



# Country Operations Business Plan

---

February 2015

**Bhutan**  
**2015–2017**

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 30 January 2015)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.01618
\$1.00	=	Nu61.80

## ABBREVIATIONS

ADF	–	Asian Development Fund
PDA	–	project design advance
SASEC	–	South Asia Subregional Economic Cooperation
TA	–	technical assistance

## NOTE

In this report, “\$” refers to US dollars.

<b>Vice-President</b>	W. Zhang, Operations 1
<b>Director General</b>	H. Kim, South Asia Department (SARD)
<b>Director</b>	S. Bonu, Regional Cooperation and Operations Coordination Division, SARD
<b>Team leader</b>	H.Y. Jeong, Senior Economist, SARD
<b>Team members</b>	L. Garnace, Associate Economics Officer, SARD T. Norbu, Senior Country Coordination Officer, Bhutan Resident Mission, SARD Bhutan Country Team

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	<b>Page</b>
I. CONSISTENCY OF THE BUSINESS PLAN WITH THE COUNTRY PARTNERSHIP STRATEGY	1
II. INDICATIVE RESOURCE PARAMETERS	1
III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS	1
 APPENDIXES	
1. Updated Country Partnership Strategy Results Framework	3
2. Indicative Assistance Pipeline	5



## **I. CONSISTENCY OF THE BUSINESS PLAN WITH THE COUNTRY PARTNERSHIP STRATEGY**

1. The country operations business plan identifies lending and nonlending programs for 2015–2017 and is fully in line with the direction and strategic priorities outlined in the Asian Development Bank’s country partnership strategy, 2014–2018 for Bhutan.<sup>1</sup> The strategy, approved in July 2014, was prepared in line with the priority areas of the government’s Eleventh Five-Year Plan, 2013–2018.<sup>2</sup>

## **II. INDICATIVE RESOURCE PARAMETERS**

2. Bhutan is eligible for resources from the Asian Development Fund (ADF). The indicative ADF country allocation for 2015–2017 amounts to \$83 million. The final country allocation of ADF resources will depend on available ADF commitment authority and the outcome of the country performance assessments. Bhutan is eligible for a 50% grant share of country allocations in 2014. The proportions of grants in the country allocations in 2015–2017 will be determined by future annual debt stress classifications. The indicative financing for the nonlending program for 2015–2017 amounts to \$20.7 million. Meanwhile, there is no allocation from ordinary capital resources for 2015–2016.

3. The indicative investment program agreed with the government under the COBP, 2015–2017 amounts to \$105 million. As the total pipeline exceeds the overall available ADF resource envelope for the COBP period, cofinancing and funding from other sources, including the ADF subregional pool, will be actively explored in consultation with the government. Additional resources from the ADF subregional allocation will also be sought for projects that have strong regional cooperation and integration elements, such as those in the energy and transport sectors. The use of external resources, such as trust funds and other cofinancing, will also be explored for the energy sector and other key sectors.

## **III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS**

### **A. Lending Products**

4. Three new projects are proposed for 2015, two of them are project design advances (PDAs). The Second Strengthening Economic Management Program amounts to \$36.20 million and will deepen and consolidate the reforms undertaken under the first program. The two PDAs, each amounting to \$2.5 million, will be used to (i) prepare the Improved Urban Environmental Infrastructure Project, now being considered for 2017; and (ii) assist advance preparations for the South Asia Subregional Economic Cooperation (SASEC) Transport, Trade Facilitation, and Logistics Project, now being considered for 2016.

5. The Improved Urban Environmental Infrastructure Project, which was a firm project for 2015, is being shifted to 2017 as a firm project, with an indicative allocation of \$20 million. However, the PDA proposed for 2015 will help carry out advance preparatory actions so that the original timelines for construction work can be adhered to. The additional financing for the Air Transport Connectivity Enhancement Project, which was on standby in 2015, is now moved to

---

<sup>1</sup> Asian Development Bank. 2014. *Country Partnership Strategy: Bhutan, 2014–2018*. Manila.

<sup>2</sup> The National Assembly approved the Eleventh Five-Year Plan, 2013–2018 in September 2013.

2016 as a firm project. The Rupee Financing for Infrastructure Project, which was on standby for 2015, is dropped.

## **B. Nonlending Products and Services**

6. Capacity Building for Improved Urban Environmental Infrastructure Management, which was a firm technical assistance (TA) project for 2015, is now moved to 2017 and the amount is increased from \$750,000 to \$1 million. Two new TA projects are being proposed for 2015— (i) Improving Business Climate and Better Business Council (\$500,000), which aims to enhance the overall business climate and improve the Better Business Council of Bhutan; and (ii) Enhancing Gender Equality and Social Inclusion Outcomes at Decentralized Level (\$1.5 million). They will complement two other TA projects: (i) Preparing the SASEC Green Energy Project; and (ii) Supporting the Implementation of the Strengthening Economic Management Program II.

7. For 2016, the Competitive Urban City Development TA is being dropped. Three new TA projects are proposed. The first is a policy and advisory TA—Promoting Clean Energy Development in Bhutan (phases II and III)—amounting to \$10.04 million and utilizing Government of Norway grant funds. The second, Strengthening Public Procurement, will build capacity and amounts to \$500,000. The third, Improving Agribusiness (\$2 million), will help boost jobs and improve agricultural productivity, in line with the government’s vision of One-Village–One-Product. For 2017, a \$2 million TA, Strengthening Technical and Vocational Education Training, is proposed as a standby.

8. The summary of changes to the lending and nonlending programs is reflected in the revised results framework in Appendix 1, and in Appendix 2, Tables A2.1 and A2.2.

## UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

(Board endorsement of the CPS: 2014; COBP February 2015)

Country Development Goals				Changes from CPS or Last COBP
1. Achieve an annual average GDP growth rate of 10% during 2013–2018 2. Reduce income poverty to less than 5% by 2018 3. Reduce multidimensional poverty to less than 10% by 2018 4. Reduce Gini coefficient to 0.3 by 2018				No change.
Sectors Selected for ADB Support				
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	Changes from CPS or Last COBP
<b>1. Energy (Core Areas 1: Infrastructure, 2: Environment, and 3: Regional Cooperation and Integration)</b>				
Increase energy security and energy sector's contribution to revenue, economic growth, and employment	<p><b>Outcome:</b> Increased cross-border power trade and domestic electricity access</p> <p><b>Indicator 1:</b> Power exports increased to 3,000 MW by 2018 (2012 baseline: 1,050 MW)</p> <p><b>Indicator 2:</b> 100% rural electrification reached by 2015 and this rate retained through 2018 (2013 baseline: 95%)</p>	Large hydropower (PPP and energy trade); transmission; solar, small hydro, wind, biogas; energy efficiency	\$120 million, 0.00% of total 2015–2017 allocation, of which:  ESG: 0% GEM: 0% PSD: 0% RCI: 0%	
<b>2. Transport (Core Areas 1: Infrastructure and 3: Regional Cooperation and Integration)</b>				
Increase access to safe, reliable, affordable, eco-friendly, convenient transport services	<p><b>Outcome:</b> Safe and more efficient movement of people and goods</p> <p><b>Indicator 1:</b> 205 <i>gewogs</i> (blocks of villages) connected to road network by 2018 (2013 baseline: 201)</p> <p><b>Indicator 2:</b> Value of export goods (excluding electricity) increased to Nu28 billion annually by 2018 (2012 baseline: Nu15 billion)</p> <p><b>Indicator 3:</b> Number of air passengers per year increased to 300,000 international and 4,000 domestic by 2018 (2012 baselines: 181,659 international and 881 domestic)</p> <p><b>Indicator 4:</b> Public transport ridership increased to 30% by 2018 (2012 baseline: 11.8%)</p>	National roads and district roads; external trade and road transport services; airports, and air transport policies and reforms	\$147.33 million, 37.44% of total 2015–2017 allocation, of which:  ESG: 0% GEM: 0% PSD: 0% RCI: 100%	

Sectors Selected for ADB Support				
Government's Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	Changes from CPS or Last COBP
<b>3. Water and Other Urban Infrastructure and Services (Core Areas 1: Infrastructure and 2: Environment)</b>				
Improve quality of urban infrastructure and services	<p><b>Outcome:</b> Enhanced safety, reliability, and quality of urban services (water supply, sanitation, and flood management)</p> <p><b>Indicator 1:</b> Households with metered connections to the water distribution system increased to 55% by 2018, with poor households and those headed by women included (2013 baseline: 30%)</p> <p><b>Indicator 2:</b> Households connected to improved sewerage systems increased to 40% by 2018, with poor households and those headed by women included (2013 baseline: 15%)</p>	Drinking water systems, sanitation systems, flood management, urban roads, water supply and sanitation, O&M, tariff policies, urban governance, urban planning	<p>\$20 million, 29.60% of total 2015–2017 allocation, of which:</p> <p>ESG: 100% GEM: 100% PSD: 0% RCI: 0%</p>	
<b>4. Finance (Core Area 4: Finance Sector Development)</b>				
Ensure diversification of sources of growth, and foster private sector development	<p><b>Outcome:</b> More stable macro financial environment and efficient financial intermediation</p> <p><b>Indicator 1:</b> Gross international reserves maintained at greater than \$900 million (2013 baseline: \$917 million)</p> <p><b>Indicator 2:</b> Average growth of domestic credit contained below nominal GDP growth (2013 baseline: 12.8%)</p> <p><b>Indicator 3:</b> Bank nonperforming loan ratio maintained at less than 10% (2012 baseline: 8.2%)</p>	Money markets, microfinance institutional development, long-term debt such as export credits, pensions, finance sector policies, and strategies	\$36.2 million, 32.97% of total 2015-2017 allocation	The details of the proposed finance sector project scheduled for approval in 2015 are firmed up. The title of the project has been adjusted from “Rupee Financing for Infrastructure Projects” to “Strengthening Economic Management Program II.”

CPS = country partnership strategy, ESG = environmentally sustainable growth, GDP = gross domestic product, GEM = gender equity and mainstreaming, MW = megawatt, O&M = operation and maintenance, PPP = public– private partnership, PSD = private sector development, and RCI = regional cooperation and integration.

Sources: Asian Development Bank; Government of Bhutan, Gross National Happiness Commission. 2013. *Eleventh Five Year Plan, 2013–2018*. Thimphu.



## INDICATIVE ASSISTANCE PIPELINE

Table A2.1: Lending Products, 2015–2017

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA / PDA	Cost (\$ million)						
						Total <sup>a</sup>	OCR	ADB		Total	Gov't	Co-finance
								Loans	Grants			
<b>2015 Firm</b>												
Strengthening Economic Management Program II	FIN	GI	IEG	SAPF		36.20	0.00	20.10	16.10	36.20	0.00	0.00
SASEC Transport, Trade Facilitation, and Logistics Project (PDA) <sup>b</sup>	TRA	GI	IEG, RCI	SATC	N/A	2.50	0.00	0.00	0.00	2.50	0.00	0.00
Improved Urban Environmental Infrastructure Project (PDA) <sup>c</sup>	WUS	GI	ESG, GEM, IEG	SAUW	N/A	2.50	0.00	0.00	0.00	2.50	0.00	0.00
<b>Subtotal</b>						<b>41.20</b>	<b>0.00</b>	<b>20.10</b>	<b>16.10</b>	<b>41.20</b>	<b>0.00</b>	<b>0.00</b>
<b>2016 Firm</b>												
Additional Financing for Air Transport Connectivity Enhancement Project	TRA	GI	IEG, RCI	SATC		4.00	0.00	0.00	4.00	4.00	TBD	0.00
SASEC Transport, Trade Facilitation, and Logistics Project	TRA	GI	IEG, RCI	SATC	2014	34.61	0.00	22.11	12.50	34.61 <sup>d</sup>	TBD	0.00
<b>Subtotal</b>						<b>38.61</b>	<b>0.00</b>	<b>22.11</b>	<b>16.50</b>	<b>38.61</b>	<b>TBD</b>	<b>0.00</b>
<b>2017 Firm</b>												
Improved Urban Environmental Infrastructure Project	WUS	GI	ESG, GEM, IEG	SAUW	2013	30.00	0.00	20.00	0.00	20.00	5.00 <sup>e</sup>	5.00 <sup>f</sup>
<b>Subtotal</b>						<b>30.00</b>	<b>0.00</b>	<b>20.00</b>	<b>0.00</b>	<b>20.00</b>	<b>5.00</b>	<b>5.00</b>
<b>Total</b>						<b>109.81</b>	<b>0.00</b>	<b>62.21</b>	<b>32.60</b>	<b>99.81</b>	<b>5.00</b>	<b>5.00</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; ESG = environmentally sustainable growth; FIN = finance; GEM = gender equity and mainstreaming; GI = general intervention; Gov't = government; IEG = inclusive economic growth; N/A = not applicable; OCR = ordinary capital resources; PDA = project design advance; PPTA = project preparatory technical assistance; RCI = regional integration; SAPF = South Asia Public Management, Financial Sector and Trade Division; SASEC = South Asia Subregional Economic Cooperation; SATC = South Asia Transport and Communications Division; SAUW = South Asia Urban Development and Water Division; TBD = to be determined; TRA = transport; WUS = water and other urban infrastructure and services.

Note: Lending products include loan and grant (ADF grant) products.

<sup>a</sup> The total cost and total financing do not tally because of the PDA estimated at \$2.5 million, which will be refinanced by the ensuing loan scheduled for 2016.

<sup>b</sup> The PDA will be refinanced by the ensuing loan: SASEC Transport, Trade Facilitation, and Logistics Project in 2016.

<sup>c</sup> The PDA will be refinanced by the ensuing loan: Improved Urban Environmental Infrastructure Project in 2017.

<sup>d</sup> The ADF country allocation will provide \$11.30 million. The remainder (\$25.00 million) will be subject to the availability of ADF funds from other sources, including the ADF subregional pool.

<sup>e</sup> The amount of the government's contribution will be confirmed in due course.

<sup>f</sup> The amount is indicative and the cofinanciers will be determined during project preparation.

Source: Asian Development Bank.

Table A2.2: Nonlending Products and Services, 2015–2017

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2015 Firm</b>								
Preparing the SASEC Green Energy Project	ENE	SAEN	PPTA	TASF	500.0	JFPR	1,000.0	1,500.0
Supporting the Implementation of the Second Strengthening Economic Management Program	FIN	SAPF	CDTA	TASF	700.0			700.0
Improving Business Climate and Better Business Council	FIN, IND	SARC	CDTA	TASF	500.0			500.0
Enhancing Gender Equality and Social Inclusion Outcome at Decentralized Level	PSM	SAOD/ BHRM	CDTA			JFPR	1,500.0 <sup>a</sup>	1,500.0
<b>Subtotal</b>					<b>1,700.0</b>		<b>2,500.0</b>	<b>4,200.0</b>
<b>2016 Firm</b>								
Capacity Building for SASEC Transport, Trade Facilitation, and Logistics	TRA	SATC SARC	CDTA	TASF	1,000.0		0.0	1,000.0
Promoting Clean Energy Development in Bhutan (phases II and III)	ENE	SAEN	PATA			Gov't of Norway	10,040.0 <sup>b</sup>	10,040.0
Strengthening Public Procurement	FIN	SAOD/ SARC	CDTA	TASF	500.0			500.0
Improving Agribusiness (One-Village–One-Product)	FIN, IND	SARC/ SAPF	CDTA			JPFR	2,000.0	2,000.0
<b>Subtotal</b>					<b>1,500.0</b>		<b>12,040.0</b>	<b>13,540.0</b>

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2017 Firm</b>								
Capacity Building for Improved Urban Environmental Infrastructure Management (formerly Capacity Building for Green Urbanization)	WUS	SAUW	CDTA	TASF	1,000.0		0.0	1,000.0
<b>Standby for 2017</b>								
Strengthening Technical and Vocational Education and Training	EDU	SAHS	CDTA			JFPR	2,000.0	2,000.0
<b>Subtotal</b>					<b>1,000.0</b>		<b>2,000.0</b>	<b>3,000.0</b>
<b>Total</b>					<b>4,200.0</b>		<b>16,540.0</b>	<b>20,740.0</b>

ADB = Asian Development Bank; BHRM = Bhutan Resident Mission; CDTA = capacity development technical assistance; EDU = education; ENE = energy; FIN = finance; JFPR = Japan Fund for Poverty Reduction; PATA = policy and advisory technical assistance; PPTA = project preparatory technical assistance; PSM = public sector management; SAEN = South Asia Energy Division; SAHS = South Asia Human and Social Development Division; SAOD = Office of the Director General; SAPF = South Asia Public Management, Financial Sector and Trade Division; SARC = South Asia Regional Cooperation and Operations Coordination Division; SASEC = South Asia Subregional Economic Cooperation; SATC = South Asia Transport and Communications Division; SAUW = South Asia Urban Development and Water Division; TASF = Technical Assistance Special Fund; TRA = transport, WUS = water and other urban infrastructure and services.

<sup>a</sup> This is subject to approval of funds from the Japan Fund for Poverty Reduction.

<sup>b</sup> The Government of Norway pledged Nkr100 million to the Government of Bhutan in 2012 for the Energy + Cooperation partnership, to be implemented in three phases: (i) readiness, (ii) implementation, and (iii) scaling up. ADB approved the phase I technical assistance project in 2014 for a sum equivalent to Nkr35 million (\$5.674 million). The balance of Nkr65 million (equivalent to \$10.04 million at the exchange rate of \$1 = Nkr6.47178 as of 13 Oct 2014) under this pledge is being used for phases II and III of this project.

Source: Asian Development Bank.