



Country Operations Business Plan

October 2006

Bhutan 2007–2009

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 September 2006)

Currency Unit	–	ngultrum (Nu)
Nu1.00	=	\$0.02184
\$1.00	=	Nu45.77

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
BEA	–	Bhutan Electric Authority
BIMSTEC	–	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CPM	–	country program mission
CSP	–	country strategy and program
CSPU	–	country strategy and program update
NRTM	–	Ninth Round Table Meeting

NOTES

In this report, "\$" refers to US dollars.

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY STRATEGY AND PROGRAM

1. The Bhutan country strategy and program (CSP),¹ endorsed by the Board of the Asian Development Bank (ADB) on 30 September 2005, noted that ADB and the Government had agreed that ADB should focus its assistance during the CSP period on four areas: (i) transport; (ii) power, including rural electrification; (iii) urban development; and (iv) financial and private sector development. The business plans for 2006, and for the 2007–2008 period, are fully consistent with the CSP priority areas. In 2006, ADB will provide assistance for urban development and the financial sector. As outlined below, other priority sectors are sequentially programmed to be covered during 2007–2008.

II. INDICATIVE LENDING AND NONLENDING PROGRAM

A. Indicative Lending Program

2. Bhutan is classified as Group A country and is thus fully eligible for Asian Development Fund (ADF) resources. The country specific allocations have been based on the results of the 2005 country performance assessment (CPA) exercise, after applying the performance-based allocation formula. The ADF allocation for Bhutan for 2007–2008 has been set at \$39.16 million. The ADF assistance program for 2009 is tentative, with actual ADF assistance levels being subject to the results of the 2007 CPA exercise and the outcome of the discussions on the next ADF replenishment. Under the ADF IX framework, Bhutan is not eligible to receive ADF grant financing.

3. **2006 Lending Program.** The 2006 program comprises two loans² with a cumulative value of \$37.6 million. The country program mission (CPM) met with the secretaries of the two ministries responsible for the development and implementation of these two projects and noted their strong support and ownership. Processing of the two loans remains on track.

4. **2007–2008 Lending Program.** The indicative cumulative value for the period 2007–2008 is \$42.9 million.³ One loan, for the development of small and medium-sized enterprises, has been programmed for 2007, and another, for rural electrification and renewable energy, is programmed for 2008.

B. Indicative Nonlending Program

5. A nonlending program with a cumulative value of \$4.05 million has been programmed for 2006–2008. Consistent with the CSP objectives, 63% of the nonlending program for 2006–2008 is for capacity development and institutional strengthening. The program includes assistance for the strengthening of the Auditor General's Office, implementing the labor law, capacity building for the Anticorruption Commission, and follow-on capacity building for external debt management.

¹ ADB. 2005. *Country Strategy and Program for Bhutan (2006–2010)*. Manila.

² Urban Infrastructure Development for \$24.6 million (Board consideration scheduled for September 2006) and, Financial Sector and Nonbank Financial Institutions Reform Program for \$13.0 million (Board consideration scheduled for November 2006).

³ The distribution of funds between the 2007 and 2008 programs would be finalized by the 2007 CPM and the two-year assistance program adjusted, in consultation with the Government, per ADF biennial allocation for 2007–2008.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAM

6. **Lending Program.** There are no changes to the lending program, and the program will continue to support the priority sectors identified in the CSP.

7. **Nonlending Program.** There are no changes in the resource envelope for the non-lending program. As requested by the Government, the timing of some nonlending operations was adjusted by the 2006 CPM to meet the Government's evolving priority needs. The Government requested follow-on technical assistance for the Department of Aid and Debt Management's external debt management system, developed earlier under ADB assistance. This has now been programmed for 2006. The Government also requested that the proposed Public Resource Management II TA project be moved forward from 2008 to 2007. Given the time frame⁴ for the internal approval and submission of the draft Labor Act to the National Assembly, it was agreed that this TA project would be deferred to 2007, with a slightly increased TA amount. The Planning Commission informed the CPM that it had developed a national monitoring and evaluation system, and, following Government approval in June 2006, the system would be pilot-tested in selected districts. Accordingly, the 2006 Poverty Assessment and Monitoring TA project has been deferred. As requested by the Planning Commission, a TA project to undertake a second Bhutan Living Standards Survey has been included for 2008, followed by a second Poverty Assessment TA project in 2009. The scheduling of these two projects was also endorsed by the autonomous National Statistics Bureau. The Government reiterated its request that ADB's annual resource envelope, currently \$1.35 million per annum, be enhanced to support the nonlending program.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

8. It is estimated that 60 person-weeks will be required for the processing of the lending program and 60 person-weeks for processing the nonlending program.

V. COUNTRY PARTNERSHIP STRATEGY

9. A mid-term review of the country strategy and program for Bhutan is scheduled for 2008, by which time sufficient information will be available to update the results-based framework.

⁴ The timetable is as follows: submission to the Council of Cabinet Ministers by the end of March 2006, submission to the Cabinet by June 2006, submission to the legislative committee of the National Assembly in July 2006, and consideration by the National Assembly in December 2006.

INDICATIVE ASSISTANCE PIPELINE FOR 2007–2009

Table A1.1: Assistance Pipeline for Lending Products

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)						
						OCR	ADB ADF		Total	Gov't.	Co- financing	
							Loans	Grants				
2007												
Finance												
1. Small and Medium-sized Enterprise and Micro Enterprises Development Program	GI	ECG/PSD	SAGF	2006	15.0	0.0	15.0	0.0	15.0	tbd	tbd	
Total					15.0	0.0	15.0	0.0	15.0	tbd	tbd	
2008												
Energy												
1. Rural Electrification and Renewable Energy	GI	ECG/PSD	SAEN	2007	27.9	0.0	27.9	0.0	27.9	tbd	tbd	
Total					27.9	0.0	27.9	0.0	27.9	tbd	tbd	
2009												
Infrastructure												
1. Roads	GI	ECG/PSD	SATC	2008	20.0	0.0	20.0	0.0	20.0	tbd	tbd	
Total					20.0	0.0	20.0	0.0	20.0	tbd	tbd	

ADB = Asian Development Bank, ADF = Asian Development Fund, ECG = sustainable economic growth, GI = general intervention, OCR = ordinary capital resources, PSD = private sector development, SAEN = South Asia Energy Division, SAGF = South Asia Governance, Finance and Trade Division, SATC= South Asia Transport and Communications Division, tbd = to be determined.

Source: Asian Development Bank estimates.

Table A1.2: Assistance Pipeline for Nonlending Products

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2007							
Energy							
1. Rural Electrification and Renewable Energy	SAEN	PP	TASF	500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Law, Economic Management, and Public Policy							
2. Implementing the Labor Law	OGC	ID		300.0		0.0	300.0
Subtotal				300.0		0.0	300.0
3. Cluster TA for:							
A. Strengthening of Auditor General's Office	SAGF	ID	TASF	300.0		0.0	300.0
B. Public Resource Management – II	SAGF	ID	TASF	250.0		0.0	250.0
Subtotal				550.0		0.0	550.0
Total				1,350.0		0.0	1,350.0
2008							
Law, Economic Management, and Public Policy							
1. Capacity Building For Anti Corruption Commission	SAGF	ID	TASF	300.0		0.0	300.0
2. Bhutan Living Standard's Survey	SAOC	ID	TASF	300.0		0.0	300.0
Subtotal				600.0		0.0	600.0
Transport and Communications							
3. Road Network – II	SATC	PP	TASF	500.0		0.0	500.0
4. Standards and Quality for Civil Works	SATC	ID	TASF	250.0		0.0	250.0
Subtotal				750.0		0.0	750.0
Total				1,350.0		0.0	1,350.0

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2009							
1. Urban Infrastructure Development-II	SASS	PP	TASF	500.0		0.0	500.0
2. Poverty Assessment-II	SAOC	ID	TASF	300.0		0.0	300.0
3. Cluster TA for Capacity Development in selected institutions	tbd	ID	TASF	550.0		0.0	550.0
Total				1,350.0		0.0	1,350.0

ADB = Asian Development Bank, ID = institutional development, PP = project preparatory, SAEN = South Asia Energy Division, SAGF = South Asia Governance, Finance and Trade Division, SAOC = South Asia Country Coordination and Regional Cooperation Division, SAUD = South Asia Urban Development Division, TA = technical assistance, TASF = Technical Assistance Special Fund, tbd = to be determined.

Source: Asian Development Bank estimates.

**PRELIMINARY SUMMARY INFORMATION ON INDICATIVE LENDING AND
NONLENDING PRODUCTS AND SERVICES FOR 2007**

A. Lending Products

Project Name	Small and Medium-Sized Enterprises and Microenterprises Development Program
Objective, Components and Outputs	The Project will help develop small and medium-sized enterprises (SMEs) and microenterprises that focus on poverty reduction in both the industrial and agricultural sectors. The main objective will be to help formulate an integrated developmental plan, and a financing plan for SMEs and microenterprises. The project will help estimate SME demand for equity and credit, and will recommend a mix of financial institutions and facilities to deliver financial services such as equity, long-term credit, and venture capital.
Expected Results and Deliverables	The expected result is a long-term plan for the development and financing of Bhutan's SME and microenterprise sector.

B. Nonlending Products and Services

Project Name	Rural Electrification/Renewable Energy
Objective, Components and Outputs	The primary goal of the rural electrification project is to contribute to poverty reduction by providing rural households with access to electricity and therefore to help them to increase their economic productivity. There will be three technical assistance (TA) components: (i) expansion of rural electrification, (ii) integration of an interregional national transmission system, and (iii) acceleration of hydropower development. The TA will prepare two loans separately. The first loan will cover components (i) and (ii) in 2008, and the second is expected to finance component (iii) through the public-private partnership approach to leverage both public and private capital in 2010.
Expected Results and Deliverables	The 10th five year plan (2008-2012) of the Government targets 24,358 households for rural electrification. To meet the target, it is expected that Japan Bank for International Cooperation (JBIC) will support electrification of 15,424 households and the Asian Development Bank (ADB) will finance the balance of 8,934 households through both grid extension and off-grid renewable applications. A proposed 45-km transmission link to connect two national grid systems between eastern and western Bhutan will (i) establish the national integrated transmission network, (ii) increase the security and reliability of nationwide power supply, (iii) provide adequate power supply to domestic and industrial consumers who produce goods exported from the western Bhutan to India, and (iv) establish optic fiber ground wire that is commonly used for power supply and information and communications technology infrastructures. The third component of hydro power development will deliver (i) an institutional framework and the sector road map for the generation sector, (ii) policy framework for private participation in hydropower development, and (iii) the design and financial arrangements for a model project (Nikachhu Hydropower Project-203 MW, a run-of-the-river type) under the policy.

Project Name	Implementing Labor Law
Objective, Components and Outputs	The goal of the technical assistance (TA) is to promote employment of the Bhutanese workforce. The purpose is to continue work that has been done so far in the area of labor administration and legislation. The components are (i) conduct a tripartite consultation on and drafting of regulations under the Labor and Employment Act (occupational safety and health have been identified as priority areas); (ii) develop a procedural manual and reporting instruments for labor inspectors, and train labor inspectors in labor legislation and inspection methods and skills; and (iii) develop a clear policy on foreign workers.
Expected Results and Deliverables	The expected results are (i) labor regulations; (ii) 10–15 well-trained labor inspectors as part of a labor inspectorate operating on integrated lines; and (iii) a policy document on foreign workers.

Project Name	Strengthening of Auditor General's Office
Objective, Components and Outputs	Capacity development and institutional strengthening is the second main pillar of the Bhutan country strategy and program. The principal objective of this technical assistance (TA) is to introduce and institutionalize "performance auditing" in Bhutan. Due to capacity constraints, the Auditor General's (AG) office is currently unable to carry out performance audits. It can undertake only limited financial audits. This TA project will help to introduce performance auditing by providing consulting inputs to develop auditing manuals and training AG staff in performance auditing. Consideration will be given to sending some AG staff on study tours.
Expected Results and Deliverables	The outcome will be the introduction of performance audits in Bhutan. This will result in greater institutional development and provide more comprehensive feedback on the performance of the public sector, thus leading to greater efficiency and higher levels of productivity.

Project Name	Public Resource Management II
Objective, Components and Outputs	Bhutan has a decentralized system of government, requiring effective monitoring of public resources, ensuring that all tiers of the Government are following generally accepted accounting principles and techniques, and that data are recorded and exchanged in accordance with the stipulations of the finance manual developed by the Ministry of Finance's Budget and Account Department. The objective of this follow-on TA is to build on the earlier assistance provided by ADB, and, in line with information technology developments, expand the application of the system to all 20 districts of the country.
Expected Results and Deliverables	The expected outcome will be the availability of real-time data on the revenue and expenditure positions of the district and local governments. The TA project will help to monitor expenditures and ensure that they are consistent with the development priorities of the district and local governments. In addition, it will provide the Ministry of Finance with firm data on expenditures and enable it to make timely adjustments if needed correlated with resource inflows. Building on the lessons of the first TA project, more emphasis will be placed on in-country training and use of financial management data by district and local staff.

ASSISTANCE PIPELINE FOR 2006

Table A3.1: Assistance Pipeline for Lending Products

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)						
						OCR	ADB		Total	Gov't.	Co- financing	
							ADF					
							Loans	Grants				
Multisector												
1. Urban Infrastructure Development	TI	ISD/ENV	SAUD	2004	24.6	0.0	24.6	0.0	24.6	0.0	0.0	
Finance												
2. Financial Sector & Nonbank Financial Institutions	GI	ECG/GOV /PSD	SAGF	2005	13.0	0.0	13.0	0.0	13.0	0.0	0.0	
Total					37.6	0.0	37.6	0.0	37.6	0.0	0.0	

ADB = Asian Development Bank, ADF = Asian Development Fund, ECG = sustainable economic growth, ENV = environmental sustainability, GI = general intervention, GOV = governance, ISD = inclusive social development, OCR = ordinary capital resources, PSD = private sector development, SAGF = South Asia Governance, Finance and Trade Division, SAUD = South Asia Urban Development Division, TI = targeted intervention.
Source: Asian Development Bank estimates.

Table A3.2: Assistance Pipeline for Nonlending Products and Services

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
1. Accelerated Rural Electrification	SAEN	ID	TASF	400.0		0.0	400.0
2. Preparing the SME and Micro-enterprises	SAGF	PP		0.0		500.0	500.0
3. Cluster TA for:							
A. Capacity Building for Urban Municipal Planning & Governance	SAUD	ID	TASF	250.0		0.0	250.0
B. Capacity Building for DADM's Debt Management Unit	SAOC	ID	TASF	200.0		0.0	200.0
Total				850.0		500.0	1,350.0

ADB = Asian Development Bank, DADM = Department of Aid and Debt Management, ID = institutional development, PP = project preparatory, SAEN = South Asia Energy Division, SAGF = South Asia Governance, Finance and Trade Division, SAOC = South Asia Country Coordination and Regional Cooperation Division, SAUD = South Asia Urban Development Division, SME = small and medium-sized enterprise, TA = technical assistance, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank estimates.