009. *Annual Report 2008*. Thimphu.

3-year forward program for 2010–2012—the CPS remains relevant and responsive to Bhutan's development context and Government priorities. This midterm review recommends that the CPS should continue to be implemented as planned during the balance of the CPS period.

## II. IMPLEMENTATION OF THE COUNTRY PARTNERSHIP STRATEGY

### A. Planned Versus Implemented Assistance

16. The Bhutan CPS has been implemented as planned. While annual business plans have been used to fine-tune the sequence and scope of assistance operations, the strategic priorities of the CPS and what has been delivered have been highly consistent. The CPS called on ADB to be the lead development partner to provide catalytic assistance in four sectors: (i) roads, (ii) power and rural electrification, (iii) urban infrastructure, and (iv) financial sector and private sector development. Operations have been delivered as planned in roads (2005 and 2009), power and rural electrification (2006 and 2008), urban infrastructure (2006), and financial sector (2006) and private sector development (2007). All operations have included support for strategic investments, policy reform, and institutional capacity development. Further, as envisaged by the CPS, policy and capacity development support has been provided, among others, to improve the management of the economy, foster sustainable development, and catalyze private sector development. That the CPS lending and nonlending program has been delivered as planned and that the major country-level results have been achieved, with the assistance of ADB and other development partners, is further evidence of the relevance and robustness of the CPS. It also demonstrates the strong ownership and importance the Government attaches to the timely delivery of the program and to its partnership with ADB.

### B. Progress in the Country Partnership Strategy Focus Areas

#### 1. Pillar I: Broad-Based Economic Growth

17. **Transport.** Landlocked and mountainous, Bhutan depends heavily on the existing network of national trunk roads as the principal mode of internal transport. The Government's strategy in road network development has been guided by the road sector master plan (2007–2027), developed with ADB support. The plan focuses on improving access and connectivity throughout the country. ADB's CPS directly provided support to the Government's objective of improving access and indirectly to social and economic activities, including MDGs, by building more roads and enhancing the existing road network. Areas and communities serviced by an ADB-financed road have often subsequently been provided with schools and basic health units by the Government. ADB policy dialogue and advisory assistance has focused on (i) the need to improve sector policy and planning, road asset management, and road safety; and (ii) capacity development of the Department of Roads. Under a Japan Fund for Poverty Reduction grant<sup>11</sup> complementing the Road Improvement Project,<sup>12</sup> ADB provided assistance to reduce poverty among road workers and their children. The grant provided better shelter, water, sanitation, health care services, access to schooling, and access to roadside shelters for road workers,

<sup>11</sup> ADB. 2005. *Proposed Grant Assistance (Financed by Japan Fund for Poverty Reduction) to Bhutan for Improving the Well-Being of Road Workers*. Manila (JFPR: BHU 37031).

<sup>12</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Bhutan for the Road Improvement Project*. Manila (Loan 1763-BHU, approved 3 October 2000).

more than 50% of whom were poor women. Follow-on road sector assistance is being provided under the Road Network Project<sup>13</sup>, approved in 2005.

18. Despite steady progress, accessibility of its communities remains a major development constraint in Bhutan. As such, it is considered a priority development area under the 10th Plan. To assist Bhutan in meeting this development challenge, ADB is preparing a new road sector project for approval in 2009 to be complemented by a follow-on project in 2012. Road construction under the Road Network Project has suffered from delays and cost overruns, but is forecast to catch up in 2009 and 2010. The main reasons for the delays are the limited capacity of local contractors and greater time spent on land acquisition at selected sites. Designs of future projects will address these issues up front to minimize and eventually eliminate delays. Quantitative indicators of ADB's contribution to the achievement of sector and national goals are summarized in the updated CPS results framework.

19. **Power and Rural Electrification.** Hydropower generation is the mainstay of Bhutan's economy, accounting for 55% of government revenues and nearly a quarter of GDP. Most of Bhutan's hydropower is exported to India. The revenue generated, among others, is used to finance electrification, which is another high priority development area. ADB assistance to the power sector comprises rural electrification, sector policy and regulatory reform, and capacity development of sector institutions. In 2008, the scope of ADB assistance was enlarged with the Green Power Development Project<sup>14</sup> supporting further rural electrification and the run-of-the-river Dagachu hydropower project for power export—the first project in Bhutan to utilize a public–private partnership.

20. Steady progress has been made in improving access to rural electrification. During the Ninth Plan period (ending 30 June 2008), ADB's past three power projects contributed almost one-third of the progress registered in rural electrification. Like roads, rural electrification assistance has also had indirect benefits, such as income-generating opportunities and poverty reduction. ADB has provided capacity development support to foster the reform and transformation of the key institutions involved in power sector development. The Bhutan Power Corporation (created with ADB assistance) has registered steady gains in operational efficiency. After a series of tariff increases, it started generating profits in 2006. In addition, ADB has provided support to build the institutional capacity for the sector regulator, the Bhutan Electricity Authority, which has resulted in an improved regulatory and governance framework for the sector. With ADB support, the Druk Green Power Corporation was established in 2007 to promote public–private partnerships for hydropower projects. ADB will continue to support rural electrification in Bhutan. Simultaneously, the development of renewable energy sources, especially to expand off-grid rural electrification, and in particular public–private partnerships to harness hydropower, will be supported. Quantitative indicators of ADB's contribution to the achievement of sector and national goals are summarized in the updated CPS results framework.

21. **Financial and Private Sector Development.** ADB assistance in the financial sector has aimed to strengthen the Royal Monetary Authority, improve the overall policy framework, strengthen the enabling environment for private sector development, and support the microenterprise subsector. Support to establish the Credit Information Bureau, adopt

<sup>13</sup> ADB. 2005. *Report and Recommendation of the President to the Board of Directors on the Proposed Road Network Project*. Manila (Loan 2187, approved 30 September 2005).

<sup>14</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors on the Proposed Loan, Asian Development Fund Grant, Technical Assistance Grant and Administration of Grant for the Bhutan Green Power Development Project*. Manila (Loan 2463/64-BHU, approved 29 October 2008).

international accounting and auditing policies and standards, and develop an effective anti-money-laundering framework will improve the quality of credit assessment and financial disclosure of financial institutions. It will also strengthen investor confidence in the financial system.

22. The progress made in strengthening the Royal Monetary Authority and improving the policy environment for the financial sector is paying off. Since the start of the CPS, the financial sector has grown rapidly and development credit to the private sector has increased significantly, while financial institutions have become more efficient. Assistance provided under the micro, small, and medium-sized enterprise program will enable the provision of finance to new and small entrepreneurs who have difficulty accessing credit through formal mechanisms based on collateralized lending. Faster private sector growth and the expansion by micro, small, and medium-sized enterprises are also expected to help absorb the increasing number of young people and new graduates entering the labor force, and will broaden and diversify economic activities. Quantitative indicators of ADB's contribution to the achievement of sector and national goals are summarized in the updated CPS results framework.

23. **Regional Cooperation.** Bhutan remains an active member of various regional cooperation forums facilitated by ADB. The ADB-assisted Bhutan Green Power Project's Dagachu hydropower component aims to export power to India with a cross-border clean development mechanism. The proposed 2009 Road Network II project has access to regional cooperation and integration funding to develop additional north–south trade corridors.

## 2. Pillar II: Inclusive Social Development

24. **Urban Development.** Bhutan's urban population comprises 31% of the total population. By 2020, more than 50% of the population is expected to be living in urban areas. Rapid urbanization has been placing a heavy strain on public amenities and services. ADB assistance for urban development has aimed to improve urban infrastructure services, upgrade city planning, and strengthen the planning and management functions of municipal corporations. Support has also been provided to develop a regulatory framework for urban governance, introduce cost recovery measures for a range of urban services, and develop the capacity of sector institutions. Quantitative indicators of ADB's contribution to the achievement of sector and national goals are summarized in the updated CPS results framework.

## 3. Pillar III: Good Governance

25. **Capacity Development.** Building capacity for effective development management is one of the pillars of the Bhutan CPS. The rationale for ADB's assistance for capacity development is to strengthen the development management process in key sectors and for the economy as a whole. Under the CPS, about 60% of all TAs, by value, have been allocated for capacity development. During 2010–2012, about 70% of grant TAs, by value, are programmed for capacity development, including strengthening decentralized governance to improve local service delivery.

26. ADB assistance has made important contributions to capacity development during this CPS period. Notable accomplishments include (i) strengthening the capacity for formulating sector policies and regulations, including those for the four CPS focus sectors; (ii) improving analytical basis, statistical data collection capacity, and demand for data by strengthening the capacity of the National Statistics Bureau; (iii) improving public sector financial management by establishing a computerized integrated nationwide financial management system linking the

central Ministry of Finance with spending agencies in each of the country's 20 districts, developing a multiyear rolling budget and fiscal transfers framework, and sequencing assistance to strengthen public debt management capacities; (iv) enhancing financial sector prudential regulations through assistance to the Royal Monetary Authority and by establishing the country's first Credit Information Bureau; (v) defining and enunciating foreign direct investment policy; (vi) strengthening the National Environment Commission in general and establishing a Clean Development Mechanism unit within the National Environment Commission; (vii) assisting the process of labor market reform; and (viii) strengthening the Royal Audit Authority for improved accountability framework nationally and locally. Capacity development reform has expanded opportunities for private sector development, improved the effectiveness and efficiency of public spending, enhanced the poverty orientation and evidence base for national planning efforts, and fostered greater accountability and participation in planning and public investment management—reforms that were part and parcel of Bhutan's rapidly evolving democratization process. Additional details of outputs and quantitative indicators of ADB's contribution are summarized in the updated CPS results framework.

### **C. Highlights in Coordination of External Funding and Partnership Arrangements**

27. Aid coordination in Bhutan works well because the Government has a small number of development partners and sets clear priorities. The only formal coordination mechanism is the biennial roundtable meeting organized by the Government. The Government used the 10th roundtable meeting, held in Thimphu on 17–18 February 2008, to outline the 10th Plan development priorities. The meeting also provided development partners with an opportunity to review alignment of their assistance programs with national development priorities. An important change in partnership arrangements in recent years has been the Government's new policy of encouraging private sector involvement in development initiatives through public–private partnerships. While commercial infrastructure would be prioritized for such partnerships, other possibilities include information and communication technology services, dry port management, renewable energy, and municipal services.

28. ADB has maintained close cooperation with multilateral and bilateral funding agencies and civil society organizations to strengthen the effectiveness, quality, and sustainability of its assistance. In the power sector, ADB and the Japan International Cooperation Agency (JICA) draw on the power sector master plan, which was prepared with JICA assistance. Similarly, several development partners are using the road sector master plan developed with ADB assistance to support the transport sector. To mitigate climate change effects, the Bhutan Green Power Project drew on global trust funds and carbon credits. The Government is coordinating assistance for procurement reform, and the World Bank is providing initial assistance. Should further assistance be required, ADB has included TA support in its forward program.

## **III. PORTFOLIO MANAGEMENT AND PERFORMANCE MONITORING ISSUES**

### **A. Portfolio Performance**

29. Since the start of its operations in Bhutan, ADB has provided \$305.5 million for its lending program comprising 25 loans and 6 grants and has approved \$42.4 million for 105 TA projects.<sup>15</sup> ADB has six ongoing investment operations with a net amount of \$191.4 million and 11 TA projects with a cumulative value of \$7.1 million. Of these TA projects, eight are advisory

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<sup>15</sup> As of 31 March 2009.

TA grants and three are project preparatory grants. Implementation of TA projects has improved during the CPS period under review because executing agencies have a greater say over implementation performance, reflecting a high degree of ownership.

30. Funding for ADB's Bhutan investment operations comes from the concessional Asian Development Fund (ADF); since 2007, all assistance has been provided in the form of grants. Country-specific allocations from ADF are based on the outcome of the country performance assessments in which portfolio performance has a weight of 15%. Bhutan's portfolio performance ratings for the past 3 years are summarized in Table 1.

**Table 1: Portfolio Performance Rating, 2006-2008**

<b>Country</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Bhutan	6.0	5.0	3.0
ADF Group A Countries (average)	4.9	4.8	3.6

Note: Rating scale is 1–4 for 2008; 1–6 for prior years.

Source: ADB Country Performance Assessment exercise 2006 – 2008

31. The portfolio performance declined in 2008 because of a delayed award of a road sector project, which did not leave enough time to generate appreciable disbursement of the contract in that year. With the small number of projects in the portfolio, suboptimal performance by even one project has a magnified impact on the overall portfolio. Despite low disbursement in 2008, the six existing loan projects are expected to satisfactorily meet their development objectives and sustain project benefits (Appendix 1, Table A1.6).

32. None of the projects has been at risk during this CPS period. In addition, compliance on submission of audited accounts in 2007 and 2008 was 100%. Project start-up time has been good with overall loan start-up indicators being within ADB averages for time from approval to signing (3.9 months) and time from signing to effectivity (4.3 months).

33. ADB undertook country portfolio review missions in 2005, 2006, 2007, and 2009 with the Government.<sup>16</sup> This resulted in a series of agreed upon actions to improve portfolio performance and to enhance project supervision. To improve the financial performance of the portfolio, regular, intensified training in ADB disbursement and procurement procedures will be provided. Moreover, the Government agreed to a proposal by the midterm review to establish a two-tiered project review mechanism—one at the ministerial level, which would focus on project-specific issues; and a second under the Ministry of Finance, with representation of concerned ministries, to address systemic and crosscutting issues in a timely manner.

## **B. Results-Based Performance Monitoring and Evaluation**

34. Progress on CPS outcomes has been monitored and reported in the updated CPS results framework. While the strategic coverage and sector focus of the CPS have not changed, the 2005 results framework has been revisited to provide a status update at the time of midterm review and to show more explicitly the measures that will be used to mitigate anticipated program risks. The business plan (Appendix 2) has been formulated to be fully consistent with Government priorities and the strategic focus of the CPS. On 21 April 2009, the Government

<sup>16</sup> The 2008 portfolio review mission was deferred because of logistical difficulties associated with the closure of Bangkok airport, but the background discussion paper was sent to the Government, with a follow-up letter in January 2009.

confirmed the aide memoire of the Midterm Review Mission—including the program for 2010–2012.

35. Steady progress has been made in incorporating results, particularly poverty measures, in national planning efforts. In cooperation with development partners, ADB will contribute to improving the capacity for managing for development results by providing capacity building advisory assistance to support the development of a tracking system for the 10th Plan. It will also provide support for poverty tracking through the next round of the national living standards measurement survey. During the first 3.5 years of CPS implementation, Bhutan has exceeded its income growth and poverty reduction objectives for the entire 5-year period, and the country is on track to achieve almost all of its MDGs. ADB assistance has been implemented in line with the country strategy, and ADB support has made important contributions to national results in all the sector and thematic areas in which it provides assistance. With democratization and a growing political desire to foster more inclusive growth, the CPS architecture has become even more relevant to the challenges faced by Bhutan today than it was 3 years ago. Therefore, this midterm review recommends that the CPS should continue to be implemented as planned during the balance of the CPS period.

### **C. Lessons Learned at Midterm Review**

36. Three key lessons have emerged from this midterm review. First, tightly focusing and aligning ADB assistance with national plan priorities, while responding flexibly in terms of project sequencing within the four defined focus sectors, has contributed to a sense of certainty and confidence in terms of resource availability. It has also secured strong government ownership of the program. Second, success has been most sustainable when there is a long-term involvement in core sectors that combines sector policy reform and institutional capacity development with increasing investment projects to accelerate development. Third, introduction of innovative institutional approaches to involve the private sector in infrastructure development can be done in ways that improve environmental sustainability, while broadening participation in the growth process.

**MATRIX: UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK (2006–2010)**

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
<b>Pillar I: Sustainable Pro-Poor Economic Growth</b>						
Annual growth rate of 6.5% in 2002 increasing to 8% in the medium term, and halving of rural poverty from 31% in 2005 to 16% in the medium term	Isolation; narrow economic base; shallow financial sector; underdeveloped private sector; high cost structure due to poor and inadequate road infrastructure	Reduced isolation by increasing road connectivity; diversified rural economy, higher returns to human resource development, and reduced depletion of forest cover by rural electrification	Increase in national road network from 1,477 km in 2005 to 1,700 km by 2010, and feeder roads from 161 km to 300 km by 2010. The share of maintained paved roads will increase from 70% in 2005 to 92% in 2010. The share of the population with access to electricity will rise from 42% in 2005 to 60% in 2010, and operating losses will decline from 14% to 12% over the same period. Reduction in rural poverty; greater access to social services; establishment of micro enterprises in rural areas; more opportunities for women because of time savings and improvement in health and education indicators.	Road Improvement Project; Road Network II Project;  Rural Electrification and Renewable Energy Project  Harmonization with other development partners (DPs) lending and nonlending support	<p><b>Road Sector Outcomes</b></p> <p>About 1,990 km of national and district roads paved, exceeding road sector master plan targets for 2015</p> <p>Improved connectivity with 45% of the rural population living, by 2010, within half-a-day's walk from a road and the number of unconnected Geogs (block made up of several villages) reduced from 77 in 2005 to 64 in 2008 versus the target of 50 in 2010</p> <p>Increased road use and revenue with vehicle numbers having increased by 19% per year</p> <p>Maintenance backlog reduced to 9.5%</p> <p>The annual routine maintenance and resurfacing budget in 2008 has increased to \$7 million</p> <p>90% of road works (some \$35 million worth per year) outsourced to the private sector compared with the target of \$6.9 million in 2006</p> <p><b>ADB's Main Contribution</b></p> <p>Road Improvement Project resealed some 328 km of the east–west highway, reducing road roughness by 19%–44% and vehicle operating costs by 19%–38%, and lowering travel time by 25%. Traffic on that road increased substantially and maintenance costs were reduced because of better resurfacing specifications.</p> <p>A TA grant associated with the loan was successful in helping to prepare a road sector master plan, improving the planning capacity of the Department of Roads, and developing the Road Act, which was approved by the National Assembly in 2005.</p>	<p><b>Inadequate donor assistance forthcoming.</b> Risk can be mitigated by increasing foreign borrowings.</p> <p><b>High degree of dependence on hydropower revenues.</b> Risk has been mitigated by Government fiscal projections that exclude hydropower revenues.</p>

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p>Capacity was built within the Department of Roads for contracting out civil works to the private sector (rising from almost no private sector involvement in 2000 to 90% of civil works in 2009) and conducting road safety audits.</p> <p>Significant progress has also been made in road safety, with new signage, grass areas, and some 40 km of highway safety (crash) barriers developed in the past 3 years.</p> <p>A road asset management system was introduced.</p> <p>ADB Japan Fund for Poverty Reduction assistance has helped improve access to services and living standards for some 4,000 low-income road workers.</p> <p>The ongoing Road Network Project is strengthening part of the Trongsa–Gelephu national highway (about 140 km of the total 245 km), including a 16 km realignment between the Mangdichu and Wangdigang bridges. Construction is ongoing and also includes four feeder roads: Mirchim–Bongo (17.5 km) and Tekizam–Bjena (6.5 km) in the west and Garbagtang–Autsho (51 km) and Khardungla–Kangpara (28 km) in the east.</p> <p><b>Indirect Benefits.</b> Easier access to schools and basic health services. Access to transport has facilitated establishment of schools and basic health units.</p> <p><b>Link to CPS.</b> Increasing access, greater opportunities for the rural/remote population to participate in market economy, enhanced competitiveness, and less poverty.</p>	

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p><b>Power and Rural Electrification Sector Outcomes</b>  Hydropower capacity quadrupled from 2000 to 2007 to reach 1,489 MW.</p> <p>By 2007, 60% of households were electrified and 1,318 villages electrified.</p> <p>ADB assistance finances one-third of total growth in rural electrification, including bringing access to 17,400 rural households during the Ninth Plan period.</p> <p>Bhutan Electricity Authority develops capacity to regulate the sector and secures a series of increases in domestic power tariffs.</p> <p>Druk Power corporation was established to enable public-private partnerships.</p> <p>First public-private partnership (Dagachhu hydropower project) was launched in 2007.</p> <p><b>ADB's Main Contribution</b>  ADB assistance finances one-third of total growth in rural electrification, including bringing access to 15,000 rural households during the Ninth Plan period.</p> <p>The Sustainable Rural Electrification Project (Loan 1712-BHU) provided electricity to 8,090 new rural consumers, and extended 100 solar panels to remote rural villages.</p> <p>ADB assisted the Government in transforming the Department of Power from a Government department into a corporation. Greater financial and management autonomy has been achieved with the disaggregated and corporatized Department of Power (now the Department of Energy) and the Bhutan Power Corporation.</p> <p>Bhutan Electricity Authority develops capacity to regulate the sector and secures a series of</p>	

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p>increases in domestic power tariffs.</p> <p>The Rural Electrification and Network Expansion Project developed the grid to provide electricity to about 9,200 rural consumers and, also to hospitals, schools, and other public facilities.</p> <p>A renewable energy policy is being developed.</p> <p>In 2008, ADB's single largest assistance package (total ADB assistance of \$106 million) approved for Bhutan under the Bhutan Green Power Development Project.</p> <p>The Bhutan Green Power Development Project will finance the Dagachhu hydropower project, a 114 MW hydropower project that will electrify an estimated 8,900 domestic households and facilities in remote central and eastern regions.</p> <p>This project represents Bhutan's successful use of the public-private partnership modality, which could potentially be replicated in other sectors.</p> <p><b>Indirect Benefits.</b> Better health conditions (i.e., cleaner water), less environmental damage (reduced use of fuelwood), and better academic performance (because of household lighting), all of which contribute to accelerated achievement of non-income MDGs.</p> <p><b>Link to CPS.</b> Hydropower development drives economic growth and substantially increases Government revenues. Establishment of a public-private partnership modality increases the Government's ability to tap Bhutan's vast hydropower resources.</p> <p>Expansion in access to power in rural areas increases range of alternative income-generating activities; contributes to time and cost savings with respect to water collection and household cooking (i.e., greater use of rice cookers), with more time also available for study.</p>	

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
Diversification of sources of growth	Nonresponsive financial sector; lack of skilled labor; cumbersome government procedures; limited jobs for educated youth; little access to credit for SMEs; tourism sector constrained by Government policy	More competition in the financial sector; streamlining of Government industrial license procedures; increase in the share of credit to SMEs; gradual liberalization of the tourism sector; wider access to microcredit, greater diversity of nonbank financial institutions (NBFIs), and more effective NBFIs regulation.	Share of private sector in GDP increases from 34% in 2005 to 44% by 2010; credit to the private sector rises from 20% to 30% of total financial assets. Interest rate spreads decline by 200 basis points by 2010. Number of listed companies on the Bhutan Stock Exchange (BSE) rises by 25% by 2010. Tourism visitor arrivals reach target of 15,000 by 2010.	Financial Sector Program Project II  SME and Microcredit Development Project  Harmonization with other DPs lending and nonlending support	<p><b>Financial Sector and Private Sector Development Outcomes</b></p> <p>Total assets of the two depository banks increased from Nu22 billion in 2004 to Nu28 billion in mid-2008.</p> <p>Credit to the private sector has increased by more than 30% since 2005 (rising from 20% of GDP in 2005 to 30% of GDP in 2007)</p> <p>Interest margin has declined from 6%–7% in 2005 to 6%–6.5% in 2007.</p> <p>Number of firms listed on the stock exchange has increased to 19, although trading volumes remain low.</p> <p>Private sector activity has increased: Gross domestic investment rose by 9.5% per year during the Ninth Plan, with private investment accounting for 79% of total investment.</p> <p>Private investment averaged 32% of GDP between 2003 and 2007.</p> <p>Number of registered private establishments rose from 15,484 in 2004 to 26,130 in 2007.</p> <p>Tourism arrivals grew by 20% per year to 2008.</p> <p>Economic development policy, Industrial Investment Act, Enterprise Registration Act, and labor law regulations have been formulated.</p> <p>Time required to register a new business declined from 64 days in 2006 to 40 days in 2008.</p> <p><b>ADB's Main Contribution</b></p> <p>A financial sector development strategy was prepared and incorporated in the Ninth Five-Year Plan.</p> <p>The government employees' provident fund is restructured, a new pension fund introduced,</p>	<p><b>Main risk is that competitiveness falters because of large inflows of hydropower revenues.</b> Risk mitigation: the effective currency link with India should help sustain macro-competitiveness, and growing numbers of school graduates will bolster support for policies that enlarge the scope for private sector development.</p>

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p>and rules and regulations for strengthening supervision of pension funds and insurance companies adopted.</p> <p>Payments system improved by establishment of a Bhutan check truncation system.</p> <p>Revised Royal Monetary Authority Act is adopted and a revised Financial Services Act prepared.</p> <p>An institute for financial sector development within the Royal Monetary Authority is launched.</p> <p>New licensing regulations for banks have been prepared, and two new banks and one insurance company have been provided provisional licenses.</p> <p>Establishment of a credit information bureau has been initiated.</p> <p>New accounting and auditing policies are being developed.</p> <p>New anti-money-laundering rules and procedures are being developed.</p> <p>To help foster private sector development, a new economic development policy has been formulated and is under review.</p> <p>Stronger project financing capacities were developed, and new risk appraisal procedures adopted by the commercial banks, which has helped improve access to finance for the private sector.</p> <p>New credit lines for micro, small, and medium-sized enterprises have begun to be intermediated by Bhutan Finance Development Corporation, through which 1,400 enterprises are expected to gain access to finance and 250 enterprises will receive training in improving</p>	

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p>entrepreneurship.</p> <p>Training for conducting regulatory assessment is being undertaken to identify priorities for deregulation and regulatory improvement.</p> <p><b>Indirect Benefits.</b> Improvements in the financial sector and private sector enabling environment will reduce the demands on the Government to provide services, and will allow the Government to concentrate more on its core policy-setting and regulatory functions.</p> <p><b>Link to CPS.</b> Improvements in the financial and private sector enabling environment are steadily easing constraints on private sector activity. This is reflected in strong growth in credit to the private sector, the entry of new banks into the financial market, sharp growth in the number of registered private firms, and an expansion and a diversification in private sector initiatives. A key challenge faced by the Government during the 10th Plan period is the creation of jobs for some 90,000 expected school graduates. More private sector activity, arising primarily from micro, small, and medium-sized enterprise development, is expected to meet the bulk of the employment generation challenge.</p>	
<b>Pillar II: Inclusive Social Development</b>						
Expand urban infrastructure network to cover the urban poor	Inadequate infrastructure facilities	Provide access to safe water, sewerage and sanitation, and other basic infrastructure facilities to the poorer and unserved segments of the urban population. Assist in follow-on urban municipal infrastructure improvements	<p>The share of the urban households with access to safe drinking water increases from 38% in 2002 to 50% by 2010.</p> <p>Basic health indicators of the urban population in the two main cities improve from baseline surveys to 3 years beyond CPS</p>	<p>Urban Infrastructure Development (I and II) projects</p> <p>Harmonization with other DPs lending and nonlending support</p>	<p><b>Urban Sector Outcomes</b></p> <p>Basic urban services have been improved in Bhutan's two largest cities (Thimphu and Pehunsholing)</p> <p>Municipal governance in Thimphu has improved with the new Municipal Act, building rules, urban area and property regulations, water and sanitation rules, and a development control regulation. Management responsibilities have gradually been devolved to major municipalities.</p>	<p><b>Inadequate donor assistance forthcoming.</b></p> <p>Risk can be mitigated by increasing foreign borrowings</p>

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
			<p>completion period.</p> <p>Increased use of cost recovery mechanisms to finance urban development.</p> <p>The land-pooling exercise to underpin rational urban planning is completed.</p> <p>An urban development master plan and revision of key laws affecting housing and urban development are completed.</p> <p>By 2010, an additional 10% of the urban population will have access to safe and affordable housing, and 18% to electricity connections.</p>		<p><b>ADB's Main Contribution</b>            ADB's first urban infrastructure project—the Urban Infrastructure Improvement Project (Loan 1625-BHU)—financed the development of 9.4 km of drainage, 1.1 km of river training works, 6.9 km of roads, 5.2 km of footpaths, and 11,493 m<sup>2</sup> of parking space in Thimphu; and 3.6 km of drainage, 2.5 km of river training works, 1.5 km of roads, 4.2 km of footpaths, and 8,771 m<sup>2</sup> of parking space in Pheuntsholing. Access bridges were also constructed in both cities. This first project has contributed to a lower rate of accidents because of the improvements in the footpaths, the enhancement of vehicular flow, and the construction of traffic junctions; and a lower risk of flooding and environmental degradation because of the river training works. The first project also strengthened municipal planning and introduced cost-recovery measures for a range of urban services.</p> <p>The Second Urban Project is underway to improve, upgrade, and expand urban infrastructure facilities and basic urban services in Thimphu and Phuentsholing and one regional center (Dagana). This is improving roads, street lighting, and other urban infrastructure in Phuentsholing. The project has initiated a land-pooling exercise to facilitate the expansion of urban development in southern Thimphu and has initiated Solid Waste Management works for Thimphu City.</p> <p><b>Indirect Benefits.</b> Improving access to urban services has contributed to higher quality education and health care services, contributing also to achievement of broader social development objectives. Improvements in sanitation awareness have also contributed to non-income MDGs.</p>	<p><b>High degree of dependence on hydropower revenues.</b> Risk has been mitigated by Government fiscal projections that exclude hydropower revenues.</p>

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p><b>Link to CPS.</b> Improved access to clean drinking water, sewerage, and sanitation services in the major urban areas directly contributes to Bhutan's low urban poverty rates, and to the achievement of its non-income MDGs. Bhutan's main urban areas have become more livable, and are better able to absorb inflows of rural-urban migrants. Consolidation of the population in a smaller number of well-served urban centers will reduce the costs of providing services and boost economies of scale and the scope for private sector development. Progress has been made in fostering an urban development process that is well-planned, orderly, and increasingly incorporates aspects of cost-recovery and private sector participation.</p>	
<b>Pillar III: Good Governance</b>						
Capacity Building	Inadequate capacity for implementing second generation reforms in the energy sector and strengthening capacities of the Department of Roads and urban planning by city corporations. Capacity enhancements also needed for public resource management including external debt	<p>Institutional development of the Department of Roads to manage all aspects of road construction and associated policy framework, including a framework for public-private partnerships</p> <p>Development of an action plan for implementing the National Environment Strategy by the National Environment Commission (NEC)</p> <p>Capacity in the Ministry of Finance for analyzing implications of external debt under a variety of</p>	<p>Enhanced government capacity to plan and implement appropriate policies in the identified areas.</p> <p>(i) development of a policy framework by Department of Roads (DOR) for public-private partnerships in the roads sector;</p> <p>(ii) the NEC action plan by the executing agency and implementing agency of ADB-assisted operations;</p> <p>(iii) frequency of use of debt models in decision making, and a gradual</p>	<p>Technical assistance for Department of Roads, Department of Energy, National Environment Commission, Thimphu City Corporation, Department of Labor and Human Resources, Department of Aid and Debt Management, Bureau of Statistics, the Royal Monetary</p>	<p>Preparation of road sector master plan, which has guided investment in the road sector.</p> <p>Capacity development of DOR resulting in better ability to set policies; and manage, plan, and supervise road sector development, including subcontracting of road works to the private sector.</p> <p>Road asset management system being established with a more objective and rational approach to planning and resource allocation.</p> <p>Road safety management resulting in new signage, grass areas, and some 40 km of highway safety (crash) barriers developed.</p> <p>Sector policy dialogue aimed at improving attention to private sector participation.</p> <p>Bhutan Electricity Authority is assisted to become an autonomous sector regulator.</p> <p>The Bhutan Power Corporation is established, restructured, and starts generating profits in</p>	<p><b>Main risk is insufficient government manpower and coordination across departments.</b> Risk will be mitigated by ensuring that technical assistance is demand-driven and overseen by government</p>

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
	management, transformation of National Environment Strategy into an operational document, and development of market-oriented labor laws. Weak financial sector regulatory capacity	exogenous changes.	increase in the number of staff using analytical tools for debt sustainability; and (iv) strengthened financial sector regulatory capacity	Authority and the Royal Audit Authority.  Harmonization with other DPs nonlending support	<p>2006. Tariff reforms and improvements in operational efficiency result from changes in operating procedures.</p> <p>The first public-private partnership to develop hydropower resources is launched.</p> <p>Improvements in the Royal Monetary Authority's regulatory and supervision framework.</p> <p>Financial Services Act, which will govern all banking, insurance, and securities businesses operating in Bhutan, is prepared.</p> <p>New pension fund established and strengthened.</p> <p>Development of capacity in anti-money-laundering regulations and procedures.</p> <p>Identification of areas needing improvement in corporate auditing and accounting.</p> <p>Training programs launched for commercial bankers and insurance company officials.</p> <p>Restructuring program is launched for Bhutan Development Finance Corporation.</p> <p>Identification of reforms required to introduce a single treasury system and to launch treasury bills.</p> <p>Establishment of an electronic check clearing system, including helping the government establish five clearinghouses in the country and the introduction of magnetic ink character recognition checks, which can be transmitted electronically. These innovations reduced the check clearing time from 20 days to 3-4 days.</p> <p>Development of quality control regulations and standards to facilitate exports of a broader range of products.</p>	

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
					<p>Identification of regulations needing reform to guide private sector deregulation efforts.</p> <p>Institutional capacities in planning, financing, and coordinating urban development have been improved, particularly of the key agencies involved in delivering services—i.e., Department of Urban Development and Engineering Services, the Thimphu City Corporation, the Phuentsholing City Corporation, Dagana Dzongkhag Administration.</p> <p>A comprehensive solid waste management master plan for Thimphu City has been prepared and is being implemented.</p> <p>Technical assistance to Thimphu City Corporation for water supply management.</p> <p>The Royal Audit Authority was supported in preparation of 12 manuals for improved accountability framework at the national and local levels and its systems capacity enhanced through upgrading auditing software.</p> <p>Labor and Employment Act of Bhutan was adopted in 2007.</p> <p>Implementing regulations of the Labor Act and Public Outreach was developed in a consultative manner with ADB support.</p>	
Improve development effectiveness, among others, by strengthening economic management and facilitating the development of	Inadequate capacity for undertaking monitoring & evaluation (M&E) related to impact of development projects	A standardized monitoring & evaluation system focusing on assessment of development impact instead of the existing focus on reporting development expenditures.	<p>Strengthening of debt management functions at the Ministry of Finance</p> <p>Department of Planning's monitoring and evaluation capabilities, including poverty monitoring and assessment system (PMAS) such as</p>	Follow-on TA projects for Debt Management and Strengthening the National Statistical System Phase II is ongoing. Support for	<p>Better fiscal coordination through progress made toward bringing all spending entities within the budget, linking local reporting to central budget management, and progressing toward adoption of a single treasury account.</p> <p>Transition from debt accounting to debt management through adoption of debt forecasting tools, software, and analytical reporting processes.</p>	<b>Main risk is that insufficient attention will be devoted to tracking results.</b> This will be mitigated by working closely with DPs and the planning agency to bolster

Government's Medium-Term Development Agenda		Asian Development Bank Strategic Focus		ADB Interventions to Support Outcomes	Key Achievements at Midterm Review	Risks
Strategic Goals	Key Constraints <sup>a</sup>	Outcomes/Outcomes Indicators <sup>b</sup>	Tracking Indicators/Milestones <sup>c</sup>			
a robust monitoring and evaluation system			number of people trained  Number of executing agency and implementing agencies adopting and using M&E framework for ADB-assisted projects	Living Standards Measurement Survey to assess poverty conditions  Harmonization with other DPs capacity development support	Better understanding of poverty conditions and trends as a result of the ADB-assisted second living standards survey.  Incorporation of poverty analysis findings in the 10th Plan and use of poverty incidence as criteria for allocating fiscal transfers to local governments.	demand for results-reports.

ADB = Asian Development Bank, BSE = Bhutan Stock Exchange, CPS = country partnership strategy, DOR = Department of Roads, DPs = development partners, NBF = non-bank financial institution, NEC = National Environment Commission, PMAS = Poverty Monitoring and Assessment System

Notes:

<sup>a</sup> Selected components of national agenda that overlap with ADB's strategic priorities in Bhutan.

<sup>b</sup> Strategic goals of the Poverty Reduction Strategy Paper (PRSP), Bhutan 2020 Vision, and Ninth Five Year Plan.

<sup>c</sup> As identified in the Poverty Reduction Strategy Paper's (PRSP) Medium Term Expenditure Framework (MTEF), 2020 Vision, and Ninth Plan to achieve the strategic goals.

Sources: Poverty Reduction Strategy Paper (PRSP); Bhutan Planning Commission. 1999. *Bhutan 2020: A Vision for Peace, Prosperity and Happiness*. Thimphu; Bhutan. 2002. *Bhutan Ninth Five Year Plan*. Thimphu.

## COUNTRY AND PORTFOLIO INDICATORS

**Table A1.1: Progress Toward the Millennium Development Goals and Targets**

Goals and Targets	Country Status
<p>Goal 1: Eradicate extreme poverty and hunger Target 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1/day.</p> <p>Target 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p>	<p>In 2004, 31.7% of the population was estimated as poor. Drawing on the Bhutan Living Standards Survey, the 2007 Poverty Analysis Report finds that the national poverty incidence fell to 23.2% in 2007 and the country is on track to meet its 2015 goal of 20% income poverty.</p> <p>The percentage of underweight children under 5 fell from 38% in 1989 to 19% in 2000. The percentage of population below the minimum calorie consumption level rose from 3.8% in 2000 to 5.9% in 2007.</p>
<p>Goal 2: Achieve universal primary education Target 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p>	<p>The gross primary education rate rose from 72% in 2000 to 106% in 2007, while the net primary enrollment rate rose from 62% (2000) to 84% in 2007. Bhutan is on track to meet its goal of universal primary education.</p>
<p>Goal 3: Promote gender equality and empower women Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.</p>	<p>The gender ratio in primary schools improved from 39 girls: 61 boys in 1990 to 48:52 in 2003. The ratio in 2007 was 50:51 suggesting that gender equality had been achieved. In secondary education, the ratio of girls to boys was 97% in 2007. A substantial gender gap continues in tertiary education where the ratio of females to males rose from 41% in 2000 to 54% in 2007.</p>
<p>Goal 4: Reduce child mortality Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate.</p>	<p>Under-5 mortality rate improved from 123 in 1990 to 84 in 2000 and further to 62 in 2007 (per 1,000 live births). Child immunization rates rose from 85% in 2000 to 90% in 2007.</p>
<p>Goal 5: Improve maternal health Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.</p>	<p>The maternal mortality ratio improved from 7.7 in 1984 to 2.6 in 2002 (per 100,000 births) and is on track to meet the goal. Births attended by a skilled birth attendant increased from 24% in 2000 to 56% in 2007.</p>
<p>Goal 6: Combat HIV/AIDS, malaria, and other diseases Target 6.A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS.</p> <p>Target 6.C: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.</p>	<p>The number of persons identified as HIV positive rose from 65 in 2004 to 144 in 2008.</p> <p>Malaria and leprosy are now classified as "under control," while neonatal tetanus, polio, and diphtheria have been almost eliminated. Malaria incidence has fallen from 875 per 100,000 persons in 2000 to 115 per 100,000 persons in 2007.</p>
<p>Goal 7: Ensure environmental sustainability Target 7.A: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p> <p>Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p> <p>Target 7.D: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.</p>	<p>The National Environment Strategy was prepared, and the National Environmental Protection Act was approved by the Parliament in 2005. The National Environment Commission has introduced guidelines for implementing the act, and has applied better safeguard procedures for public and private projects. The commission has also increased its field strength and project screening capabilities. The proportion of protected forestry land has remained at 72.5% of total land area and the ratio of protected land to the total land area has increased from 23% in 1990 to 29% in 2007.</p> <p>The proportion of people with access to safe drinking water rose from 45% in 1990 to 78% in 2000 and then to 81% by 2007, trailing the Government's target of 100% coverage for 2007 because of insufficient operations and maintenance (O&amp;M) of some of the systems in the more remote rural areas. Some 90% of the population has access to improved sanitation, although utilization of improved sanitation is estimated to be below this level.</p> <p>The 10th Five-Year Plan declares that the Government will facilitate the private sector, through improved access to mortgage facilities, to build housing for low-income people. Commercial bank real estate lending has increased at 24% per year from mid-2003 to mid-2008.</p>

Note: Figures for 2007 refer to the fiscal year 2008.

Source: Government of Bhutan and UNDP. 2008. *Bhutan's Progress: Mid-way to the Millennium Development Goals*. Thimphu (November); Government of Bhutan. 2009. *Statistical Yearbook 2008*. Thimphu.

**Table A1.2: Country Economic Indicators**

Item	Fiscal Year				
	2004	2005	2006	2007	2008
<b>A. Income and Growth</b>					
1. GDP per Capita (\$, current)	970.3	1,132.5	1,287.2	1,453.3	1,810.2
2. GDP Growth (% , in constant prices)	7.2	6.8	7.1	8.5	21.4
a. Agriculture	1.9	2.0	1.3	3.1	2.2
b. Industry	8.1	5.8	2.3	7.5	52.8
c. Services	10.2	10.3	13.4	7.1	6.0
<b>B. Saving and Investment</b> (current and market prices, % of GDP)					
1. Gross Domestic Investment	59.8	63.9	55.0	—	—
2. Gross National Saving	28.1	29.0	38.1	—	—
<b>C. Money and Inflation (annual % change)</b>					
1. Consumer Price Index	2.1	5.5	6.2	5.9	8.9
2. Total Liquidity (M2)	43.6	10.7	26.3	8.6	2.3
<b>D. Government Finance (% of GDP)</b>					
1. Revenue and Grants	38.0	32.5	36.7	40.0	49.4
2. Expenditure and Onlending	36.0	39.9	37.6	36.6	53.6
3. Overall Fiscal Surplus (Deficit)	2.0	(7.4)	(0.9)	0.7	(3.4)
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (\$ millions)	(105.0)	(248.0)	(122.0)	47.0	(76.0)
2. Current Account Balance (% of GDP)	(18.8)	(32.4)	(4.6)	15.9	3.9
3. Merchandise Export (\$) Growth (annual % change)	39.7	34.5	47.2	62.4	(25.3)
4. Merchandise Import (\$) Growth (annual % change)	27.2	75.5	(5.6)	13.7	(5.4)
<b>F. External Payments Indicators</b>					
1. Gross Official Reserves (including gold, \$ million in months of current year's imports of goods)	21.2	17.6	13.6	13.3	14.6
2. External Debt Service (% of exports of goods and services)	5.3	4.3	6.4	4.8	5.4
3. Total External Debt (% of GDP)	78.2	82.2	84.3	77.3	61.1
<b>G. Memorandum Items</b>					
1. GDP (current prices, ngultrum millions)	29,385.6	32,320.0	36,462.0	40,448.1	51,531.0
2. Exchange Rate (ngultrum/\$, average)	47.9	45.4	44.6	44.2	42.8
3. Population (million)	0.6	0.6	0.6	0.6	0.6

( ) = negative, GDP = gross domestic product.

Sources: Royal Monetary Authority of Bhutan. *Annual Report 2007/2008*. Thimphu; ADB. 2008. *Key Indicators 2008*. Manila.

Table A1.3: Country Poverty and Social Indicators

Item	Period			
	1985	1990		Latest Year
<b>A. Population Indicators</b>				
1. Total Population ('000)	538.6	600.0		646.9 (2006)
2. Annual Population Growth Rate (% change)	2.1	2.9		1.5 (2006)
<b>B. Social Indicators</b>				
1. Total Fertility Rate (births/woman)	5.9 (1984)	5.6 (1994)		2.9 (2005)
2. Maternal Mortality Rate (per 100,000 live births)	770.0 (1984)	380.0 (1994)		255.0 (2005)
3. Infant Mortality Rate (below 1 year/1,000 live births)	142.0 (1984)	90.0 (1990)		41.0 (2007)
4. Life Expectancy at Birth (years)	—	57.7 (1992)		66.0 (2003)
a. Female	—	59.0 (1992)		66.2 (2005)
b. Male	—	56.5 (1992)		66.0 (2005)
5. Adult Literacy (%)	23.0	—		47.0 (2005)
a. Female	—	—		34.0 (2000)
b. Male	—	—		54.0 (2005)
6. Primary School Gross Enrollment (%)	—	55.0 (1990)		106 (2007)
7. Secondary School Gross Enrollment (%)	—	—		—
8. Child Malnutrition (% below age 5)	—	37.9 (1988)		18.7 (2000)
9. Population Below Poverty Line (International, %)	—	—		—
10. Population with Access to Safe Water (%) <sup>a</sup>	—	45.0 (1990)		81.0 (2007)
11. Population with Access to Sanitation (%) <sup>b</sup>	—	—		90.0 (2007)
12. Public Education Expenditure (% of GDP) <sup>c</sup>	—	—		5.6 (2006)
13. Human Development Index Rank	0.2 (1987) 119.0 (1987)	0.2 (1990) 159.0 (1990)		0.6 (2007) 133.0 (2007)
14. Gender-Related Development Index Rank	— —	— —		— —
<b>C. Poverty Indicators</b>				
1. Poverty Incidence	—	—		23.2 (2007)
2. Percent of Poor to Total Population	—	—		—
a. Urban (%)	—	—		1.7 (2007)
b. Rural (%)	—	—		30.9 (2007)
3. Poverty Gap (%)	—	—		6.1 (2007)
4. Poverty Severity Index (%)	—	—		2.3 (2007)
a. Rural Severity Index (%)	—	—		3.0 (2007)
5. Inequality (Gini Coefficient)	—	—		0.4 (2007)

— = not available, GDP = gross domestic product.

<sup>a</sup> Refers to population with access to safe drinking water.

<sup>b</sup> Refers to population with latrines.

<sup>c</sup> GDP based on data from the National Statistical Bureau; expenditure data are for the fiscal year and GDP data are for the calendar year.

Sources: Royal Government of Bhutan, *Statistical Yearbook of Bhutan 2008*; Government of Bhutan and UNDP. 2008. *Bhutan's Progress: Mid-way to the Millennium Development Goals*. Thimphu (November); UNDP. 2008. *2007/2008 Human Development Report*. New York.

Table A1.4: Country Environment Indicators

Indicator	1980	Latest Year
<b>A. Energy Efficiency of Emissions</b>		
1. GDP/Unit of Energy Use (PPP\$/kgoe)	—	556.0 (2003)
2. Traditional Fuel Use (% of total energy use)	—	—
3. Carbon Dioxide Emissions (metric tons per capita)	—	0.47 (2005)
<b>B. Water Pollution: Water and Sanitation</b>		
1. % Population with Access to Safe Water	—	81.0 (2007)
2. % Rural Population with Access to Safe Water	—	75.0 (2007)
3. % Population with Access to Sanitation	—	90.0 (2007)
4. % Rural Population with Access to Sanitation	—	86.6 (2005)
<b>C. Land Use and Deforestation</b>		
1. Forest Area (million hectares)	27.6	32.0 (2005)
2. Average Annual Deforestation		
a. Km <sup>2</sup>	—	—
b. % Change	0.6 (1980–1990)	0.0 (1995–2005)
3. Rural Population Density (people/km <sup>2</sup> of arable land)	451.0	356.0 (2005)
4. Cultivated Land (% of total land)	—	7.8 (2006)
5. Permanent Cropland (% of total land)	—	5.5 (2006)
<b>D. Biodiversity and Protected Areas</b>		
1. Nationally Protected Area		
a. Million Hectares	—	1.1 (2006)
b. % of Total Land	—	30.0 (2006)
2. Mammals (number of threatened species)	—	26.0 (2006)
3. Birds (number of threatened species)	—	14.0 (2006)
4. Higher Plants (number of threatened species)	—	7.0 (2006)
5. Reptiles (number of threatened species)	—	3.0 (2006)
6. Amphibians (number of threatened species)	—	17.0 (2006)
<b>E. Urban Areas</b>		
1. Urban Population		
a. Thousand	50.0	201.0 (2006)
b. % of Total Population	3.9	31.0 (2006)
2. Per Capita Water Use (liters/day)	—	—
3. Wastewater Treated (%)	—	—
4. Solid Waste Generated per Capita (kg/day)	—	0.5 (2005)

(Thimphu)

GDP = gross domestic product, kg = kilogram, kgoe = kilograms of oil equivalent, km<sup>2</sup> = square kilometer, PPP = purchasing power parity.

Sources: Government of Bhutan. 2009. *Statistical Yearbook of Bhutan 2008*. Thimphu; World Bank. 2008. *World Development Indicators*. Washington, DC; United Nations Development Programme, United Nations Environment Programme, World Bank, World Resources Institute. 2003. *World Resources 2002–2004: Decisions for the Earth*. Washington, DC; National Environment Commission. 2008. *Bhutan Environment Outlook 2008*. Thimphu; UNDP. 2008. *Human Development Report 2007/2008*. New York; Government of Bhutan. 2008. *10th Five Year Plan*. Thimphu.

**Table A1.5: Development Coordination Matrix**

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
<b>Sector</b>					
Agriculture and Natural Resources	Increase productivity and promote private sector activity in rural areas <ul style="list-style-type: none"> <li>• Lending for Integrated Rural Development (2006)</li> <li>• TA for Capacity Building to Implement Environmental Guidelines (2005)</li> </ul>	<b>European Commission</b>	<ul style="list-style-type: none"> <li>• Wang Watershed Management Project</li> <li>• Renewable Natural Resources Extension Support</li> <li>• Medicinal Plants-Phase II</li> <li>• Support to the Livestock sector in Bhutan</li> <li>• Agricultural Production/Integrated Pest Management</li> </ul>	<b>Austria</b>	<ul style="list-style-type: none"> <li>• Conifer Research and Training Project</li> </ul>
				<b>Denmark</b>	<ul style="list-style-type: none"> <li>• Environment Sector Program Support</li> <li>• Environment and Urban Sector Programme Support (2004–2008)</li> </ul>
				<b>Germany</b>	<ul style="list-style-type: none"> <li>• Bhutan–German Sustainable Renewable Natural Resources Development Project in Punakha and Wangdue Phodrang Districts</li> </ul>
		<b>FAO</b>	<ul style="list-style-type: none"> <li>• Assistance in Improving Food Security and Rural Income by Increasing Pig Production in Bhutan</li> <li>• Development and Strengthening of the Quality Control and Regulatory Services Division of the Ministry of Agriculture</li> <li>• Control of Citrus Greening and Citrus Tristeza Virus</li> <li>• Strengthening National Capacities for Effective Participation in Codex, and for Food Control</li> <li>• Strengthening of Regional Data Exchange System on Food And Agricultural Statistics in Asia and Pacific Countries</li> <li>• Rural Enterprise Development</li> <li>• National Demonstration on the Lactoperoxidase System of Milk Preservation in Selected South Eastern Asian Countries</li> <li>• National Coordinated Oilseed and Grain Legume Development Program</li> <li>• Capacity Building for Fodder Oat Technologies in Bhutan</li> </ul>	<b>India</b>	<ul style="list-style-type: none"> <li>• Agriculture Marketing and Livestock Support</li> </ul>
		<b>Japan</b>		<ul style="list-style-type: none"> <li>• JICA: Aid for increased food production, and dispatch of experts for hill irrigation</li> </ul>	
		<b>JICA</b>		<ul style="list-style-type: none"> <li>• Agriculture Research and Extension Development for Lhuntse and Monagr Districts</li> </ul>	
		<b>SNV</b>		<ul style="list-style-type: none"> <li>• Community-Based Natural Resources Management</li> <li>• Second Eastern Zonal Agricultural Project in Trashigang</li> </ul>	
		<b>Switzerland</b>		<ul style="list-style-type: none"> <li>• Renewable natural resources research systems</li> <li>• Participatory forestry programme</li> <li>• Rural development training</li> <li>• Agriculture development program</li> <li>• Renewable natural resources research systems</li> <li>• Participatory forestry program for community and social forestry</li> </ul>	

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
			<ul style="list-style-type: none"> <li>Strengthening Vulnerable Groups through Training in Village Level Postharvest Management and Food Processing</li> <li>Strengthening National Capacities for Successful Foot and Mouth Diseases Control to Increase Rural Household Income and Alleviate Poverty</li> <li>Capacity Building for Quality Seed Potato Production in Bhutan</li> </ul>		
		<b>International Fund for Agricultural Development</b>	<ul style="list-style-type: none"> <li>Second Eastern Zone Agricultural Program</li> <li>Agricultural development to improve livelihoods of rural households in six eastern districts</li> </ul>		
		<b>UNDP</b>	<ul style="list-style-type: none"> <li>Sustainable rural livelihoods development</li> </ul>		
		<b>WWF</b>	<ul style="list-style-type: none"> <li>Support for the Department of Tourism</li> <li>The Mushroom Community Development Project</li> </ul>		
Energy	Contribute to poverty reduction through rural electrification, governance, and institutional capacity building <ul style="list-style-type: none"> <li>TA for Capacity Building of Bhutan Power Corporation (2005)</li> <li>TA for Accelerated Rural Electrification (2006)</li> <li>TA for Rural Electrification Training Program (2006)</li> </ul>	<b>UNDP</b>	<ul style="list-style-type: none"> <li>Institutional framework for sustainable energy development</li> </ul>	<b>Austria</b>	<ul style="list-style-type: none"> <li>Bascochhu Hydropower Project</li> </ul>
		<b>WWF</b>	<ul style="list-style-type: none"> <li>Alternate energy initiatives</li> </ul>	<b>India</b>	<ul style="list-style-type: none"> <li>Tala Hydropower Project and Kurichhu Hydropower Corporation</li> </ul>
				<b>Japan</b>	<ul style="list-style-type: none"> <li>Dzongkhag-wise master plan for rural electrification</li> </ul>
					<b>JICA</b>

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
Finance	Strengthen the financial sector and industry infrastructure to promote private sector development <ul style="list-style-type: none"> <li>• Lending for Small and Medium Size Enterprise Development (2006/07)</li> <li>• Cluster TA for Financial Sector Reform (2006)</li> </ul>	<b>UNCDF</b>	<ul style="list-style-type: none"> <li>• Microcredit for the poor, and decentralized public investments for the poor</li> </ul>	<b>Netherlands</b>	<ul style="list-style-type: none"> <li>• Parallel cofinancing for electrification of 2,000 to 3,000 rural households through the Ninth Plan.</li> </ul>
				<b>Denmark</b>	<ul style="list-style-type: none"> <li>• Good Governance and Public Administrative Reforms Programme,</li> </ul>
				<b>India</b>	<ul style="list-style-type: none"> <li>• Industrial Investment Studies</li> </ul>
Industry and Trade	Facilitate SME development <ul style="list-style-type: none"> <li>• Lending for SME Development (2007)</li> </ul>	<b>European Commission in cooperation with ITC and UNESCAP</b>	<ul style="list-style-type: none"> <li>• Trade promotion and export development, including WTO accession preparation</li> </ul>	<b>Austria</b>	<ul style="list-style-type: none"> <li>• Tourism site renovations and tourism development</li> </ul>
		<b>UNCTAD</b>	<ul style="list-style-type: none"> <li>• Trade facilitation</li> </ul>		
		<b>UNDP</b>	<ul style="list-style-type: none"> <li>• Analysis of WTO accession</li> </ul>		
		<b>UNIDO</b>	<ul style="list-style-type: none"> <li>• Trade Promotion Support</li> </ul>		
<b>World Bank</b>	<ul style="list-style-type: none"> <li>• Private Sector Survey</li> <li>• Establishment of IT Park and Development of IT Skills</li> </ul>				
	<b>World Bank</b>	<ul style="list-style-type: none"> <li>• Poverty monitoring</li> </ul>			
Law and Public Sector Management	Continue to assist the capacity building of the government. <ul style="list-style-type: none"> <li>• TA for labor regulations (2006)</li> <li>• TA for Public Sector Economic Planning and Management (2006)</li> <li>• TA for Royal Audit Authority (under a RETA component) to strengthen transparency and accountability framework</li> </ul>	<b>UNDP</b>	<ul style="list-style-type: none"> <li>• Poverty monitoring</li> </ul>	<b>Denmark: Danida</b>	<ul style="list-style-type: none"> <li>• Assistance in judicial capacity building</li> </ul>
Transport and Communications	Support economic development by providing better access to regional and domestic markets, and improving the road system and	<b>WFP</b>	<ul style="list-style-type: none"> <li>• Construction of feeder roads in impoverished districts</li> </ul>	<b>Denmark</b>	<ul style="list-style-type: none"> <li>• Rural Telecommunications Project</li> </ul>
		<b>World Bank</b>	<ul style="list-style-type: none"> <li>• Rural access roads</li> </ul>		

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
	expanding the road network in rural Bhutan to gain from potential opportunities in tourism, agroprocessing, and mining <ul style="list-style-type: none"> <li>• Road Network Expansion Project (2005)</li> <li>• Integrated Rural Development (2006)</li> </ul>				country-wide road infrastructure development
				<b>Japan</b>	<ul style="list-style-type: none"> <li>• Reconstruction of bridges and farm road development</li> <li>• Rural infrastructure development</li> </ul>
				<b>JICA</b>	<ul style="list-style-type: none"> <li>• Bridges, Telecom and Cable Capacity Building and Construction Projects</li> </ul>
				<b>Switzerland</b>	<ul style="list-style-type: none"> <li>• Suspension and suspended bridges</li> <li>• Support to Road Bridge Division</li> </ul>
Water Supply, Sanitation and Waste Management	Facilitate urban infrastructure development <ul style="list-style-type: none"> <li>• TA for Strengthening Town Planning (2006)</li> <li>• Lending for Urban Housing/Infrastructure Development (2006)</li> </ul>	<b>World Bank</b>	<ul style="list-style-type: none"> <li>• Urban development</li> </ul>	<b>Denmark: Danida</b>	<ul style="list-style-type: none"> <li>• Urban development</li> </ul>
<b>Theme</b>					
Environmental Sustainability	Monitor environmental progress, particularly forces that increase environmental stress; Ensure that Bhutan's interventions are environmentally sustainable and the Environment Act is properly enforced and implemented. <ul style="list-style-type: none"> <li>• TA for Capacity Building to Implement Environmental Guidelines (2005)</li> <li>• TA for Strengthening Town Planning (2006)</li> </ul>	<b>UNEP</b>	<ul style="list-style-type: none"> <li>• Support to National Environment Commission</li> </ul>	<b>Austria</b>	<ul style="list-style-type: none"> <li>• Glacial Lake Outburst Flood mitigation measures project</li> </ul>
		<b>UNICEF</b>	<ul style="list-style-type: none"> <li>• Support to school health program,</li> </ul>	<b>Denmark</b>	<ul style="list-style-type: none"> <li>• Environment Sector Program Support</li> <li>• Environment and Urban Sector Programme</li> </ul>
		<b>UNIDO</b>	<ul style="list-style-type: none"> <li>• Technical support for the National Energy Program for Rural Areas</li> </ul>		
		<b>UNFPA</b>	<ul style="list-style-type: none"> <li>• Assistance for improved sustainable use of space and land, and for enhancing the role of women as resource managers</li> </ul>	<b>JICA</b>	<ul style="list-style-type: none"> <li>• Project for Recycled Refuse-Collector Truck Aid for Phuentsholing</li> </ul>
		<b>UN-Habitat</b>	<ul style="list-style-type: none"> <li>• Assistance for the implementation of a national housing policy</li> </ul>	<b>SNV and SDS</b>	<ul style="list-style-type: none"> <li>• Support for the introduction of environment-friendly road construction</li> </ul>
		<b>WWF</b>	<ul style="list-style-type: none"> <li>• The Sakteng Wildlife Sanctuary</li> <li>• Linking and Enhancing Protected Areas in the Temperate Broadleaf Forest Ecoregion</li> <li>• The Royal Manas National Park.</li> <li>• The Bhutan Tiger Conservation</li> </ul>		

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities					
		Multilateral Institutions and the UN System		Bilateral			
			Program				
			<ul style="list-style-type: none"> <li>The Bhutan Biological Conservation Complex</li> <li>Anti-poaching program</li> </ul>				
		<b>UNDP/Global Environment Facility</b>	<ul style="list-style-type: none"> <li>The Greenhouse Gas Project</li> <li>The National Biodiversity Conservation Strategy and National Action Plan</li> <li>Integrated Management of Jigme Dorji National Park</li> <li>Removing Barriers to Mini and Micro Hydropower Development for Decentralized Rural Electrification</li> <li>The National Capacity Self-Assessment Project</li> <li>Building Local Capacities for Sustainable Development.</li> </ul>				
Governance	Strengthen public resource management and aid coordination; enhance sectoral capacity for project implementation; improve economic statistics; assist decentralization <ul style="list-style-type: none"> <li>TA for Strengthening Town Planning (2006)</li> <li>TA for Labor Regulations (2006)</li> <li>TA for Public Sector Economic Planning and Management (2006)</li> </ul>	<b>UNDP</b>	<ul style="list-style-type: none"> <li>Public Sector Management programs</li> <li>Block Grant to Gewogs</li> <li>Decentralization and Local Participation</li> </ul>	<b>Denmark</b>	<ul style="list-style-type: none"> <li>Democratization, good governance, and decentralization</li> <li>Good Governance and Public Administrative Reforms Programme</li> <li>Good Governance and Public Reforms Programme</li> </ul>		
		<b>UNFPA</b>	<ul style="list-style-type: none"> <li>Strengthening of population planning management in focus districts</li> </ul>				
		<b>UNDP, UNCDF</b>	<ul style="list-style-type: none"> <li>Strengthening grassroots planning</li> <li>Decentralization and local participation</li> </ul>	<b>India</b>	<ul style="list-style-type: none"> <li>Information Technology and Media</li> </ul>		
		<b>World Bank</b>	<ul style="list-style-type: none"> <li>Public expenditure analysis</li> </ul>	<b>JICA</b>	<ul style="list-style-type: none"> <li>Local Governance and Decentralization Project</li> </ul>		
					<b>SNV</b>	<ul style="list-style-type: none"> <li>Capacity strengthening support to Royal Institute of Management and to Public Health Engineering</li> <li>Decentralization and local participation</li> </ul>	
						<b>Switzerland</b>	<ul style="list-style-type: none"> <li>Decentralization as a transversal theme, political dialogues, organized study tours.</li> </ul>

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
Inclusive Social Development	Institutional development for economic governance and sustainable development <ul style="list-style-type: none"> <li>Lending for Small and Medium-size Enterprise Development (2007)</li> </ul>	<b>FAO</b>	<ul style="list-style-type: none"> <li>Strengthening national capacities for food control and participation in CODEX</li> </ul>	<b>Austria</b>	<ul style="list-style-type: none"> <li>Training of national finance service accountants at district level</li> <li>Human resource development for National Finance Service, Ministry of Finance</li> </ul>
		<b>UNDP</b>	<ul style="list-style-type: none"> <li>Human resource development master plans for public and private sectors; twinning of Royal Institute of Management and AIT; poverty lines TA and preparation of household-level participatory poverty assessment;</li> </ul>	<b>Denmark</b>	<ul style="list-style-type: none"> <li>Health Sector Programme Support</li> <li>Education Sector Programme Support</li> <li>Environment and Urban Sector Programme Support</li> </ul>
		<b>UNDP, UNFPA, and UNICEF</b>	<ul style="list-style-type: none"> <li>Capacity building for the Central Statistical Organization</li> </ul>	<b>India</b>	<ul style="list-style-type: none"> <li>Scholarships in India</li> <li>Construction of schools and hospitals</li> </ul>
		<b>UNFPA</b>	<ul style="list-style-type: none"> <li>Population, women and child issues</li> </ul>	<b>JICA</b>	<ul style="list-style-type: none"> <li>Free standing multisectoral technical training</li> </ul>
		<b>UNICEF</b>	<ul style="list-style-type: none"> <li>Micronutrient, maternal and child health programs</li> </ul>	<b>Netherlands</b>	<ul style="list-style-type: none"> <li>Fellowship Program</li> </ul>
		<b>WFP</b>	<ul style="list-style-type: none"> <li>School feeding</li> </ul>	<b>Switzerland</b>	<ul style="list-style-type: none"> <li>Capacity building at project, district and central level in education, suspension bridges, renewable natural resources (including forestry) and finance services</li> </ul>
		<b>World Health Organization</b>	<ul style="list-style-type: none"> <li>Health and contagious disease control programs</li> </ul>		
		<b>WWF</b>	<ul style="list-style-type: none"> <li>Women in Environment Project</li> </ul>		
		<b>World Bank</b>	<ul style="list-style-type: none"> <li>Education Development Project</li> <li>HIV/AIDs Project</li> </ul>		
		Private Sector Development	Promote private sector activities by (i) supporting improved policy framework and more efficient financial intermediation, (ii) improving road transport and expanding power transmission and distribution, and (iii) establishing the necessary legal and institutional framework and examining viable financial modalities for private sector participation in economic development	<b>European Commission in cooperation with ITC and UNESCAP</b>	<ul style="list-style-type: none"> <li>Export Promotion, WTO compliance</li> </ul>
				<b>SNV</b>	<ul style="list-style-type: none"> <li>Support for Bhutan Development and Finance Corporation; support for the tourism sector</li> </ul>
<b>FAO</b>	<ul style="list-style-type: none"> <li>Assessment of agroprocessing industries</li> </ul>			<b>Switzerland</b>	<ul style="list-style-type: none"> <li>Farm business training</li> </ul>
<b>UNDP</b>	<ul style="list-style-type: none"> <li>Policy, legal, and regulatory reform to support private sector development; and electronic-commerce pilot study</li> </ul>				
<b>World Bank</b>	<ul style="list-style-type: none"> <li>Private Sector Survey</li> </ul>				

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
Regional Cooperation	Build on bilateral partnerships under SASEC-I to enhance growth potential through regional cooperation among Bangladesh, Bhutan, India, and Nepal, particularly in (i) energy; (ii) transport; (iii) environment; (iv) tourism; and (v) trade, industry, and private sector development. Follow on activities under SASEC-II. • Lending for Road Network (2005)	<b>FAO</b>	<ul style="list-style-type: none"> <li>Improvement of agricultural statistics in Asian and Pacific countries</li> <li>National demonstration on lactoperoxidase system of milk preservation in selected South Asian countries</li> </ul>	<b>Australia</b>	<ul style="list-style-type: none"> <li>ICIMOD Rangeland Development,</li> <li>ICIMOD promotion and development of beekeeping</li> </ul>
		<b>UNDP</b>	<ul style="list-style-type: none"> <li>HIV/AIDS subregional program</li> </ul>	<b>India</b>	<ul style="list-style-type: none"> <li>Trade and investment, and infrastructure development</li> </ul>
		<b>WWF</b>	<ul style="list-style-type: none"> <li>Eastern Himalayan ecoregional program for biodiversity conservation</li> </ul>		
Sustainable Economic Growth	Develop private sector activity; improve infrastructure activities; upgrade technical and managerial skills • Lending for Urban Housing/ Infrastructure Development (2006) • Lending for Integrated Rural Development (2005) • Lending for Road Network (2005) • Lending for Small and Medium-Size Enterprises (2007) • TA for Energy Efficiency	<b>European Commission in cooperation with ITC and UNESCAP</b>	<ul style="list-style-type: none"> <li>Trade Promotion and WTO Membership Accession Assistance</li> </ul>	<b>Germany</b>	<ul style="list-style-type: none"> <li>Advisory Services for Promotion of the Vocational and Training System in Bhutan</li> </ul>
				<b>India</b>	<ul style="list-style-type: none"> <li>Roads, hydropower, and other infrastructure development</li> </ul>
		<b>UNDP</b>	<ul style="list-style-type: none"> <li>Study on potential impact of accession to WTO; establishment of a national poverty and Millennium Development Goal monitoring system to enhance pro-poor policies</li> </ul>	<b>Japan</b>	<ul style="list-style-type: none"> <li>Rural infrastructure development</li> <li>Reconstruction of bridges and farm roads</li> </ul>
		<b>World Bank,</b>	<ul style="list-style-type: none"> <li>Roads</li> </ul>	<b>SNV, SDS</b>	<ul style="list-style-type: none"> <li>Roads</li> </ul>
				<b>SNV, and</b>	<ul style="list-style-type: none"> <li>Rural enterprise</li> </ul>

Sectors and Themes	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
		<b>WFP</b>		<b>Netherlands Development Organization</b>	development for economic growth in rural areas
<b>FAO, UNDP, UNIDO</b>	<ul style="list-style-type: none"> <li>Rural enterprise development for economic growth in rural areas</li> </ul>	<b>Switzerland</b>	<ul style="list-style-type: none"> <li>Farm roads in east central region and suspension bridges throughout the country</li> </ul>		

Danida = Danish International Development Agency, FAO = Food and Agriculture Organization, ICIMOD = International Centre for Integrated Mountain Development, ITC = International Tendering Company, JICA = Japan International Cooperation Agency, SASEC = South Asia Subregional Economic Cooperation, SDS = Sustainable Development Secretariat, SME = small and medium-sized enterprise, SNV = Netherlands Development Organization, TA = technical assistance, UNCDF = United Nations Capital Development Fund, UNDP = United Nations Development Programme, UNESCAP = United Nations Economic and Social Commission for Asia and the Pacific, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, UNIDO = United Nations Industrial Development Organization, WFP = World Food Program, WTO = World Trade Organization. Switzerland as a development partner is referred to Swiss Agency for Development Cooperation (SDC) and Helvetas Swiss Association for International Cooperation. The interest of SDC in Bhutan is represented by Helvetas.

**Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings**  
(Public sector loans, as of 31 March 2009)

Sector	Net Loan Amount		Total		Rating <sup>a</sup>								Potential Problem <sup>b</sup>		At Risk <sup>c</sup>	
					Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory					
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Energy	79.06	54.39	2	33.33	—	0	2	33.33	—	0	—	0	—	0	—	0
Finance	13.27	9.13	2	33.33	—	0	2	33.33	—	0	—	0	—	0	—	0
Transport and Communications	28.25	19.44	1	16.67	—	0	1	16.67	—	0	—	0	—	0	—	0
Water Supply, Sanitation, and Waste Management	24.77	17.04	1	16.67	—	0	1	16.67	—	0	—	0	—	0	—	0
<b>Total</b>	<b>145.35</b>	<b>100.00</b>	<b>6</b>	<b>100.00</b>	<b>—</b>	<b>0</b>	<b>6</b>	<b>100.00</b>	<b>—</b>	<b>0</b>	<b>—</b>	<b>0</b>	<b>—</b>	<b>0</b>	<b>—</b>	<b>0</b>

No. = number.

<sup>a</sup> One rating for implementation progress and development objectives, based on the lower rating of either.

<sup>b</sup> Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>c</sup> A loan is "at risk" if it is rated partly satisfactory, unsatisfactory, or a potential problem.

Source: ADB project performance report country detail (as of 31 March 2009).

**Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources**  
(public sector loans, as of 31 December 2008)

<b>Disbursements and Transfers</b>	<b>OCR</b>	<b>ADF</b>	<b>Total</b>
<b>Disbursements<sup>a</sup></b>			
Total Funds Available for Withdrawal (\$ million)	0.00	202.00	202.00
Disbursed Amount (\$ million, cumulative)	0.00	112.32	112.32
Percentage Disbursed (disbursed amount/total available)	0.00	55.60	55.60
Disbursements (\$ million, 2008)	0.00	4.27	4.27
Disbursement Ratio (% , 2008) <sup>b</sup>	0.00	6.86	6.86
<b>Net Transfer of Resources (\$ million)</b>			
2004	0.00	5.35	5.35
2005	0.00	10.48	10.48
2006	0.00	2.37	2.37
2007	0.00	6.44	6.44
2008	0.00	0.87	0.87

ADF = Asian Development Fund, OCR = ordinary capital resources.

<sup>a</sup> Includes all loans with disbursements from 1968–2008.

<sup>b</sup> Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year are added to the beginning balance of undisbursed loans.

Source: Asian Development Bank loan and grant financial information services.

**Table A1.8: Portfolio Indicators—Evaluation Rating by Sector**  
(1991–2008)

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	—	—	1.00	20.00	—	—	—	—	—	—	1.00	14.29
Education	—	—	—	—	—	—	—	—	—	—	—	—
Energy	—	—	2.00	40.00	—	—	—	—	—	—	2.00	28.57
Finance	—	—	—	—	1.00	100.00	—	—	—	—	1.00	14.29
Health, Nutrition, and Social Protection	—	—	—	—	—	—	—	—	—	—	—	—
Industry and Trade	—	—	—	—	—	—	—	—	—	—	—	—
Law and Public Sector Management	—	—	—	—	—	—	—	—	—	—	—	—
Multisector <sup>a</sup>	—	—	—	—	—	—	1.00	100.00	—	—	3.00	42.86
Transport and Communications	—	—	2.00	40.00	—	—	—	—	—	—	3.00	42.86
Water Supply, Sanitation, and Waste Management	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>	—	—	<b>5.00</b>	<b>100.00</b>	<b>1.00</b>	<b>100.00</b>	<b>1.00</b>	<b>100.00</b>	—	—	<b>7.00</b>	<b>100.00</b>

<sup>a</sup> Loan 0637-BHU: Multiproject approved on 22 September 1983 and closed on 31 December 1989.

Source: ADB Independent Evaluation Department.

**Table A1.9: Portfolio Implementation Status**  
(public sector loans, as of 31 March 2009)

Sector	Loan No.	Seg	Title	Net Loan Amount		Cumulative Disbursements		Approval Date (dd/mm/yy)	Effective Date (dd/mm/yy)	Closing Date		Progress (% complete)
				OCR (\$ million)	ADF (\$ million)	OCR (\$ million)	ADF (\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
TC	2187		Road Network Project	—	28.25	—	5.43	30/09/05	01/12/05	31/12/10	—	—
FI	2279		Fin Sector Dev Program	—	11.23	—	4.14	07/12/06	04/06/07	30/06/10	—	—
	2280		Fin Sector Dev Prog – Proj Loan	—	2.04	—	0.20	07/12/06	04/06/07	30/06/10	—	—
WS	2258		Urban Infra Development	—	24.77	—	1.78	27/09/06	31/01/07	31/12/12	—	—
EN	2463		Green Power Development	51.00	—	—	—	29/10/08	—	31/12/13	—	—
	2464		Green Power Development	—	28.06	—	—	29/10/08	—	31/12/13	—	—
			<b>Total</b>	<b>51.00</b>	<b>94.35</b>	<b>—</b>	<b>11.55</b>					

ADF = Asian Development Fund; Dev = development; EN = energy; FI = finance; Fin = financial; Infra = Infrastructure; OCR = ordinary capital resources; Prog = program; Proj = project; Seg = segment (pertaining to loans with more than one withdrawal authority); TC = transport and communications; WS = water supply, sanitation, and waste management.

Source: ADB Project Performance Report as of 31 March 2009.

## INDICATIVE ROLLING COUNTRY OPERATIONS BUSINESS PLAN 2010–2012

### A. Consistency of the Business Plan with the Current Country Partnership Strategy

1. In the 10th Five-Year Plan, which took effect on 1 July 2008, the Government affirmed the continued validity of the four-sector assistance framework of the Asian Development Bank (ADB). The sectors are i) roads, (ii) power and rural electrification, (iii) urban infrastructure, and (iv) financial sector and private sector development) as described in the Bhutan country partnership strategy (CPS)<sup>1</sup> endorsed by the ADB Board of Directors on 30 September 2005. Further, in line with the Paris Declaration on Aid Effectiveness, the CPS fully supports the country's development priorities as described in the 10th Plan, and the business plans for 2010–2012 are fully consistent with the CPS priority areas.

### B. Indicative Lending and Nonlending Program

2. Under ADB's revised framework for Asian Development Fund (ADF) grants,<sup>2</sup> Bhutan has been eligible for full grant assistance from ADB since 2007. The 2009 Country Programming Mission informed the Government that, under the grant framework, the sole criterion for determining grant eligibility is the degree of debt stress. Classified as highly debt stressed, Bhutan currently receives all of its ADF allocations in the form of grants. While the same assumption underpins the 2010–2012 assistance framework, the Country Programming Mission explained to the Government that the composition of the assistance could change if underlying changes are found in the next debt sustainability assessment.

3. The lending resource envelope for 2010–2012 is about \$45 million, or \$15 million for each of the 3 years. The Government has been advised that the funding envelope for 2010–2012 is based on (i) the outcome of the 2008 performance-based allocation framework; (ii) the risk of debt distress, as determined by the debt sustainability assessment through 31 October 2008 or updated debt data in the absence of an assessment; and (iii) any adjustments in the expected ADF commitment authority. The programmed resources for 2010–2012 could be adjusted depending on the findings of the annual performance-based allocation exercises, the updated assessment, and any adjustments in the expected ADF commitment authority. For the nonlending program, which also provides grant assistance, an average of \$1.7 million per year has been programmed for 2010–2012.

4. **Lending Program for 2010–2012.** The indicative cumulative value for this period is \$45 million, but this amount could change depending on the outcome of the events indicated in para. 3. In 2010, ADB will finance the Rural Electrification V project using a multitranche financing facility and, with resources from the Clean Development Mechanism, a pilot wind power generation project. In 2011, ADB will provide financing for the second subproject of the Rural Electrification project. In 2012, ADB will provide financing for a Rural Road Infrastructure Project. As in the past, the project designs will be consistent with applicable ADB policies and will be prepared in a managing for development results (MfDR) framework.

5. A nonlending program with a cumulative value of \$5.1 million has been programmed for 2010–2012. Consistent with the capacity development plank of the CPS, almost 70% of the programmed nonlending assistance is for institutional strengthening and capacity development.

<sup>1</sup> ADB. 2005. *Country Strategy and Program (2006–2010): Bhutan*. Manila.

<sup>2</sup> ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila.

Efforts will also be made to supplement core ADB funding for capacity development technical cooperation.

### **C. Summary of Changes to Lending and Nonlending Programs**

6. **Lending Program.** The 2010–2012 lending and nonlending programs have been discussed with the Government and various ministries. Their content and sequencing, the Government has confirmed, reflect its highest priorities and commands its full ownership. Rural electrification and road infrastructure development is high on the Government's development agenda, and the Government is committed to completing its rural electrification program by 2013. About 43,000 households are expected to benefit from rural electrification during the 10th Plan period. Therefore, the Government has requested ADB to program a Rural Electrification intervention V as a multitranche financing facility for 2010 and 2011. A road infrastructure project has been scheduled for 2012, and the previously 2011 programmed Urban Infrastructure II Project has been deferred to 2013. In line with the Government's policy for developing new nonbank financial institutions in the private sector, planned 2011 public sector assistance for nonbank financial institutions will now be considered under ADB's private sector operations. These requested adjustments have been made in the program sequencing, as shown in Appendix 2, Table A.2.1.

7. **Nonlending Program.** As requested by the Government, the composition and sequence of some nonlending operations were also adjusted by the Country Programming Mission to meet the Government's evolving priority needs and strengthen the link between lending operations and capacity development. The 2010–2012 nonlending program focuses on capacity, policy, and regulatory development.

### **D. Indicative Internal Resource Requirements**

8. The lending and nonlending programs will each require about 70 person-weeks of processing support.

### **E. Results-Based Monitoring**

9. Modifications to the results-based monitoring framework are discussed in para. 34 of the midterm review.

**Table A2.1: Indicative Assistance Pipeline for Lending Products, 2009–2012**

Sector Project or Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (\$ million)				
					ADB			Gov't	Co- financing
					OCR	ADF Grants	Total		
<b>2009</b>									
<b>Transport and Communication</b>									
Road Network II <sup>a</sup>	GI	ECG/PSD/ENV	SATC	2008	0.0	20.0	20.0	0.0	0.0
<b>Total</b>					<b>0.0</b>	<b>20.0</b>	<b>20.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2010</b>									
<b>Energy</b>									
Rural Renewable Energy Development (Subproject 1) <sup>b</sup>	GI	ECG/PSD/ENV	SAEN	2009	0.0	8.6	8.6	0.0	tbd
Pilot Wind Power Generation <sup>c</sup>	GI	ECG/PSD/ENV	SAEN	2009	0.0	0.0	0.0	0.0	5.0
<b>Total</b>					<b>0.0</b>	<b>8.6</b>	<b>8.6</b>	<b>0.0</b>	<b>5.0</b>
<b>2011</b>									
<b>Energy</b>									
Rural Renewable Energy Development (Subproject 2)	GI	ECG/PSD/ENV	SAEN	2010	0.0	15.0	15.0	0.0	tbd
<b>Total</b>					<b>0.0</b>	<b>15.0</b>	<b>15.0</b>	<b>0.0</b>	<b>tbd</b>
<b>2012</b>									
<b>Transport and Communication</b>									
Rural Road Infrastructure Development	GI	ECG/PSD/ENV	SATC	2011	0.0	15.0	15.0	0.0	tbd
<b>Total</b>					<b>0.0</b>	<b>15.0</b>	<b>15.0</b>	<b>0.0</b>	<b>tbd</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; ECG = sustainable economic growth; ENV = environmental sustainability; GI = general intervention; Gov't = Government; OCR = ordinary capital resources; PSD = private sector development; SAEN = South Asia Energy Division; SATC = South Asia Transport and Communications Division; tbd = to be determined.

Notes:

<sup>a</sup> Additional grant of \$10 million from the regional cooperation and integration (RCI) window. Total amount = \$30 million

<sup>b</sup> To be processed as a multitranche financing facility. Total amount = \$23.6 million over 2 years.

<sup>c</sup> To be financed using dedicated funding.

Source: ADB estimates.

Table A2.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2009–2012

Sector	Responsible	Assistance	Sources of Funding				Total
			ADB		Others		
Assistance Name	Division	Type	Source	Amount (\$'000)	Source	Amount (\$'000)	Amount (\$'000)
<b>2009</b>							
<b>Transport and Communication</b>							
1. Strengthening Ministry of Works and Human Settlement including Standards and Quality Control for Civil Works	SATC	CD	TASF	300.0		0.0	300.00
<b>Subtotal</b>				<b>300.0</b>		<b>0.0</b>	<b>300.0</b>
<b>Law, Economic Management, and Public Policy</b>							
2. Assistance for National Assembly's Standing Committees on Public Finance & Private Sector and Poverty Alleviation	SAOC	CD	TASF	300.0		0.0	300.0
3. Strengthening Local Government Service Delivery (Governance Support Program)	SAFM	CD		0.0	GCF	250.0	250.0
<b>Subtotal</b>				<b>300.0</b>		<b>250.0</b>	<b>550.0</b>
<b>Energy</b>							
4. Assistance for National Environment Commission's Clean Development Mechanism Unit	SAEN	CD	TASF	300.0		0.0	300.0
5. Preparing the Rural Renewable Energy Development	SAEN	PP	JSF	900.0		0.0	900.0
<b>Subtotal</b>				<b>1,200.0</b>		<b>0.0</b>	<b>1,200.0</b>
<b>Total</b>				<b>1,800.0</b>		<b>250.0</b>	<b>2,050.0</b>

Sector	Assistance Name	Responsible Division	Assistance Type	Sources of Funding			Total (\$'000)
				ADB		Others	
				Source	Amount (\$'000)	Source	
<b>2010</b>							
<b>Finance</b>							
	1. Structuring Public–Private Partnerships for Infrastructure Development	SAUD	CD	TASF	300.0	0.0	300.0
	<b>Subtotal</b>				<b>300.0</b>	<b>0.0</b>	<b>300.0</b>
<b>Law, Economic Management, and Public Policy</b>							
	2. Strengthening Results-Based Management	SAOC	CD	TASF	300.0	0.0	300.0
	3. Strengthening Local Government Service Delivery	SAFM	CD	TASF	225.0	0.0	225.0
	<b>Subtotal</b>				<b>525.0</b>	<b>0.0</b>	<b>525.0</b>
<b>Water Supply, Sanitation, and Waste Management</b>							
	4. Strengthening Urban Management Capacities of City Corporations	SAUD	CD	TASF	300.0	0.0	300.0
	5. Preparation of Master Plan for Thimphu City Water Supply	SANS	CD	TASF	300.0	0.0	300.0
	<b>Subtotal</b>				<b>600.0</b>		<b>600.0</b>
	<b>Total</b>				<b>1,425.0</b>	<b>0.0</b>	<b>1,425.0</b>
<b>2011</b>							
<b>Finance</b>							
	1. Strengthening Royal Monetary Authority's Regulatory Capacity for Nonbank Financial Institutions	SAFM	CD	TASF	500.0	0.0	500.0
	<b>Subtotal</b>				<b>500.0</b>	<b>0.0</b>	<b>500.0</b>
<b>Law, Economic Management and Public Policy</b>							
	2. Third Living Standards Survey	SAOC	CD	TASF	300.0	0.0	300.0
	<b>Subtotal</b>				<b>300.0</b>	<b>0.0</b>	<b>300.0</b>
<b>Transport and Communication</b>							
	3. Strengthening Capacity of Department of Roads	SATC	CD	TASF	300.0	0.0	300.0
	4. Rural Road Infrastructure Development	SATC	PP	JSF	600.0	0.0	600.0
	<b>Subtotal</b>				<b>900.0</b>	<b>0.0</b>	<b>900.0</b>
	<b>Total</b>				<b>1,700.0</b>	<b>0.0</b>	<b>1,700.0</b>

Sector	Responsible	Assistance	Sources of Funding				Total
			ADB		Others		
Assistance Name	Division	Type	Source	Amount (\$'000)	Source	Amount (\$'000)	Amount (\$'000)
<b>2012</b>							
<b>Finance</b>							
1. Deepening Procurement Reform	SAFM	CD	TASF	300.0		0.0	300.0
<b>Subtotal</b>				<b>300.0</b>		<b>0.0</b>	<b>300.0</b>
<b>Law, Economic Management and Public Policy</b>							
2. Poverty Assessment	SAOC	CD	TASF	300.0		0.0	300.0
3. Establishment of a National Regulatory Commission	SAOC	CD	TASF	300.0			300.0
<b>Subtotal</b>				<b>600.0</b>		<b>0.0</b>	<b>600.0</b>
<b>Water Supply, Sanitation and Waste Management</b>							
4. Preparation of Plans for Urban Centers	SAUD	CD	TASF	300.0		0.0	300.0
5. Urban Infrastructure Development	SAUD	PP	JSF	600.0			600.0
<b>Subtotal</b>				<b>900.0</b>		<b>0.0</b>	<b>900.0</b>
<b>Total</b>				<b>1,800.0</b>		<b>0.0</b>	<b>1,800.0</b>

ADB = Asian Development Bank; CD = capacity development; Govt. = Government; JSF = Japan Special Fund; PP = project preparatory; SAEN = South Asia Energy Division; SAFM = South Asia Financial Sector, Public Management and Trade Division; SANS = South Asia Natural Resources and Social Services Division; SAOC = South Asia Country Coordination and Regional Cooperation Division; SATC = South Asia Transport and Communications Division; SAUD = South Asia Urban Development Division; TASF = Technical Assistance Special Fund.

Source: ADB estimates.

**Table A2.3: Summary Information on Proposed Indicative Lending Products and Services for 2010**

Project Name	Description
Rural Renewable Energy Development Project	<p><b>Impact.</b> Sustained inclusive growth through widening electricity access.</p> <p><b>Major Components.</b> (i) Expansion of rural electrification through grid extensions; (ii) rural electrification through off-grid solar system, to benefit additional rural remote households; and (iii) development of more renewable energy sources (i.e., wind and biogas) to meet the power shortage in the winter and a growing energy demand caused by expansion of rural electrification.</p> <p><b>Expected Outputs and Outcomes.</b> Wider electrification coverage of households and diversification of power generation sources. Under the 10th Five-Year Plan, the Government is committed to completing its rural electrification program by 2013. Rural electrification enhances the quality of life, and enables health and education facilities to be established in these areas. Moreover, it provides farmers with an opportunity to move toward cash crop farming and microenterprise development. Cumulatively, these outcomes will increase incomes, reduce economic disparities, and reduce poverty. The project will also contribute to the attainment of the Millennium Development Goals. Bhutan currently relies heavily on hydropower generation—the economy’s lifeline. However, during the winter months reduced water inflows decrease generating capacity. Diversifying the country’s energy generation will contribute to energy security and ensure a smoother revenue stream. Power surplus through more renewable energy development in Bhutan will increase power export, which generates more cash used for the Government’s socioeconomic development. It will also contribute to emission reductions in India and South Asia.</p>

Source: Asian Development Bank.

**Table A2.4: Summary Information on Proposed Indicative  
Nonlending Products and Services for 2010**

Project Name	Description
Strengthening Results-Based Management	<p><b>Impact.</b> Capacity development of the Gross National Happiness Commission (GNHC; previously, the Planning Commission) to monitor the implementation of the 10th Five-Year Plan (2008–2013), which was developed in a managing for development results (MfDR) framework</p> <p><b>Major Components.</b> Assist and train GNHC staff in the application of MfDR tools.</p> <p><b>Expected Outputs and Outcomes.</b> A defined number of staff would be trained to evaluate the implementation of a results-based national development strategy. This would facilitate the monitoring of the 10th Plan objectives with a more holistic focus than the narrow focus on physical outputs. Equipped with a holistic view of the entire results chain, the GNHC would have a cross-sectoral view, and the feedback gained could feed into the management of the development process.</p>
Preparation of Master Plan for Thimphu City Water Supply	<p><b>Impact.</b> Capacity building in water supply management resulting in better water service delivery.</p> <p><b>Major Components.</b> Human resource development; water supply, service delivery, and unaccounted for water (UFW) planning; and UFW pilot.</p> <p><b>Expected Outputs and Outcomes.</b> The expected outcome is enhanced planning and management for water service delivery in Thimphu City. The expected outputs are (i) a water supply master plan for Thimphu is developed, (ii) water supply and delivery capacity developed and institutions strengthened for Thimphu City Corporation, (iii) a UFW reduction strategy for Thimphu is developed, and (iv) UFW pilot undertaken to achieve 24-hour water supply.</p>
Strengthening Urban Management Capacities of City Corporations	<p><b>Impact.</b> Capacity development of the city corporations resulting in a well-planned process of urban development</p> <p><b>Major Components.</b> Human resource development and urban planning improvement.</p> <p><b>Expected Outputs and Outcomes.</b> Through this support, institutional capacity in city corporations will be strengthened. Key outputs of the assistance include (i) human resources are further trained; training needs will be assessed and training provided for human resource development in city corporations; and (ii) urban plans are further developed. Existing urban plans are reviewed and requirements for new or upgraded urban services, particularly water supply and sanitation (WSS) and solid waste management (SWM) systems are properly identified, prioritized, and integrated into urban planning processes.</p>
Strengthening Local Government Service Delivery II	<p><b>Impact.</b> The project will directly lead to the attainment of the Government's broad outcomes in the 10th five-year plan on good governance, with particular reference to (i) effective service delivery through stronger local governance and decentralization processes, and</p>

Project Name	Description
	<p>(ii) the creation of an enabling environment (particularly on a strong civil service at the central and local levels) to ensure good governance. This is a critical area for the country as it transitions to a parliamentary democracy.</p> <p><b>Major Components.</b> The project has three primary components: (i) strengthening central-level institutions and processes for effective local level service delivery, (ii) strengthening service delivery capacities of local governments, and (iii) strengthening government leadership at the central and local levels.</p> <p><b>Expected Outputs and Outcomes.</b> The expected outputs and outcomes of the project include: (i) central-level institutions (such as the Royal Civil Service Commission) and processes (such as the organizational development exercise) are able to support local governments on effective systems for service delivery; (ii) local governments are better able to provide their services, keeping within the decentralization policy and the parliamentary democratic setup; and (iii) management development opportunities are enhanced for leaders in central and local governments.</p>
Structuring Public–Private Partnerships for Infrastructure Development	<p><b>Impact.</b> Capacity development at the Ministry of Economic Affairs and improvement in the enabling environment for public–private partnerships</p> <p><b>Major Components.</b> Assist the Ministry of Economic Affairs in developing a policy framework and enabling regulations for structuring public–private partnerships for infrastructure development. It will also build capacity in the design and regulation of public–private partnerships, outside of the energy sector, in the Ministry of Economic Affairs.</p> <p><b>Expected Outputs and Outcomes.</b> The 10th Plan envisions an increase in public investment of nearly 100% over that executed during the Ninth Plan. The Government will need to mobilize private resources to meet its ambitious infrastructure development targets, and to manage the delivery of increasingly complex urban services. Outside of the power sector, the Government has not yet pursued public–private partnerships, but there is interest in doing so in a number of sectors. For this, the Government will need to improve the enabling regulatory environment for public–private partnerships and will need better understanding of what is required to launch, sustain, and regulate public–private partnerships in various sectors.</p>

GNHC = Gross National Happiness Commission, MfDR = managing for development results, SWM = solid waste management, UFW - unaccounted for water, WSS – water supply and sanitation.

Source: Asian Development Bank.

**Table A2.5: Updated Priority Sectors and Themes**

<b>Priority Sector</b>	<b>Developments Since the Adoption of the Country Strategy and Program</b>
Transport	There have been no significant developments meriting changes in the sector strategy since the adoption of the country strategy and program 2006–2010.
Power	There have been no significant developments meriting changes in the sector strategy since the adoption of the country strategy and program 2006–2010.
Urban Development	There have been no significant developments meriting changes in the sector strategy since the adoption of the country strategy and program 2006–2010.
Finance and Private Sector Development	There have been no significant developments meriting changes in the sector strategy since the adoption of the country strategy and program 2006–2010.
<b>Priority Theme</b>	
Good Governance (Capacity Development)	There have been no significant developments meriting changes in the thematic strategy since the adoption of the country strategy and program 2006–2010.

Source: Asian Development Bank.