

BHUTAN: ELEVENTH ROUND TABLE MEETING STATEMENT BY ASIAN DEVELOPMENT BANK

ADB Management would like to congratulate the Government of Bhutan and the United Nations Development Program for the excellent arrangements made for this meeting.

Development Partnership: Bhutan and ADB have been development partners for nearly three decades and have enjoyed a very good relationship since the beginning. In view of the close alignment of ADB's Country Partnership Strategy (CPS) for 2006-2010¹ with Bhutan's on-going Tenth Five-Year Plan and ADB's Strategy 2020², the CPS will essentially continue to guide ADB's operations for the remainder of Bhutan's Tenth Plan. The CPS has two strategic thrusts: (i) assistance for programs and projects in four core sectors, and (ii) capacity development in operational sectors and for the overall management of the development process.

The CPS focuses on energy (including rural electrification and renewable energy), transport, urban sector development, and finance and private sector development. The three pillars promoted by the CPS—broad-based economic growth, inclusive social development, and good governance—continue to guide ADB's annual assistance program as reflected in the ensuing Country Operations Business Plans. From 2011 onward, the composition of ADB assistance will change to a 50:50 mix of loan and grant assistance. ADB's current assistance to Bhutan averages around \$22 million per annum. As of end December 2010, ADB had approved 25 loans and 6 grant operations for a cumulative assistance of \$361.41 million. ADB had also approved 112 grant technical assistance operations for a cumulative amount of \$46.9 million.

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

² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2010*. Manila.

Efficient Utilization of ADB Assistance: ADB commends Bhutan's efforts in making effective and efficient utilization of its assistance. ADB's country assistance program evaluation in 2010 rated ADB's operations and programs in Bhutan as successful.³ ADB's 2010 Development Effectiveness Review noted that completed projects in Bhutan achieved high success rates well beyond the ADB average.⁴ The results yielded from past and on-going assistance are due primarily to continuous engagement from the Government and enduring interest in effective project implementation.

Macroeconomic Management and MDGs: ADB is pleased to note Bhutan's strong economic performance and prudent economic management. Since 2004, Bhutan has sustained GDP growth of over 7% per annum. Pursuit of prudent economic and social policies has enabled Bhutan to make significant progress towards achieving the Millennium Development Goals within the overall framework of its unique concept of Gross National Happiness.

Transition to Constitutional Monarchy: Bhutan has come a long way in the process of undergoing a dramatic political, social and economic transformation. ADB is highly encouraged by the peaceful and well prepared transition towards a sustainable democracy that Bhutan has made since March 2008.

Continued Support: For the remaining period of Bhutan's Tenth Plan, it is important for development partners to support Bhutan's socioeconomic development. ADB's assistance will continue to be closely aligned with the major development thrusts of the Plan.

³ ADB. 2010. *Bhutan: Country Assistance Program Evaluation*. Manila.

⁴ ADB. 2011. *Development Effectiveness Review 2010*. Manila.

Development Challenges: Bhutan's medium-term economic prospects are broadly favorable, but there are key challenges confronting the country. These include the following:

- Reducing Inequality: Concerted poverty alleviation efforts, sustained growth and a pro-poor budget have contributed to a decline in the overall incidence of poverty from 32% in 2004 to 23.2% in 2007. However, inequality still remains high with poverty predominantly a phenomenon of rural Bhutan, where the relative state of underdevelopment severely exacerbates the situation. Factors such as transport and market access and availability of electricity have been identified among the key drivers to support poverty reduction and rural development. In particular, enhancing road access is essential for accelerating growth in the rural economy and reducing poverty. ADB-assisted interventions for rural electrification and transport connectivity, coupled with assistance for micro, small and medium enterprises, hopefully, will generate greater economic opportunities in rural areas.
- ADB's ongoing Road Network Projects aims to improve transport efficiency on the trunk road network and expand accessibility in rural areas, which will contribute to expansion of economic opportunities and poverty reduction.
- ADB's recently approved Rural Renewal Energy Development Project will help the Government to reach its target of providing electricity to all rural households by 2013, which will in turn spur the growth of economic opportunities and reduce poverty.
- Under ADB's ongoing grant assistance for Micro, Small and Medium Enterprises (MSME), the objective is to promote the expansion and growth of a vibrant MSME sector

and encourage private sector development for employment generation and broad-based sustainable economic growth.

- Narrow Economic Base: Despite commendable progress, Bhutan's economic base remains narrow and its macroeconomic performance relies heavily on the hydropower sector. Diversification of Bhutan's economy needs to be encouraged to expand the economic base. The ADB-assisted Green Power Development Project—the first public-private partnership for an infrastructure project in Bhutan—will help increase government revenue for development spending once the Dagachhu hydropower plant is fully commissioned. ADB commends the Government for the registration of Dagachhu Hydropower Project with United Nations Framework Convention on Climate Change (UNFCCC) in March 2010 as the first cross-border clean development mechanism project to export energy to a neighboring country while contributing to climate change mitigation. ADB looks forward to continuing to facilitate private sector involvement in the development of other infrastructure projects. In addition, while the Government's initiatives to promote community based tourism have just begun, ADB encourages the Government to continue and deepen its policy of community-based tourism so that rural communities can also benefit from tourism.
- Employment Generation: The hydropower sector, the main driver of the economy, is highly capital intensive and once the construction phase is over, employment opportunities shrink rapidly. ADB appreciates the enormity of the task facing the Government regarding unemployed educated youth whose preferred choice of employment is Government service. ADB is hopeful that its support for rural electrification and road connectivity, and for micro and small and medium enterprises, will help foster greater employment opportunities in rural areas and to reduce the urban

migration pull. ADB will explore ways to support Bhutan in skills development that is market opportunities driven.

- Reducing Economic Imbalances: While Bhutan's economic management has generally been prudent, there is a need to put in place an effective strategy with defined milestones to achieve a reduction in the Government's fiscal deficit and external debt. Bhutan's outstanding external debt remains comparably much higher than the outstanding external debt of any other South Asia country. The budget deficit is kept under control by meeting current expenditures almost entirely from domestic resources and adjusting capital expenditures based on the availability of development assistance resources from donors.
- Achieving MDGs: ADB commends the Government for the sustained progress it has made towards the achievement of the MDGs. The country remains on track to achieving most of its MDG goals and targets. ADB is pleased to note the Government's efforts to ensure that the MDGs are secured with equity, and that the poorest and most marginalized groups in Bhutan share the benefits of development. This is fully in keeping with the core spirit of Gross National Happiness. More than a fifth (21%) of the Government's expenditures is targeted for social sector development. The 2007 MDG needs assessment and costing exercise shows that significant amount of resources, including external assistance, would be required between now and 2015 to fully achieve the MDG targets. Thus, there is a need to prioritize public expenditures and expand the revenue base in the quest towards the full realization of the MDGs.

Over the years, the Government has demonstrated its strong commitment to fast track the pace of progress in all sectors of the economy for the benefit of the country and the people of Bhutan.

Bhutan's social indicators are now amongst the best in South Asia. ADB is confident that Bhutan has the vision and the leadership to face the challenges and progress to the next stage of development. In this endeavor, ADB assures the Government of Bhutan of ADB's continued and committed partnership to advance sustainable development for a prosperous, poverty-free Bhutan, with ever-increasing levels of Gross National Happiness.