



Country Operations Business Plan

August 2007

Bhutan
2008–2010

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 July 2007)

Currency Unit	–	ngultrum (Nu)
Nu1.00	=	\$0.0248
\$1.00	=	Nu40.36

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CIB	–	Credit Information Bureau
CPM	–	country program mission
CPS	–	country partnership strategy
MSME	–	micro, small, and medium enterprise
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. The Bhutan Country Partnership Strategy (CPS),¹ endorsed by the Board of the Asian Development Bank (ADB) on 30 September 2005, noted that ADB and the Government had agreed that the CPS should focus on the following four sectors: (i) transport; (ii) power, including rural electrification and renewable energy; (iii) urban infrastructure development; and (iv) financial and private sector development. The business plan for 2007 and for 2008–2010 are fully consistent with these CPS priority areas. In 2007, ADB will provide assistance for the development of micro, small, and medium enterprises (MSMEs). As outlined below, other priority lending and cross-cutting capacity development nonlending operations are sequentially programmed for 2008–2010.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

A. Indicative Lending Program

2. Bhutan is classified as a Group A country, fully eligible for Asian Development Fund (ADF) resources. The country-specific allocations are based on the outcome of the 2006 Country Performance Assessment (CPA), within the performance-based allocation framework. The ADF program for Bhutan for 2008–2010 has been set at \$58.6 million. The ADF assistance program of \$36 million for 2009–2010, or an average of \$18.0 million yearly, is tentative. It is based on the 2007–2008 average annual allocation, and is subject to the outcome of the ADF X replenishment, as well as any modifications resulting from the annual performance-based assessments and CPAs.

3. Under ADB's proposed ADF grants framework, Bhutan may become eligible for ADF grant financing. ADB is in the process of revising the framework for ADF grants. Approval of the new framework, which links grant eligibility to a country's debt situation, is still pending. The indicative grant program is based on the revised ADF grant framework as presented in the working paper considered by ADB's Board of Directors on 24 July 2007. The grant framework is still subject to further change, which may affect the indicative grant program. Submission of ADF grant projects for Board consideration prior to the approval of the revised grant framework will be on a conditional basis. Should ADB's Board approve such projects, the grant agreement will not be signed until the revised grant framework is approved.

4. **2007 Lending Program.** The 2007 program comprises one program for \$15.0 million for the proposed MSME operation. In a meeting with the Secretary of the Ministry of Trade and Industry (MTI), the implementing agency, the 2007 Country Program Mission (CPM) was assured of the Government's support for the development of MSMEs and informed that a staff in MTI's Policy Planning Division had been specifically assigned the responsibility of ensuring interministerial coordination in this regard.

5. **2008–2010 Lending Program.** The indicative cumulative value of \$58.6 million for this period is subject to change, depending on the outcome of the events mentioned in paras. 2 and 3. One project/program per year has been programmed for the 3-year period: a power sector development project for 2008, a road network project for 2009, and an urban infrastructure development project for 2010. As in the past, the project designs will conform to applicable ADB

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

policies. The Government has advised that it will reconfirm the candidate projects for 2009–2010 during the 2008 CPM.

B. Indicative Nonlending Program

6. A nonlending program with a cumulative value of \$4.05 million has been programmed for 2008–2010. Given the capacity development objective of the CPS, almost 60% of the programmed nonlending assistance is for institutional strengthening and capacity development. Efforts will also be made to supplement core ADB funds to increase the resources for technical cooperation in capacity development.²

III. SUMMARY OF CHANGES IN LENDING AND NONLENDING PROGRAMS

7. **Lending Program.** No changes have been made in the lending program, which, as outlined earlier, will continue to support the priority sectors identified in the CPS. Only the title of the energy sector operation has been changed, to “Power Sector Development Project.”

8. **Nonlending Program.** The Government has reaffirmed the need for the 2007 program. The programmed advisory technical assistance (TA) project Public Resource Management-II will now be known as “Strengthening Public Finance Management-I.” The beneficiary entities will be the Departments of National Budget and Public Accounts of the Ministry of Finance.

9. The June 2007 session of the incumbent National Assembly was its last session. The National Assembly is likely to be dissolved to pave the way for the country’s first-ever political party-based national elections, sometime in the first quarter of 2008, and the assumption of power of a new government shortly thereafter. In addition, the 10th Five-Year Plan (10FYP) is expected to be launched in July 2008. The Government informed the CPM that the overarching development objectives of the 10FYP—which is being prepared after extensive stakeholder consultation in a results-oriented framework, with an associated, albeit indicative, financing plan—may remain the same as those of the Ninth Plan. Keeping in view the evolving political transition in Bhutan, the Government and the CPM has agreed to maintain a degree of flexibility in the lending program for 2009–2010 and nonlending program for 2008–2010 to allow ADB to respond quickly and efficiently to emerging development needs.

10. The Planning Commission informed the CPM that it had to advance the work on Poverty Assessment (PA) compared to what was agreed with the 2006 ADB CPM. As such, there is now no longer a need for work related to the second PA or for preparatory TA for the second Bhutan Living Standards Survey. These two activities have therefore been dropped from the 2008 and 2009 nonlending pipelines.

11. To involve the private sector in the power sector and assist in the capacity development of the Druk Hydropower Corporation, which is currently envisaged to be the umbrella organization for power generation, and bulk supply (including export and import of power) activities in Bhutan, the Government and the CPM agreed to include an advisory TA project in the 2008 nonlending program. Also to be included in the program is a TA project for the establishment of a Credit Information Bureau (CIB). The creation of the CIB would facilitate (i)

² In 2006 ADB approved the \$0.5 million technical assistance project Support for Anti-corruption and Good Governance at Local Level in Bhutan (ADB. 2006. *Technical Assistance for Development Partnership Program for South Asia*. Manila [TA 6337-REG, financed by the Australia-ADB South Asia Development Fund]).

further development of the financial sector; (ii) access to credit under the ADB-assisted MSME project proposed for 2007; and (iii) identification of alternative financing needs for the further development of the power sector.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

12. On a per year basis, the processing of the lending and nonlending programs is expected to require about 80 person-weeks. In addition, operational administration work is estimated to require 25-30 person weeks per year.

V. RESULTS-BASED MONITORING

13. It has been less than 2 years since the CPS was endorsed. To have meaningful data for updating the results framework, it is considered appropriate that the updating be done in the context of the planned midterm review of the CPS in 2008.

Table 1: Indicative Assistance Pipeline for Lending Products, 2008–2010

Sector	Project/Program	Targeting Classification	Thematic Priority	Responsible Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
							OCR	ADB/ADF		Total	Gov't	Co-financing
								Loans	Grants			
2008												
Energy												
	Power Sector Development	GI	ECG/PSD	SAEN	2007	TBD	0.0	22.6	0.0	22.6	TBD	TBD
	Total					TBD	0.0	22.6	0.0	22.6	TBD	TBD
2009												
Transport and Communications												
	Roads	GI	ECG/PSD	SATC	2008	TBD	0.0	18.0	0.0	18.0	TBD	TBD
	Total					TBD	0.0	18.0	0.0	18.0	TBD	TBD
2010												
Water Supply, Sanitation and Waste Management												
	Urban Infrastructure	GI	ECG	SAUD	2009	TBD	0.0	18.0	0.0	18.0	TBD	TBD
	Total					TBD	0.0	18.0	0.0	18.0	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, SATC = South Asia Transport and Communications Division, SAUD = South Asia Urban Development Division, TBD = to be determined.

Source: Asian Development Bank estimates.

Table 2: Indicative Assistance Pipeline for Nonlending Products and Services, 2008–2010

Sector Assistance	Responsible Division	Assistance Type	Source of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2008							
Energy							
1. Power Sector Development	SAEN	ID	TASF	300.0		0.0	300.0
Subtotal				300.0		0.0	300.0
Finance							
2. Credit Information Bureau	SAGF	ID	TASF	300.0		0.0	300.0
Subtotal				300.0		0.0	300.0
Law, Economic Management, and Public Policy							
3. Strengthening National Statistics Bureau	SAOC	ID	TASF	300.0		0.0	300.0
Subtotal				300.0		0.0	300.0
Transport and Communications							
4. Road Network II	SATC	PP		500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Total				1,400.0		0.0	1,400.0
2009							
Finance							
1. Strengthening Public Finance Management – II	SAGF	ID	TASF	300.0		0.0	300.0
Subtotal				300.0		0.0	300.0
Transport and Communications							
2. Capacity Development; MOWHS	SATC	ID	TASF	250.0		0.0	250.0
3. Standards and Quality for Civil Works	SATC	ID	TASF	250.0		0.0	250.0
Subtotal				500.0		0.0	500.0
Water Supply, Sanitation and Waste Management							
4. Urban Infrastructure Development-II	SAUD	PP		500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Total				1,300.0		0.0	1,300.0

Sector Assistance	Responsible Division	Assistance Type	Source of Funding		Total (\$'000)		
			ADB			Others	
			Source	Amount (\$'000)		Source	Amount (\$'000)
2010							
Finance							
1. Financial Sector Development - II	SAGF	PP	TASF	500.0	0.0	500.0	
Subtotal				500.0	0.0	500.0	
Multisector							
2. Capacity Development	SAOC	ID	TASF	850.0	0.0	850.0	
Subtotal				850.0	0.0	850.0	
Total				1,350.0	0.0	1,350.0	

ADB = Asian Development Bank, ID = institutional development, MOWHS = Ministry of Works and Human Settlement, 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, SATC = South Asia Transport and Communications Division, SAUD = South Asia Urban Development Division, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank estimates.

**Table 3: Summary Information on Proposed Indicative Lending
Products and Services for 2008**

Project Name	Description
Power Sector Development	<p>Goal: Increased rural electrification and power connectivity.</p> <p>Major Components: (i) Expansion of rural electrification, to benefit some 9,000 additional households in eight districts; (ii) integration of the national transmission system by connecting the missing link of about 45 km of the national grid.¹</p> <p>Expected Outputs and Outcomes: Access to power has strong links with regional development, income-generating opportunities (as micro enterprises are established), time savings especially for women, and an overall improvement in the quality of life. Rural electrification also facilitates the provision of other economic services like health and education. The integration of the national grid would allow the balancing of power requirements by extending the reach of the national grid to the relatively less affluent parts of central and eastern Bhutan.</p>

¹ A third component under the ongoing project preparatory technical assistance (PPTA) is examining various financing options and matters related to the Asian Development Bank (ADB) safeguard policies for the proposed run-of-the-river Dagachhu hydropower project. ADB's involvement in this project will be decided after the PPTA findings are known and discussed with the Government and ADB Management. Given its large financing needs, this proposed project is not likely to be financed from the country's ADF allocation.

Source: Asian Development Bank staff.

Table 4: Summary Information on Proposed Indicative Nonlending Products and Services for 2008

Project Name	Description
Power Sector Development	<p>Goals: Capacity development and identification of off-budget financing options for power sector projects.</p> <p>Major Components: (i) Identifying alternative financing mechanisms for private sector involvement in the power sector, and (ii) capacity building assistance for the Druk Hydropower Corporation (DHPC). Further development of the power sector in Bhutan would require examining off-budget financing methods (such as public-private partnerships, joint ventures, and credit enhancement products) and involving the private sector in power development. DHPC is envisaged to be the umbrella organization for power generation, and bulk supply (including export and import of power) activities in Bhutan.</p> <p>Expected Outputs and Outcomes: Involvement of the private sector in Bhutan's power sector, and greater capacity of DHPC to effectively conduct its mandate.</p>
Credit Information Bureau (CIB)	<p>Goal: Development of the necessary financial sector institutions, which, in turn, would facilitate greater private sector involvement in Bhutan's economic and commercial development.</p> <p>Major Components: (i) Procurement of hardware and software, (ii) training in effective use of software, and (iii) development of a functional system that generates real-time data.</p> <p>Expected Outputs and Outcomes: The creation of a CIB would promote the further development of the financial sector, facilitate (i) access to credit under the MSME project proposed for ADB assistance in 2007, and (ii) alternative financing needs for the further development of the power sector.</p>
Strengthening National Statistics Bureau (NSB)	<p>Goal: Strengthened institutional capacity of the NSB.</p> <p>Major Components: Assistance to NSB in training demographers for the planned midterm national census in 2010.</p> <p>Expected Outputs and Outcomes: More trained demographers—NSB now has only one trained demographer.</p>
Road Network - II	<p>Goal: Project preparatory assistance.</p> <p>Major Components: Identification of road network and links to be considered for possible ADB financing.</p> <p>Expected Outputs and Outcomes: Definition of project scope, identification of any safeguard assessments that may need to be undertaken, preparation of preliminary costing, and examination of sector policy and institutional issues.</p>

ADB = Asian Development Bank, CIB = Credit Information Bureau, DHPC = Druk Hydropower Corporation, MSME = micro, small and medium enterprise, NSB = National Statistics Bureau.

Source: Asian Development Bank staff.

Table 5: Priority Sectors and Themes (Updated)

Priority Sector	Developments since the Adoption of the Country Strategy and Program (2006–2010)
Energy	No significant changes
Finance	No significant changes
Transport and Communications (roads)	No significant changes
Water supply, sanitation and waste management (urban infrastructure)	No significant changes
Priority Theme	
Sustainable economic growth	No significant changes
Private sector development	No significant changes

Source: Asian Development Bank staff.