

BHUTAN

Country Strategy Paper

2007 – 2013

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
1. BHUTAN'S POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION	2
1.1 THE POLITICAL SITUATION.....	2
1.2 THE ECONOMIC SITUATION INCLUDING TRADE.....	3
1.3 THE SOCIAL SITUATION	6
1.4 THE ENVIRONMENTAL SITUATION	7
2. BHUTAN'S POLICY AGENDA.....	8
2.1 POLITICAL AGENDA.....	8
2.2 ECONOMY AND TRADE	9
2.3 SOCIAL SECTOR/ POVERTY ALLEVIATION	10
2.4 ENVIRONMENT	11
3. OVERVIEW OF PAST AND ONGOING EC COOPERATION WITH BHUTAN, COORDINATION AND COHERENCE	12
4. THE EUROPEAN COMMISSION'S RESPONSE STRATEGY 2007 – 2013	15
4.1 FOCAL SECTORS.....	16
4.2 COHERENCE WITH REGIONAL AND THEMATIC PROGRAMMES	17
ANNEX I: NIP TABLE	19
ANNEX II: EC CO-OPERATION OBJECTIVES.....	20
ANNEX III: BHUTAN AT A GLANCE	23
ANNEX IV: COUNTRY ENVIRONMENT PROFILE (SUMMARY).....	26
ANNEX V: DONOR MATRIX	28
ANNEX VI: EU-BHUTAN TRADE AND INVESTMENT, KEY FACTS AND FIGURES.....	42

LIST OF ACRONYMS

ADB	Asian Development Bank
ALA	Asia/Latin America
ASEAN	Association of South East Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
COA	Court of Auditors
COM	Communication from the Commission
CSP	Country Strategy Paper
DDA	Doha Development Agenda
DFID	Department for International Development (UK)
DYT	Dzongkhag Yargye Tshogdu (District Development Committee)
EC	European Commission
EFA	Education for All
EIDHR	European Initiative for Democracy and Human Rights
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GYT	Gewog Yargye Tshogchung (Block Development Committee)
HDI	Human Development Index
HDR	Human Development Report
IPR	Intellectual Property Rights
IT	Information Technology
ITC	Information Technology and Communication
MDG	Millennium Development Goals
MIP	Multi-Annual Indicative Programme
MOU	Memorandum of Understanding
NGO	Non-Governmental Organisation
NTB	Non-Tariff Barriers
PRSP	Poverty Reduction Strategy Paper
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Area
SPS/TBT	Sanitary/Phyto-Sanitary / Technical Barriers to Trade
SWAP	Sector Wide Approach
TRTA	Trade Related Technical Assistance
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
WB	World Bank
WFP	World Food Programme
WTO	World Trade Organisation

EXECUTIVE SUMMARY

Bhutan is a small kingdom in the eastern Himalayas, extending over an area of 38,394¹ square kilometres. The country is bordered by India and China. Despite being landlocked, with difficult terrain and a widely dispersed population, Bhutan has made rapid socioeconomic progress. The country's real annual economic growth averaged about 7-8 per cent over the last two decades and grew by 6.8 per cent in 2003.² Bhutan's per capita Gross Domestic Product has risen from \$239 in 1980 to \$1,523 in 2006.

Hydropower development and the export of surplus electricity to India has largely sustained this robust growth and fundamentally transformed the structure of Bhutan's economy. Through prudent macroeconomic management the country is performing well and the Government's investment in social and human development has raised hopes of Bhutan meeting several of the Millennium Development Goals.

Bhutan's Ninth Five-Year Plan (July 2002 to June 2008) is currently under implementation and constitutes the basis for the country's Poverty Reduction Strategy Paper. Even as Bhutan's improvements in human development levels have been impressive the country still faces a number of constraints and challenges. The 2004 Poverty Assessment indicated that the national poverty rate is 32 per cent, but 38 per cent in the rural areas. Some constraints, such as the harsh mountainous terrain and the highly dispersed patterns of settlements limit the delivery of social services and greatly escalate development costs.

Bhutan's development has been guided by an original philosophy based on the concept of Gross National Happiness, striving to balance spiritual and material advancement through the following four pillars: sustainable and equitable economic growth and development, preservation and sustainable use of the environment, preservation and promotion of cultural heritage and good governance. Good Governance is increasingly important as Bhutan is undergoing a challenging process of decentralisation, democratisation and political change: as Bhutan moves towards the promulgation of its new Constitution and parliamentary democracy in 2008, it is expected that its institutions of democratic governance will need to be greatly strengthened.

In an effort to support these developments, the EC will concentrate the scope of its development commitments with Bhutan in the following three focal areas:

- **Renewable Natural Resources:** assist Bhutan with the sustainable development of its Renewable Natural Resources sector, by creating an enabling environment, including further development of its institutional regulatory frameworks and developing the value chain of Renewable Natural Resources in creation of niche markets, such as medicinal plants.
- **Good Governance:** the Royal Government of Bhutan itself has underlined the importance of democratisation and with the ongoing de-centralisation process this will be an important sector for EC support. The EC's second focal area therefore involves the strengthening of the Royal Government's capacity and institutions to ensure that a smooth transition to democracy is achieved and is sustainable. Although the 10th Plan of the country is still under preparation, Good Governance will be one of the central

¹ Bhutan Statistical Yearbook, 2006

² Bhutan National Human Development Report, 2005

focus of the interventions. In addition, given that Good Governance is a cross sectoral issue, this assistance could come in the form of budgetary support.

- **Trade Facilitation:** given the need for Bhutan to participate more effectively in the global economy, EC support for trade facilitation will be addressed in the second MIP.

EC assistance in the areas of intervention will be complemented by a limited range of actions and support received through various thematic programmes and regional budget lines.

1. Bhutan's Political, Economic, Social and Environmental Situation

1.1 The Political Situation

The Wangchuck dynasty was established in 1907 bringing an end to the traditional theocracy and marking a transition to civil administration. Today, Bhutan has a hereditary monarchy and is ruled by the fifth hereditary King, His Majesty the King Jigme Khesar Namgyel Wangchuck. The Fourth King, His Majesty Jigme Singye Wangchuck handed over responsibilities of the monarch to the Crown Prince on 15 December 2006.

Under the leadership of the successive Wangchuck monarchs, major reforms and innovations were undertaken and since 1990, His Majesty the Fourth King has increasingly delegated governing functions to the National Assembly and the Council of Ministers. The Council of Ministers, elected by the National Assembly, has been delegated full executive authority, while the post of Prime Minister (heading the Cabinet) is rotated annually among the five ministers who receive the most votes.

Towards democratisation

In 2005 the Government conducted a review of the existing system of governance and recommended a number of changes to policies, structures and system of governance. The main challenges foreseen are the enormous expenditure to establish and run new institutions and the need for capacity building and human resources development to provide effective governance under the new political system. Furthermore, the Government is currently developing its policy and regulatory framework for financing local government, in order to develop basic infrastructure and service delivery at the local level. In the 10th Plan Period (July 2008-June 2013, coinciding largely with the CSP period) Bhutan will witness a process of profound political transformation. A draft Constitution was widely distributed in March 2005 and is expected to be adopted by the National Assembly in 2008 after the first ever parliamentary elections to set up parliamentary democracy in Bhutan.

Administration

Bhutan is governed through three levels of administration -- the central government agencies, district administrations, and block administrations. The country is currently divided into 20 districts (Dzongkhag), which are further divided into blocks (Gewogs). The Blocks are composed of several villages, each containing roughly 20 extended households. Each district has established District Development Committees (DYTs) in 1981 and in further developing the process of decentralisation, Block Development Committees (GYTs) were established in 1991.

The DYTs are made up of the elected representatives of the people in the National Assembly (Chimi), the block leaders (Gups) and the village leaders (Mangaaps). The GYT, which is a further breakdown of the DYT, consists of the block leader, village leaders, and the representatives

(Chupens) of ten households from each village. The members of the DYT's and GYT's are elected by eligible voters in the gewogs since 2002 with the revision of the DYT and GYT Chathrim (by-laws).

The system of GYT's and DYT's serves to reflect the people's needs in planning as well as to create an awareness of the government resource constraints. This interaction allows the people to determine their priorities and to form their expectations in more realistic terms. It also fosters a sense of participation and responsibility in the development process among the population, which, in turn, facilitates successful implementation. This approach enabled intensive communication between the people, the civil service, and the monarch.

External Situation

Bhutan has diplomatic relations with 21 countries and with the European Union. The country is a member of several major international and regional organisations such as the United Nations and its specialised agencies, the South Asian Association for Regional Cooperation, IBRD, IMF, and the Asian Development Bank. Bhutan has six diplomatic missions abroad located in New Delhi, New York, Geneva, Bangkok, Dhaka and Kuwait. Bhutan maintains close and friendly relations with all its development partners, especially India, its single largest trading and development partner. Bhutan does not have diplomatic relations with China although relations are friendly and official level visits are exchanged on an annual basis to demarcate their border. Bhutan is party to the international agreements on Biodiversity, Climate Change, Nuclear Non-Proliferation, Rights of the Child, and the Elimination of Discrimination against Women.

1.2 The Economic Situation including Trade

Historically, Bhutanese economic activity was confined to **subsistence farming** and **animal husbandry**. The predominantly mountainous terrain is a prime determinant of Bhutan's sectoral development. The total land under cultivation is around 8 % of the total geographical area and the agriculture sector contributes around 21% share to GDP.

Although devoid of oil and gas reserves, Bhutan has sufficient **hydro resources** to be a major regional source of electricity. However, environmental concerns limit actual harnessing of the total potential for hydropower generation from the many deep canyons and fast-running mountain rivers. Nevertheless, four major projects with an installed capacity of 1488 MW have been completed, with a potential of 30,000 MW, and more are under preparation. In fact, construction of these hydropower projects is the primary driver behind the rapid rate of economic growth in Bhutan over the past several years. Today, around 60% of the country's population has access to electricity. However, the target is to provide access to 85% of the population by the end of the 10th Plan.

Other **industries** are minimal and labour intensive, such as the production of handicrafts. Bhutan's **mining industry** is underdeveloped, limited to a few industrial minerals, but the Himalayas are considered to have considerable geological potential. **Tourism**, the largest hard currency generator within the services sector, grew at double-digit rates during the 1990s, but slowed down from that rapid rate as a result of the global slowdown in tourist travel following the events of September 2001.

Per capita income has increased from US\$ 51 in 1961 (the lowest in the world at that time) to US\$ 870 in 2005, one of the highest in South Asia. The country's real annual economic growth averaged about 7-8 per cent over the last two decades and grew by 6.8 per cent in 2003.³

Economic growth performance

As mentioned above, hydropower development and the export of surplus electricity to India has largely sustained Bhutan's robust growth and fundamentally transformed the structure of the country's economy. The major share of GDP still comes from agriculture, forestry and the livestock sector with a share of **21 per cent (SYB-2006)**. The share of hydropower has been stable at 11 to 12 per cent of GDP but is expected to increase dramatically once the Tala Hydropower Project comes on stream, probably accounting for 25 per cent of GDP starting in 2007. In addition to the construction of large hydropower projects, there has been a rapid extension of road networks, including feeder roads to improve rural access, electricity and telecommunications facilities for numerous rural households, and the further development of urban infrastructure. It is likely that **electricity production** and **construction** will remain the fastest-growing sectors of the economy in the years to come.

While Bhutan has achieved significant socio-economic progress in the last few decades in terms of e.g. health and education indicators, the progress in the real economic sector has not been as impressive. Apart from donor-funded infrastructure works and establishment of hydropower projects, there has been little growth in the manufacturing sector. Rapid social development and population growth coupled with weak growth in the private sector has led to the emergence of new concerns like unemployment, especially **youth unemployment**, and the need for economic diversification. A major structural problem that Bhutan still faces is its heavy dependence on external assistance.

Debt management and balance of payments

One of the major internal limitations Bhutan faced in funding its Development Plans was the lack of domestic savings. Prior to 1961, the economy was largely based on agro-pastoral subsistence activities and a barter system within village communities. Since the modern banking system was introduced only in 1968, there were no domestic savings to be mobilised for post-1961 development projects. As a result, Bhutan became heavily dependent on external assistance and hence Bhutan's first three Development Plans were largely financed by India.

Although the share of India's funding of Development Plans has decreased over the years, India is still the single largest donor to Bhutan. The options for Bhutan to reduce its dependency on India and other foreign aid donors are severely limited due to several domestic constraints. These include low rates of monetised savings; a small domestic population with a correspondingly small domestic market and shortage of manpower; the immobility of the rural labour force; a lack of skilled labour, and limited trade possibilities due to absence of access to the sea and Bhutan's mountainous topography.

While some progress has been achieved in reducing the role of government in the economy, the **public sector contribution** is approximately 35 per cent. Bhutan follows a policy of earmarking domestic revenue for current expenditure while external assistance in the form of grant aid and highly concessionary external borrowings is directed to capital projects. While the overall fiscal balance has been in **substantial deficit** due to government capital spending on the new hydro-

³ Bhutan National Human Development Report, 2005

power projects, Bhutan's **fiscal deficit** has been the equivalent of 4 to 10 per cent of GDP in recent years. The net impact of the Tala hydropower project is critical to Bhutan's medium-term prospects. However, revenues from Tala will depend on the final power tariff currently under negotiation with India. Moreover, the growing recurrent costs for investments in health, education and general infrastructure are likely to hamper the accumulation of significant fiscal surpluses over the medium term.

External debt reached as high as 70 per cent of GDP in 2005 due to the development of Tala, the expansion of public services in the rural areas and the acquisition of new airplanes. Expanding productive activities beyond the current mainstay of sector-led investment and hydropower development will be critical for generating employment and income opportunities for Bhutan in the years to come.

Trade

Bhutan has a fixed exchange rate with the Indian rupee and both countries share a free trade agreement. India is Bhutan's largest trading partner, absorbing over 90 percent of Bhutan's exports consisting of fruit, electricity, timber, spices and gemstones. Imports, of which nearly 75 percent originate in India, consist primarily of petroleum products, machinery and vehicles.

Due to Bhutan's landlocked position, access to India's large market is indeed an asset for Bhutan given its small domestic market.

Bhutan's share in world trade in goods and services has so far been negligible, given the size of its economy. Its merchandise exports were \$ 133 million in 2003 which was an increase of 23% over the previous year 2002. However, the annual percentage increase of exports growth has been 3% between 1995 and 2003. Imports, on the other hand, were to the tune of \$ 249 million, an increase of 51% over 2002. The annual percentage increase of imports during the period 1995 to 2003 was 11%.

Bhutan's customs tariffs have been in line with those prevailing in the region. The simple average of *ad-valorem* duties was 16.6% in 2002. Of this, the average on agricultural goods was 20% while on non-agricultural products it was 16.1%. Import duties as a percentage of total tax revenues amounted to 3.7% during the period 2001 to 2003 indicating that it would be relatively easy for Bhutan to forsake customs revenue in the event it chooses to go in for further trade liberalisation. Moreover, import duties to total merchandise imports were even less at 0.9%.

The main exports from Bhutan are agricultural products accounting for 15% of total exports, followed by manufactures at 39.9% and mining products at 45%. The main destinations of these exports are India (accounting for 94.4%), Bangladesh (4.25%), US (0.5%), Nepal (0.5%) and European Union (0.15%). On the import side, manufactures account for 69.6% of its total exports, mining 11.2% and agricultural products account for 19.2%. The main importing countries are India (accounting for 74.7% of total imports), Singapore (12.7%), Japan (3.3%), Thailand (3.1) and European Union (1.3%).

In the area of trade in commercial services, Bhutan exports amounted to about \$32 million in 2002 with an annual growth rate of 11% during the period 1995 to 2002. Commercial services imports were to the tune of \$40 million in 2002 with an annual average growth of 6% during the period 1995 to 2002. Interestingly, while no patents have been registered, Bhutan registered 682 trade marks in 2002.

Bhutan is one of the countries which benefits from the EBA initiative under the EU GSP and is also part of the regional accumulation of origin benefit in the South Asia grouping comprising of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

FDI

Foreign Direct Investment (FDI), although marginal in Bhutan, is mainly attracted by the tourism sector, particularly for the financing of new hotels and resorts. Bhutan benefits from foreign grants and soft foreign loans with highly favourable terms which has, despite rising current account deficits, managed to keep the overall external position in surplus. Combined with hard currency and electricity exports, these inflows have permitted Bhutan to accumulate over US\$391 million in December 2004, sufficient to cover 18.5 months of the country's imports.

1.3 The Social Situation

Bhutan has made considerable development achievements according to the Human Development Index (HDI) over the last few years. In the global HDI of 2006 Bhutan is ranked 135 out of 177 countries. Bhutan's Gross National Income per capita was \$ 807 in 2005. Although Bhutan today is ranked among the poorest countries in terms of its per capita Gross National Product (GNP), this statistic understates its living standard as the majority of the country's population is involved in subsistence agricultural production and barter transactions, which are not represented in GNP calculations. Bhutan's aim is to graduate from LDC status as soon as possible.

The second MDG Report 2005 for Bhutan reveals that the country has made **significant and sustained progress** in achieving the MDG targets and is potentially on track for most targets, ahead of all other countries in the region. Nevertheless, the 2004 Poverty Assessment indicated that the national poverty rate is 32 per cent while in rural Bhutan this figure is as high as 38 per cent. Moreover, the Assessment shows that income inequalities are growing in Bhutan. The country's Gini-coefficient is relatively high at 0.416 at the national level and the richest 20 per cent consume 8 times more than the poorest 20 per cent of the population.

Gender

Women are treated equal to men and the law protects the rights of women in many ways. In rural areas the ownership pattern shows a 60 - 40 female - male ratio. Bhutan further has affirmed its commitment to the principles of gender equality by ratifying the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1981 and adopting numerous follow-up measures to reduce gender inequalities. Over the years, there has been a tremendous increase in female school enrolment rates. Currently, this rate is increasing even faster than boys' enrolment. In 2004, the ratio of girls to boys in primary, secondary, and tertiary education has increased to 95%, 96% and 53% respectively. The number of women in the civil service has increased over the years and at the moment women constitute around 23% of the total civil service employees.

Health

The percentage of the rural population with access to sanitation and safe drinking water stands at 92.6% and 84% respectively (2003), which means that Bhutan has already achieved MDG 7 (Target 10), on halving the proportion of people without access to safe drinking water and sanitation. Around 90% of the population has access to proper health facilities. As of 2005 there are 29 hospitals, 176 basic health units and 485 dispensaries and outreach clinics scattered across

the kingdom. The country also has one indigenous hospital and 21 indigenous dispensaries. Around 52.3% of women are attended by trained personnel during child birth. Maternal mortality ratio and infant mortality rate have decreased from 560 and 90 in 1990 to 255 and 60.5 in 2000. Life expectancy at birth has increased from 45.8 for males and 49.1 for females in 1985 to 65.9 and 66.1 respectively in 2003.

Bhutan has so far had few reported cases of HIV/AIDS. But no nation is immune, and Bhutan is at serious risk given the prevalence of sexually transmitted diseases in the country and the alarming HIV/AIDS situation in neighbouring countries. The Royal Government has set up Multi-Sector Task Forces (MSTFs) in all 20 districts to stem the spread of HIV/AIDS.

Education

Education coverage in the country has been expanding rapidly at all levels and is still provided free of cost. Progress has been remarkable with the gross primary enrolment ratio reaching 84 percent in 2004. While the Government's efforts in the past had largely been directed at attaining universal primary education and ensuring basic education for all, more recent efforts have focused on expanding the quality and capacity of secondary and tertiary levels and on strengthening technical education and vocational training.

Employment

Perhaps one of the most fundamental problems presently facing the country is to adequately meet the employment needs of its growing population. About 50,000 school graduates and 19,000 migrants from rural to urban areas are expected to enter Bhutan's labour market in 2002-2007, making employment generation, particularly in the private sector, an urgent need. Most of the pressure to supply such jobs will fall on the urban areas. This, coupled with the rural-urban migration, would mean that Bhutan will have to create around 14,000 jobs annually. The private sector is still in its infancy and may not be able to absorb all these job seekers. The limited entrepreneurial tradition and the high status accorded to government employment, together with generally inflated wage expectations (relative to the productivity level) make job creation a daunting task for such a small country. To meet this challenge, the Royal Government of Bhutan has set up many vocational training institutes to provide the job market with skilled workers in a wide range of trades.

Due to the lack of critical skills in the Bhutanese, a lot of skilled workers of Indian origin are being employed predominantly in the construction sector. In addition to the cost advantage these workers offer, their technical skills and know-how are superior to the Bhutanese level, creating another hurdle for their replacement by Bhutanese. However, given the unemployment scenario, the Bhutanese need to equip themselves with the required skills and gradually replace the import of such services from India. Therefore, the government has made human resource development a priority area in its development policy.

1.4 The Environmental Situation

Bhutan has always maintained a conservation-based policy in regard to its natural assets. With almost 72 per cent of the country's total area under forest cover, Bhutan has the largest forest cover in proportion to its land mass in Asia. The forests offer vast economic potential through timber export and wood based industries, but commercial logging has been banned since 1979. Environmental legislation requires that 60 percent of the country remain under forest cover.

Bhutan's natural environment is still in its pristine state with substantial parts of the surface being covered with primary forests. For its continuous efforts to place the environment at the centre of its development plans and giving high priority to preservation and sustainable use, Bhutan was awarded the UNEP Champions of the Earth Award in 2005.

Bhutan has given special attention to the protection of the environment because of its unique flora, fauna and general bio-diversity. The Bhutanese authorities have been very consistent in preserving the country's environment making it one of the top policy priorities. Several donors, including Member States, have contributed more than USD 20 million (1998) to the Bhutan Trust Fund for conservation activities. All major development initiatives are thoroughly assessed in relation to their environmental impact.

Bhutan's restrictive tourism policy is also an expression of the government's concern for the environment, although cultural preservation may also play a part. The main threats to the environment could be rapid population growth, uncontrolled industrialisation and unsustainable cultivation methods in agriculture.

Bhutan declared 26% of its territory as national parks and nature conservation areas, with another 9% of the territory serving as natural corridors linking conservation areas. One of the strategies to ensure sustainable development is the integration of conservation practices and socio-economic development, the so-called middle path.

2. Bhutan's Policy Agenda

2.1 Political agenda

In order to ensure continued progress of the country, His Majesty the Fourth King initiated numerous political reforms by enhancing popular participation. At the centre of these reforms is the Bhutan's draft Constitution, which envisages a **parliamentary democratic system**.

The draft Constitution has evolved through intense deliberations on the principles of state policies, rights and duties of citizens, religious pluralism and the state monastic community, separation of powers of the main organs of state, the concept of democratic government based on party systems, political neutrality of the civil service, autonomy of the constitutional offices, local governance and decentralisation, the structure of government, power and authority of the state apparatus. The first draft of the Constitution was released in March 2005 and His Majesty the Fourth King and the then HRH the Crown Prince Jigme Khesar Namgyel Wangchuck have visited all 20 districts to hold consultations with the public before its presentation to the National Assembly.

Various constitutional offices such as the Election Commission and the Anti-corruption Commission have been established. The country's first parliamentary elections will take place in 2008 after which the Constitution is expected to be adopted

This change in governance is the central focus in the preparation of the **10th Plan** and it requires changes in the way Bhutan drafts its development plans and in the method of resource allocation.

In line with the constitutional provisions, numerous legislations have to be enacted and a number of offices will have to be established. At the local level, the establishment of local governments in all 20 Districts is mandated with a view to provide democratic and accountable government to local communities.

Decentralised development planning

In recent years, effective measures were undertaken to deepen the decentralisation process with special emphasis on devolving local development planning, implementation and monitoring. To improve the quality and experience of the GYT leadership, a nation-wide re-election of Gups (leaders of respective GYT's) was held on the basis of universal suffrage, from September to December 2002. Another significant change was the replacement of the chairmanship of DYT, from a civil servant to an elected representative, allowing a better response to the development needs of the respective Districts.

Through a participatory and consultative process, involving discussions in all 20 DYT's and 201 GYT's, the National Assembly revised and enacted the DYT and GYT Acts in 2002, vesting *dzongkhags* (districts) and *gewogs* (blocks) with greater administrative and financial powers including the authority to retain and spend rural taxes for local development. The GYT and DYT while keeping in line with the prevailing acts and laws can adopt and enforce regulations and guidelines that are applicable within their dzongkhags and gewogs.

The 10th Plan will also see the introduction of a new approach to development planning and implementation. The result based 10th Plan approach is expected to contribute to the realisation of the various provisions of the draft Constitution pertaining to the principles of state policies and of local governments.

2.2 Economy and Trade

ADB and WB have projected Bhutan's economy to grow at an annual rate of 7-9 percent.

To achieve this growth projection, efficient and reliable infrastructure services, sound macro-economic policies and a strong domestic revenue base will be required.

The development of **infrastructure** is being accorded priority to create productive capacity both in the economy and the people. Emphasis is laid on improving and expanding the national road network, feeder roads, farm roads, telecommunication network, construction of irrigation channels and bridges, urban development and housing, expansion of power transmission lines and grid, and increasing rural electricity coverage. In the social sector, focus will be on consolidation and improvement of the quality of services.

As 69 percent of the population is engaged in the **agricultural sector**, agricultural exports may seem to be an option to generate foreign currency revenue while at the same time working to enhance rural revenue and improve the standard of living. The Bhutanese government in recent years has been encouraging production of cash crops such as apples, oranges, potatoes and cardamom, aimed at neighbouring markets such as India and Bangladesh. An important issue in its international economic relations has been the negotiation of lower tariffs on Bhutanese products, mainly fruit, by the Bangladeshi government, ensuring a substantial increase in earnings for the fruit (apples and oranges) sector.

As mentioned before, the **Tala hydropower project** will add substantially to Bhutan's domestic revenues and help the country better meet the increasing resource requirements for the Tenth Five Year Plan. However, as the Medium Term Fiscal Framework has shown, additional revenues on account of Tala will be largely offset by additional expenditures. Debt servicing, financing the rapidly growing expenditure in the social sector, the cost of establishing institutions to support the democratic political system and resource requirements to facilitate decentralisation are major budget items in the upcoming 10th Plan.

With increasing government responsibility in areas such as human resource development, there has been gradual privatisation of the once state run enterprises like the transport, tourism and financial institutions. The government is also encouraging the formation of an entrepreneurial class; however, this has been slow due to the lack of qualified human resources, infrastructure and services.

Trade

With regard to the international trade arena, Bhutan is a member of the BIMSTEC and SAARC. The RGoB has set itself the objective to complete all required accession formalities and become a member to the WTO in the next few years.

2.3 Social sector/ poverty alleviation

Bhutan's development philosophy has been constantly marked by a fair balance between "the need to have and the need to be", between preserving its rich cultural heritage and natural environment and pressing forward with economic development. The central development concept is maximising '**Gross National Happiness**', i.e. broadening the development focus beyond mere economic indicators in order to include less tangible concepts such as people's 'cultural', 'spiritual' and 'emotional' needs. The perspective of 'Bhutan 2020' can be defined as an attempt to translate this concept into **four development objectives** for the next two decades.

These objectives are:

Balanced and Equitable Development, to ensure that the benefits of economic growth are widely and equitably shared among different groups and regions. Particular emphasis is accorded to controlled urbanisation through better basic infrastructure and livelihood opportunities for local communities in rural areas, with special attention given to the most vulnerable and disadvantaged groups.

Promotion and Preservation of Culture and Heritage, in order to emphasise that Bhutan has both a diversified and at the same time unique cultural heritage, which must be protected while accepting that culture is a dynamic concept, constantly changing and therefore constantly challenged by external dynamics.

Good Governance, with a view to strengthening the process of decentralisation and developing the human resources needed for managing an increasingly complex development process. The government also seeks to increase accountability and transparency with the involvement and active participation of a broad spectrum of the population in decision-making.

Environmentally Sustainable Development, to ensure that Bhutan develops in a way that preserves its unique environment.

While 'Bhutan 2020' contains a long-term vision, short to medium term planning is outlined in Five Year Plans. **Poverty reduction** is one of the potential themes for consideration in the upcoming 10th Plan. This would be in keeping with the country's commitment to attaining the MDGs. To a great extent, the success of the 10th Plan will be measured by the ability of the Government to improve the lives of the people living below the poverty line. The overall, long-term development approach will be guided by the objective of enhancing 'Gross National Happiness', with four strategies identified to guide development planning, and address poverty reduction in particular. These strategies have been identified based on preliminary consultations held among stakeholders and are still being refined:

- Enhancing productive capacities of the poor
- Promoting balanced regional development
- Enhancing private sector development
- Expanding physical infrastructure

2.4 Environment

The Royal Government of Bhutan is keenly aware of the current and future importance of environmental conservation. Keeping in mind potentially conflicting dynamics of conservation and development, the government and its development partners have introduced a set of environmental policies and programmes that aim to preserve Bhutan's rich biodiversity and guide the country on a sustainable development trajectory.

The **Country Environment Profile found** that the following main threats to Bhutan's environment included:

- Land degradation, specifically soil erosion resulting from human activities such as livestock herding, cultivation and over extraction of forest resources, and cumulative impacts from farm roads.
- Air pollution in urban areas from rapidly increasing vehicle numbers, poor fuel quality, burning of wood in bukharis and open fires.
- Water pollution, primarily in urban areas where a lack of waste water treatment facilities in municipalities and industrial areas contribute to deterioration of water quality (in particular, there is an increasing water pollution threat from spent oils, lubricants and other effluents from the vehicle maintenance and repair workshops that has not yet been adequately addressed).
- Solid waste management in urban and rural areas resulting from growing consumerism and increasing populations.
- Climate change and natural disasters.
- Road construction and transmission lines.

In addressing key environmental challenges, the critical priorities identified by the Government are highlighted as follows:

- Encouraging sustainable use of resources from the natural eco-system and improved land use practices.
- Promoting greater participation and capacity development of stakeholders in natural resource management through appropriate institutions.
- Improving rural livelihoods through increased productivity and greater access to social and economic services, resources and opportunities.
- Strengthening environment monitoring mechanisms, enforcement procedures and awareness among the general public and institutions.
- Upgrading environmental information management, quality standards and indicators, and developing capacity to collect and analyse baseline data for environmental planning.

- Promoting use of energy sources that are environment friendly, such as hydropower, and energy efficient technology.
- Implementing the provisions of the urban master plans including activities to improve solid waste management.

3. Overview of past and ongoing EC cooperation with Bhutan, coordination and coherence

EC assistance to Bhutan started in 1982 and has amounted to some € 46 million between 1982 and 2002. The EC has gradually expanded its co-operation scope, which now includes renewable natural resources (including medicinal plants), rural development, health, environment and export diversification.

The EC strategy is in line with Bhutan's approach to development, as set out in various planning policy documents, most notably the **9th Five Year Plan (2002-2007)** and '**Bhutan 2020: A Vision for Peace, Prosperity and Happiness**' (May 1999). The latter remains the central unifying concept and aims to maximise **Gross National Happiness** and is the underlying rationale for any future development initiatives.

The EC's overall cooperation objective with Bhutan is **poverty reduction** through the promotion of sustainable growth with special attention given to the environment. Given the country's situation, the vast majority of the funds have been allocated for Development Co-operation through the annual budget for Technical and Financial Co-operation in favour of ALA countries.

Given Bhutan's predominant **agricultural** vocation, the EC chose to focus its activities on:

- Raising **productivity in agriculture** by introducing more efficient technologies and methods.
- Improving **rural incomes** through increasing added value in agricultural outputs.
- Improving the institutional **capacity** to manage sustainable development.

Renewable Natural Resources (including livestock, agricultural production and extension and Integrated Pest Management) and Health (especially the production of medicinal plants) was the most important sector covered by the current strategy. Other areas of co-operation include trade and export diversification in order to support Bhutan in its efforts to enhance its trade and investment environment and help it participate effectively in the multilateral trading system and the global economy.

Moreover, the EC has supported Bhutan's effort towards Capacity Building (HRD, Decentralisation and Administrative Reforms) in all its co-operation activities.

The communication on EC Development Policy⁴ has provided the general framework for a co-ordinated effort with other donors (World Bank) and Member States (complementarity) designed to promote sustainable development, focusing on social and human aspects as well as on sound management of natural resources and the environment. Equally important in this context are the objectives set in the **Action Programme for Development** of Bhutan (2001-2010) at the third **LDC Conference** (May 2001) emphasising agricultural self-sufficiency, human development (social services), expansion of hydropower generation and enhancement of revenue growth.

⁴ COM (2000) 212 Final

The allocation of EC aid to Bhutan in the current CSP/NIP (2002-2006) amounts to **€15 million**. The highest priority has been given to renewable natural resources with 64% of the budget, and consists of livestock production and integrated pest management. The other assistance areas are health/traditional medicine and trade development and export diversification:

- ***Wang Watershed Management Project***

One of the most significant contributions has been **€ 9.2 million** for the Wang Watershed Management Project, which started in September 2000 and has concluded implementation by June 2007. The Project completion report has already been submitted to the European Commission. The purpose of the project was to develop, test and institutionalise practical watershed, land and farm management techniques and procedures within the Wang watershed. The project target beneficiaries include 10,000 rural families of four Western districts- Ha, Thimphu, Paro and Chukha.

- ***Medicinal Plants Project, Phase II***

This began implementation with the mobilisation of the TA in October 2004. The project has two components: the Medicinal Plants Conservation and Cultivation Component and the TM Product Marketing and Commercialisation Component. With a budget of **€ 4.2 million**, the project will help in the conservation of natural resources, alleviation of poverty, improvements in health and creation of economic opportunity through the sustainable development of the medicinal plants sector.

- ***Support to the Livestock Sector in Bhutan***

This project (**€ 4.6 million**) aims to reduce rural poverty and enhance household and national food security by increasing the country's self-sufficiency in livestock products and the contribution of livestock towards the whole farming system. The project will have nation wide coverage aiming to support all districts where support to the Livestock development has been minimal. Main **beneficiaries** of the project will include over 4000 subsistence and market oriented livestock farmers and their families throughout the country who will adopt new livestock production systems.

- ***Support to the Agriculture Sector in Bhutan***

(**€ 5 million**) In Bhutanese agriculture there is a considerable potential for increased yields both in agricultural and high value horticultural crops (improved varieties). Much needs to be done to improve productivity (both through labour and adapted technologies) while avoiding heavy losses and post-harvest damages. EC funded initiatives concentrate on efficient **crop production methods** at minimal economic and environmental cost. A core element of this project is to bring Bhutanese agricultural products nearer to international standards and to help set quality control measures within the country – both to enable successful marketing in the future.

- ***Trade Capacity Development Project***

The project (**€ 1.2 million**) aims to develop export capacity in the private sector and its supporting infrastructure, with the International Trade Centre as implementing partner. Moreover, it supports Bhutan's ongoing accession process into the WTO (implementing partner UNESCAP's trade and investment division).

Environmental issues have been a major concern and have been taken fully into account in all EC-funded activities. In particular, several of the EC's development initiatives include specific

environmentally sustainable objectives (e.g. the programme for the preservation of traditional Medicinal Plants, the Renewable Natural Resources extension support programme and the Wang Watershed Management Project).

Forest management is another focus area where the aim is to support sustainable natural resources management and conservation. The EC is actively involved in developing the government's ongoing community forest management approach and in assisting one Community Forestry Management Area in four districts in western Bhutan. Both alpine pasture and lowland pasture on community land will be improved. Various activities in this area are included in the ongoing Wang Watershed Management Programme.

Lessons Learned

Independent and external evaluations carried out on ongoing and past EC projects have shown EC funds to have successfully contributed to the development of Bhutan's Renewable Natural Resources sector, with the following results:

- A final evaluation of the **Integrated Pest Management (IPM)** project (1992-2000, € 2.6 million) showed that project activities contributed to optimal plant protection methods whilst minimising the environmental, social and economic costs. Packages for 7 major cash crops were formulated and implemented, through pilot projects in selected villages. It was found that the IPM activities required integration into the mainstream Ministry of Agriculture extension efforts at diversifying agriculture and supporting sustainable agriculture.
- A final review mission (2001) of the EC financed a project in the livestock sector **“Strengthening of Veterinary Services for Livestock Disease Control”** showed a very successful and effective implementation and a good delivery of the expected results: to increase livestock production by reducing losses due to animal disease, with the specific objectives of Rinderpest eradication, strengthening of veterinary services and institutional development. EC assistance was shown to contribute to the effective eradication of Rinderpest, a general reinforcement of the veterinary services, good epidemiological control, domestic vaccine production and significant institutional strengthening and development.
- The final report and Impact study (March, 2005) for the **Renewable Natural Resources (RNR) / Extension Support Project (ESP)** (January 1998 to January 2004), showed that the project greatly contributed towards capacity building of the dzongkhags, regions, and head offices in delivering extension services to farmers. Thus, the project strategy aimed at promoting research-extension linkages, farmer group formation and Gewog extension planning was found to be successfully implemented through project activities. A mid-term evaluation took place from 13th April to 20th May 2001, re-focussing the logframe helping to improve participatory techniques, share knowledge and technologies and strengthen institutions. With this experience and best practice it will be helpful to improve upcoming EC pipeline projects.
- The **Wang Watershed Management Project (implementation closed on 30th June 2007)** was designed to develop, test and institutionalise practical watershed, land and farm management techniques and procedures contributing to the rational and sustainable use of the natural resources within the Wang watershed. Following the Mid-Term Review (2002)

the purpose of the project focussed more on Gewog level planning and RNR development.

Following a two-year extension of the project, activities complemented theoretical training with on-site technical backstopping. Supervision is based on local 'real-life' data and practical problems over a longer period, thereby greatly enhancing the prospects of sustainability.

An external monitoring mission (June 2006) highlighted the impact of activities and the current success of implementation in and good progress made in the development of Land Use Planning and the training and organisation of extension workers. Substantial work has been done on improved farming systems and community based management of natural resources. Environmental awareness has been raised to further reduce the risk of environmental degradation. A comprehensive evaluation of the EC Projects in the RNR sector, which will assess, analyse difficulties and lessons learnt will be carried out in the future. The projects continue to be evaluated by the EC on a yearly basis through the external monitoring services.

4. The European Commission's Response Strategy 2007 – 2013

Bhutan has expressed its interest in continuing EC Support in the Renewable Natural Resource Sector. The focus of EC support (2007-2013) would go towards areas of **capacity building** and **governance issues** in the Renewable Natural Resources sector at the Central, Dzongkhag and Gewog level, in order to strengthen Bhutan's development policy and programmes to reduce rural poverty through the creation of income generating activities at the rural level and improved farm to market access, with implementation modalities to be worked out at a later stage.

EC support for **Good Governance** will be a secondary focal sector as this is becoming more significant, due to Bhutan's political challenges currently taking place. With the adoption of a Constitution, Bhutan is undergoing the first move to a democratic and constitutional future. Although the 10th Plan of the country is still under preparation, Good Governance will be one of the central focus of the interventions. In addition, given that Good Governance is a cross sectoral issue, this assistance could come in the form of budgetary support. The appointment of an election commissioner in December 2005, whose role will be to draw up constituency boundaries and mock voting sessions, and the establishment of an Anti-Corruption Commission (December 2005), demonstrates this move. There are also several environmental challenges that Bhutan faces at present, and in the very near future, due to a rapid growth of population. The incidences of environmental problems are proof of the increasing pressure on the use of natural resources. This would be a cross-cutting issue in terms of EC support to the RNR sector.

In terms of socio-economic developments, the increasing demand for diversified and quality products is indicative of change in the consumption patterns and standards of the Bhutanese societies. Bhutan is already a member of SAARC and BIMSTEC and is in the process of acceding to WTO. This presents special challenges to Bhutan in terms of the small holders having to face global competition, and standards and prices. Continued rural to urban migration is another constraint that has the danger of increasing urban poverty by stretching urban facilities on one hand and exacerbating the shortage of farm labour in the rural areas on the other.

Bearing in mind the enormous economic challenges faced by the country, including the need to create employment and to diversify its economy, an important priority consists of strengthening

the productive capacities of the poor and enhancing private sector development. These priorities were already addressed in the previous CSP with the Trade Development Project, which addresses **Export Promotion** and **WTO Accession**.

While many of these issues will also be addressed in the Renewable Natural Resources Programme, it is proposed to allow for a continuation of these activities (as a follow up to the Trade Project currently under implementation) in the second MIP (2011-13).

In conclusion, against the backdrop of the rapid changes that are currently taking place in Bhutan, the CSP (2007-2013) will focus on the following three sectors: Renewable Natural Resources (with environment as a cross-cutting issue), Good Governance and Trade Facilitation.

4.1 Focal Sectors

Focal Sector 1:

Renewable Natural Resources Programme

EC support to the RNR sector would amount to approximately 60% of the CSP allocation. In terms of funding mechanisms, it should be examined during the Identification phase, whether the conditions and institutional set-up in Bhutan are conducive to a sector wide approach, and thus whether it is feasible to implement a sector policy.

The EC recognises that activities under a proposed RNR sector programme should be in line with the policies and priorities of RGoB, contained in the 9th Five Year Plan 2002-2008 and those currently under preparation for the 10th Plan, and thus be an integrated approach to the development of the RNR Sector.

The potential policy objectives for the RNR sector for 10thFYP are: (1) enhance sustainable rural livelihoods; (2) conserve and promote sustainable utilisation of forest and water resources; (3) promote sustainable utilisation of arable agriculture and pasture land resources; and (4) enhance food security.

Therefore, EC support would be within a comprehensive sector policy support programme, which would ensure intra-sectoral coherence between the different RNR sub-sectors, such as Medicinal Plants.

There would also be an aim to support inter-sectoral coherence between the RNR sector and other sectors that have an impact on resource management, such as tourism, roads, transport etc. reflecting Bhutan's approach to development in the context of maintaining its biodiversity and management of natural resources as it develops its economy.

Focal Sector 2

Good Governance

The EC allocation would be approximately 20% of the total CSP allocation.

The EC is currently supporting good governance at both Dzongkhag and Gewog levels in current ongoing Development Co-operation, through budget support projects. This can be further enhanced by focussing on dialogues and cooperation with the Royal Government of Bhutan along cross cutting themes such as the supply of services, accessibility of services, transparency of

government at all levels, predictability and rule of law. The EC will focus on best practices in good governance, decentralised decision-making and best practices in development, including innovative methods to improve delivery of services to address poverty, gender issues, institutional reforms and public sector management. This assistance could come in the form of budgetary support.

Focal Sector 3:

Trade Facilitation

The EC allocation would be approximately 20% of the total CSP allocation.

This support would aim to strengthen the export capacity of Bhutan, and in particular the Trade Development Office together with the Bhutan Chamber of Commerce and Industry and other support institutions or private sector associations to service Bhutan's private sector exporters, in order to improve both the infrastructure and the quality of the produce targeting export markets. It will help producers meet export requirements and could provide assistance to sector associations and export promotion bodies.

The assistance will also build on the support provided through the existing EC-funded Trade Development Project. This will support Bhutan in the development of its international trade policy framework in line with the WTO accession process and overall developmental objectives. More specifically, the intervention is expected to ensure that the Bhutanese national legislation can be brought into WTO compliance.

4.2 Coherence with regional and thematic programmes

In the context of cooperation with Bhutan, alongside activities foreseen under this CSP, the Commission intends to pursue thematic interventions in the following areas: democracy and human rights, migration and asylum, human and social development, environment and sustainable management of natural resources including energy, and non-state actors. These thematic activities are complementary to the strategic objectives pursued by the Commission under the CSP and form part of the policy dialogue with Bhutan. The financing of these thematic activities will be additional to financial resources provided under the MIPs.

ANNEXES

ANNEX I: MIP Table

MIP I (2007-10)	PERCENTAGES
Priority I: Renewable Natural Resources	70% of 1st MIP
Priority II: Governance and Institution Building	30% of 1st MIP
Total MIP I	57% of CSP
MIP II (2011-13)	
Priority I: Priority I: Renewable Natural Resources	46.7% of 2nd MIP
Priority II: Governance and Institution Building	6.6% of 2nd MIP
Priority III: Trade Facilitation	46.7% of 2nd MIP
Total MIP II	43% of CSP
Total CSP	100

The amount of the MIP 2007-2010 will be a total of € 8 million for Bhutan

ANNEX II: EC CO-OPERATION OBJECTIVES

1. The EU Treaty Objectives for External Cooperation

In accordance with **Article 177 of the Consolidated Treaty Establishing the European Community**,⁵ the Community's development cooperation policy shall foster the sustainable economic and social development of the developing countries, the smooth and gradual integration of these countries into the global economy and the fight against poverty. The Community's policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

On the basis of **Article 179** of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. Bhutan is eligible to participate in cooperation programmes financed under the Regulation (EC) No.1905/2006 of the European Parliament and of the Council of 18th December 2006, establishing a financial instrument for development cooperation.⁶

2 Objectives set out in Other Applicable Documents

a) In the **Asia Regional Strategy Paper**⁷ the EU emphasises its realisation of the difficulties SAARC has in discussing political issues. However, the EU can help consolidate the ongoing integration process through its economic influence in the region, its own historical experience in dealing with diversity, and its interest in crisis prevention. The EU remains convinced that SAARC could play a useful role in strengthening regional co-operation and dialogue.

3. The 2000 Statement on Development Policy

In their statement on the **European Community's Development Policy**⁸ of 10 November 2000, the Council of the European Union and the European Commission recalled that development policy is grounded on the principle of sustainable, equitable and participatory human and social development, and that the promotion of human rights, democracy, the rule of law and good governance are an integral part of it. They further determined a number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value:

- link between trade and development;
- support for regional integration and cooperation;
- support for macro-economic policies and promotion of equitable access to social services;
- transport;
- food security and sustainable rural development;

⁵ OJ C 325 24/12/2002

⁶ OJ L 378 27/12/2006, p. 41

⁷ http://europa.eu.int/comm/external_relations/asia/rsp/rsp_asia.pdf

⁸ http://europa.eu.int/comm/development/body/legislation/docs/council_statement.pdf

- institutional capacity building, particularly in the area of good governance and the rule of law.

The Statement also specifies that the Community must continue its support in the social sectors (health and education, particularly with a view to ensuring equitable access to social services).

4. The 2005 Communication on Speeding up Progress towards the Millennium Development Goals

In its 12 April 2005 Communication on Speeding up progress towards the Millennium Development Goals,⁹ the Commission takes stock of the EU's contribution to development and identifies the necessary measures to accelerate achievement of the MDGs. The Commission aims at (a) setting new intermediate targets for growth in official aid budget by 2010 for both EU and Member States, ultimately achieving the 0.7% target of gross national income (GNI) by 2015, (b) speeding up reforms to improve aid quality, (c) re-evaluating EU's influence on the conditions for development and (d) ensuring Africa's primacy as the beneficiary of these approaches with a renewed impetus of partnership between the two continents. The proposals on Development Financing and Policy Coherence are set out in detail in two other communications. Together these contribute to the three pillars of sustainable development (economic, social and environmental).

5. The 2005 Communication on Financing for Development and Aid Effectiveness

In its 12 April 2005 Communication on Financing for Development and Aid Effectiveness,¹⁰ the Commission outlines means of achieving interim targets of increased ODA volumes by 2010 and move towards the UN target of 0.7% GNI by 2015. It suggests new aid modalities, innovative finance sources and includes proposals in addressing the remaining post-HIPC debt problem of low income countries. It suggests redefining EU commitment regarding GPG. The main challenge on co-ordination and harmonisation is the credible implementation of the EU framework and results of the High Level Forum on aid effectiveness and complementarity in aid delivery. Commitment on reforming the International Finance System must be strengthened.

6. The 2005 Communication on Policy Coherence for Development

In its 12 April 2005 Communication on **Policy Coherence for Development**,¹¹ the Commission has defined coherence commitments in the overall framework of the EU sustainable development strategy and identified the following priority areas with high potential of attaining synergies with development policy objectives: trade; environment; security; agriculture and fisheries; social dimension of globalisation, employment and decent work; migration; research and innovation; information society; transport and energy. These commitments were endorsed by the Council (GAERC) on 24 May 2005. The Communication further calls on non-development policies to respect development policy objectives and on development cooperation to also contribute, where possible, to reaching the objectives of other EU policies.

⁹ COM 2005/0132 final

¹⁰ COM 2005/0133 final

¹¹ COM2005/0134 final

7. The Joint Statement on EU Development Policy ('The European Consensus')

In its meeting on 22 November 2005, the General Affairs and External Relations Council adopted the EU Development Policy Statement, also known as “the European Consensus”. The “European Consensus on Development” provides, for the first time, a common vision that guides the action of the EU, both at its Member States and Community levels, in development cooperation. The Statement identifies the eradication of poverty in the context of sustainable development, including pursuit of the MDGs, as the primary and overarching objective of EU development cooperation. The Statement also emphasises that EU partnership and dialogue with third countries will promote common values of respect for human rights, fundamental freedoms, peace, democracy, good governance, gender equality, the rule of law, solidarity and justice and the EU’s commitment to effective multilateralism.

8. The 2005 UN Summit Conclusions on Human and Social Development

The importance of strengthening the social dimension of globalisation and of promoting productive employment and decent work opportunities was highlighted in §47 of the UN Summit conclusions of September 2005 regarding human and social development. UN member states committed themselves in particular to “*strongly support fair globalisation and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the MDGs.*”

ANNEX III: Bhutan at a Glance

1. Introductory statement and basic data

The tiny Himalayan Kingdom of Bhutan situated between India and China has a population of 634,982 people, mostly living in mountain villages cut off from the outside world. Bhutan is a hereditary monarchy. A draft Constitution, which envisages parliamentary democratic system was distributed in March 2005 and is expected to be adopted in 2008.

Population	634982
GNI/capita (USD)	755
Exports to Bhutan from EU (millions €)	9
Imports to EU from Bhutan (millions €)	1
Total EC Develop. assistance (million €)	
Total EC Development assistance/capita (€)	
Total EU Development assistance (million €)	
Total EU Development assistance/capita (€)	
FDI/capita	0.384
Illiteracy rate (%)	40.5
Life expectancy (years)	66
Human Development Index (ranking of 177)	135
Corruption Perception Index (ranking of 133)	
Total number high-level visits from EU in 2006	1

2. Indicators related to the Millennium Declaration

Indicators	2000	2001	2002	2003	2004	2005
1. Proportion of population below \$1 per day	36.3 %	N.A.	N.A.	31.7%	N.A.	N.A.
2. Prevalence of underweight children (under-five years of age)	19%	N.A.	N.A.	N.A.	19%	N.A.
3. Net enrolment ration in primary education	N.A.	N.A.	N.A.	N.A.	69%	73
4. Primary Completion Rate	81%	N.A.	N.A.	N.A.	86%	N.A.
5. Ratio girls to boys in primary, secondary and tertiary educat.	82%, 78%, 41%	N.A.	N.A.	N.A.	95%, 96%, 53%	N.A.
6. Under 5 mortality rate	84	N.A.	N.A.	N.A.	N.A.	75
7. Proportion of 1 year old children immunised against measles	76%	N.A.	N.A.	N.A.	N.A.	93%
8. Proportion of births attended by skilled health personnel	24%	N.A.	N.A.	32%	N.A.	51%
9. HIV prevalence among 15-24 year old pregnant women	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
10. Prop. of pop. With sustainable access to improved water	78%	N.A.	N.A.	84%	N.A.	N.A.

Source: Millennium Development Goals Progress Report Bhutan 2005, World development indicators database April 2007

3. Political situation

Political system

- The form of government:

Hereditary Monarchy. The King is Head of State but can be removed by a two-thirds vote in the Assembly. The Cabinet consisted of ten ministers, nine members of the Royal Advisory Council including its Chairman and it is presided over by the Prime Minister.

The *Tshogdu* (National Assembly) had 150 members, 106 members elected at various dates for a three year term in single-seat constituencies, 10 ministers elected by the National Assembly members, 24 appointed members and 10 representatives of the monk body.

- The results of past elections:

Local elections last held in August 2005.

- Coming elections:

First parliamentary elections to be held in 2008.

- The national development plan:

The development process in Bhutan was initiated in 1961 and has so far successfully completed four decades of planned development. The 8th Five Year Plan (FYP) priorities (1997-2002) were characterised by hydropower development and industrialisation, institutional and human resource development, integrated rural development and improvement of social services. These objectives have guided donors' assistance to the country, which amounted to 23% of GDP in FY 98/99. The 9th FYP (2002-2007) puts emphasis on infrastructure development and improvement in the quality of social services.

Another policy document is '*Bhutan 2020: A Vision for Peace, Prosperity and Happiness*' (May 1999). The overall objective is poverty reduction through the promotion of sustainable growth with special attention given to the environment.

- Membership in regional organisations:

Bhutan is an active member of several regional organizations and its membership continues to bring mutual benefit to both Bhutan and the organisations.

Bhutan is a founding member of the South Asian Association for Regional Cooperation (SAARC) which was established in 1985. A Memorandum of Understanding on Administrative Cooperation was signed between the SAARC and the European Commission (EC) on 10 July 1996 in Brussels focused on exchange of information, training programmes, technical assistance and any other areas jointly agreed to.

Bhutan became a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in 2004 and is also a member of the Asian Cooperation Dialogue (ACD) since 2005.

Political challenges in the near future:

Challenge A: People in the camps in eastern Nepal. The people in the camps, now reported approximately 100,000 in number are hosted in 7 UNHCR camps in eastern Nepal. A solution to the crisis seems forthcoming as the US and Nepal agreed on third country resettlement. It is envisaged that some 60,000 people from these camps will be resettled to the US over a five-year period.

Challenge B: The Constitution and parliamentary elections: adoption of the draft Constitution and parliamentary elections in 2008.

4. Economic situation

The regional average refers to South Asia (as per the World Bank Development Indicators Database)

Macro indicators	Country	Region	Public expenditure indicators	Country	Region
Growth of GDP %	<u>7.7</u>	<u>4.3</u>	Government Expenditure/GDP %	35	N.A.
Investment/GDP %	<u>48.1</u>		Expend. Surplus/deficit/GDP %	<u>-6.2</u>	<u>-4.9</u>
Exports/GDP %	<u>21.9</u>	<u>16.9</u>	EU Aid/Total Gov Expenditure %		
Imports/GDP %	<u>38.6</u>	<u>18.3</u>	Total Aid/Total Gov Expend. %	<u>N.A</u>	<u>N.A</u>
FDI/GDP %	<u>0.05</u>	<u>0.64</u>	Health exp/GDP. %	<u>3.6</u>	<u>N.A</u>
Debt service/GDP	<u>1.01%</u>	<u>24.5</u>	Education exp/GDP.%	<u>3.5</u>	<u>N.A</u>

Rate of Inflation %	<u>2.4%</u>	<u>4.5</u>	Defence exp./Total Gov. Expend. %		<u>N.A.</u>
Unemployment %	<u>N.A.</u>	<u>3.4</u>	Debt service/Total Gov. Expend. %		<u>N.A.</u>
Living less 2 \$/day %	<u>N.A.</u>	<u>76.9</u>	Total revenue/Total Gov. Expend. %		<u>N.A.</u>

Source: World Development Indicators database, April 2004

B. Trade

Bhutan's economy is one of the world's smallest and least developed. It is closely aligned with India's through strong trade and monetary links. Its natural resources are timber, hydropower, gypsum and calcium carbide. Agriculture consists largely of fruit growing, subsistence farming and animal husbandry. Most production is of the cottage industry type. It exports comprise of cardamom, gypsum, timber, handicrafts, cement, fruit, electricity, precious stones and spices, while imports included fuel and lubricants, grain, machinery and parts, vehicles, fabrics and rice.

Legal framework

As a landlocked country, India has been and is a major trading partner of Bhutan in her economic development and external trade. Before eighties, third country import and export was non-existent in Bhutan. Bhutan's trade with India is governed by Bhutan-India Agreement on Trade and Commerce. The Agreement is renewed every five years. The first agreement signed in 1972 became a basis for the subsequent renewals of the agreement.

Article 2 of Bhutan-India Agreement on Trade and Commerce says that "the Government of the Kingdom of Bhutan may, henceforth, impose such non-tariff restrictions on the entry into Bhutan of certain goods of Indian origin as may be necessary for the protection of industries in Bhutan. Such restrictions, however, will not be stricter than those applied to goods of third country origin". Article 3 envisages "the governments of the two countries may impose such non-tariff restriction on entry into their respective territories of goods of third country origin as may be necessary".

According to Article 4, "In view of the free movement of goods flowing between the two countries and of the possibility of the flow from one to the other of goods of third country origin, the Governments of the two countries shall have annual consultations". There has been regular talk between Bhutanese and Indian officers on monitoring the border security and the third country imports.

Article 8 envisages that "Each of the governments agree to provide appropriate refund as mutually decided annually in respect of excise duties on goods of its origin exported to the other". India refunds excise duty to the tune of Rs. 500m to Bhutan for its goods entered into Bhutan. Article 10 envisages that "the two governments agree to enter into immediate consultations with each other at the request of either side in order to overcome such difficulties as may arise in the implementation of this agreement satisfactorily and speedily.

All third countries cargo consigned to Bhutan arriving in Kolkata port has to be moved by surface transport according to the procedures laid down in the agreement. The Bhutanese custom officers take the delivery of the goods at the Kolkata port from the Indian Customs for onward despatch to Bhutan.

Tariff schedule facing EU exporters to Bhutan: not available

Tariff schedule facing Bhutanese exporters to EU:

Since Bhutan is a LDC, it is covered by the Everything But Arms (EBA) arrangement under the EU's GSP Scheme. This implies a duty free-quota free regime for Bhutanese exports to EU.

Non-tariff barriers facing EU exporters to Bhutan: not available

Non-tariff barriers facing Bhutanese exporters to EU: not available

ANNEX IV: Country Environment Profile (summary)

Bhutan is endowed with a relatively pristine environment, boasting a high percentage of forest cover and very high levels of biological diversity at the ecosystem, species and genetic levels. To conserve the country's forests and biodiversity, the RGoB has proclaimed over 26 percent of the land area protected, the highest percentage of protected area in the world. The country is governed by stringent environmental standards and a strong conservation ethic. Since the 1970s, the Royal Government of Bhutan (RGoB) has put in place a comprehensive environmental policy and regulatory framework. The country has adopted a "middle path" approach, balancing conservation and economic development and ensuring that the spiritual, cultural and social needs of the society are carefully considered.

Despite the country's unique environmental status, a number of factors threaten Bhutan's environment, including the accelerating pace of Bhutan's own development, the high population growth rate, and the recent rise in rural-urban migration, which has led to challenges with urban waste management, air and water pollution, and urban planning. The main impacts of these threats include increasing loss of biological diversity, reduction of forest area, degradation of ecosystem services and reductions in air and water quality. Climate change and associated natural disasters compound these threats and present additional challenges for Bhutan's environment.

Bhutan's development planning is critical to the protection of its resources. Since opening to the outside world in the 1960s, the country has articulated its development plan in nine five-year plans (FYP). The Ninth Plan (July 2002-June 2007) is currently under implementation. Its goals revolve around hydropower development, increased food self-sufficiency and industrial development. Priorities include: (a) improving and expanding the road network to improve farmers' access to markets; (b) expanding power transmission lines to facilitate export of power and promote growth of power intensive industries; (c) improving urban infrastructure, particularly housing, and related demand for services; and (d) modernisation of agriculture to enhance agricultural productivity.

If not carried out in a sustainable manner, some of the larger planned investments (e.g. road construction, industrial development, housing construction, rural electrification) in the Ninth Plan could result in serious short and long-term damage to the environment, as well as the economy. However, bigger impacts could result from the potential cumulative impacts of many smaller development proposals, as well as development projects that have not been articulated in the Plan. The impacts of these development projects depend on the government's ability to regulate the environment. Institutionally, the environment is strongly represented in Bhutan. The National Environment Commission Secretariat (NECS) is the focal agency for all environmental issues. Its responsibilities include the overall formulation and monitoring of environmental policy and legislation. Line ministries, dzongkhags and gewogs, and private companies are responsible for the implementation of environmental assessments and ensuring compliance to environmental regulations. However, environmental management at the central level tends to be "compartmentalised" within sectors, leading to incompatibilities between sector investments plans. Cross-sectoral planning with regard to environmental issues is necessary to overcoming this problem.

Bhutan is divided administratively into 20 dzongkhags and 201 (blocks). A gewog is the smallest administrative unit within a district. The Ninth FYP emphasises shifting formerly national environmental policy tasks, such as development planning, allocation of resources, and framing and implementing rules and regulations to the *dzongkhag* and *gewog* levels. This will empower officials at the local level, and will provide both opportunities and constraints for effectively and

efficiently protecting the environment. In particular, capacity limitations and development objectives at the *gewog* level will present challenges for the environment.

Bhutan is unique in its outlook on the environment and its plans for balanced economic development. However, the country is faced with some key challenges to maintaining its pristine environment in the face of its rapidly developing economy and changing rural-urban environment. With hydropower as a major economic activity, it is critical that watersheds and forest cover are maintained. Key issues to achieving this include sharing the costs and benefits of conserving its environment and balancing development amongst rural and urban communities.

ANNEX V: Donor Matrix

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
Agriculture and Natural Resources	<p>Austria: ADC</p> <ul style="list-style-type: none"> • The Tourism Development Programme (\$312,000, July 1999–June 2003) is to implement training and research <p>India: GoI</p> <ul style="list-style-type: none"> • Agriculture Marketing and Strengthening of Livestock Development Initiative <p>Denmark: DANIDA</p> <ul style="list-style-type: none"> • Environment Sector Program Support (1998- December 2003) • Environment and Urban Sector Program Support (2004 – 2009) <p>FAO (on-going)</p> <ul style="list-style-type: none"> • TCP/BHU/0166: Assistance in Improving Food Security and Rural Income by Increasing Pig Production in Bhutan (2002–2004). • TCP/BHU/2901: Development and Strengthening of the Quality Control and Regulatory Services Division of the Ministry of Agriculture (2003–2004); • TFD-01/BHU/00: Telefood Support Project on Bee Keeping in Paro Dzongkhag (2002); • GCP/RAS/184/JPN: Strengthening of Regional Data Exchange System on Food And Agricultural Statistics in Asia and Pacific Countries (2002–2005); • BHU/02/002: Rural Enterprise Development (2002 –2007) <p>FAO-pipeline</p> <ul style="list-style-type: none"> • National Coordinated Oilseed and Grain Legume Development Program • Capacity Building for Fodder Oat Technologies in Bhutan • Strengthening Vulnerable Groups through Training in Village Level Post-harvest Management and Food Processing in Bhutan • Strengthening National Capacities for Successful Foot and Mouth Diseases (FMD) Control to Increase Rural Household Income and Alleviate Poverty in Bhutan • Capacity Building for Quality Seed Potato Production in Bhutan • Control of Citrus Greening and Citrus Tristeza Virus <p>IFAD</p> <ul style="list-style-type: none"> • Second Eastern Zone Agricultural Program (SEZAP, 1999–2007) to increase agricultural and livestock production <p>Agricultural Marketing & Enterprise Promotion Program World Bank Decentralized Rural Development Project</p> <ul style="list-style-type: none"> • <p>Japan</p> <ul style="list-style-type: none"> • JICA: Aid for increased food production, and dispatch of experts for agriculture development.

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<p>SNV</p> <ul style="list-style-type: none"> • Community Based Natural Resources Management (CB-NRM) (1997-ongoing). Assistance to the Ministry of Agriculture in the development of a CB-NRM framework • SEZAP Second Eastern Zonal Agricultural Project in Trashigang <p>Swiss Development Cooperation (SDC)</p> <ul style="list-style-type: none"> • Renewable natural resources with emphasis on training, research and extension <p>Switzerland</p> <ul style="list-style-type: none"> • Renewable natural resources with emphasis on training, research and extension, including rural development initiative and building farm roads <p>UNDP</p> <ul style="list-style-type: none"> • Rural Enterprise Development Programme <p>WWF</p> <ul style="list-style-type: none"> • Support for the Department of Tourism in developing a national eco-tourism strategy that was endorsed by the Royal Government. A number of projects will follow <p><u>European Commission</u></p> <p>Wang Watershed Management Project</p> <ul style="list-style-type: none"> • The project focus is on Renewable Natural Resource demonstration, extension and capacity building activities. • The project intends to support and strengthen those agencies involved in the renewable natural resource sectors within the Wang watershed. <p>Renewable Natural Resources Extension Support</p> <ul style="list-style-type: none"> • The Extension Support Project is an institutional strengthening project designed, through collaboration between RGoB and the Commission, to improve the efficiency of the extension services and make them more responsive to the needs of the rural people. • The wider objective of the project is to support self-reliance, promote sustainable use of natural resources and support the participation of rural people in their own economic development. <p>Medicinal Plants-Phase II</p> <ul style="list-style-type: none"> • To ensure the conservation of medicinal plant resource in the high altitude areas of Bhutan; to improve the incomes, employment opportunities and livelihoods of rural communities in high altitude areas; to strengthen the organization, management and cost-effectiveness of the medicinal plants industry; and to enhance the availability of high quality medicinal plant products and traditional medicines for both the internal and external market.

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<p>Support to the Livestock sector in Bhutan</p> <ul style="list-style-type: none"> • Reduce rural poverty and enhance household and national food security by increasing the country's self-sufficiency in livestock products and the contribution of livestock towards the whole farming system. <p>Agricultural Production/Integrated Pest Management</p> <ul style="list-style-type: none"> • The project focuses on increased yields through the adoption of efficient crop production methods at minimal economic and environmental cost.
Economic Growth	<p>ADB Develop private sector activity; improve infrastructure activities; upgrade technical and managerial skills</p> <ul style="list-style-type: none"> • Urban Housing Development (2004) • Road Network Expansion Project (2005) • Financial Sector Reform (2006) <p>India</p> <ul style="list-style-type: none"> • Roads, hydropower and other infrastructure development <p>UNDP</p> <ul style="list-style-type: none"> • Study on potential impact of accession to WTO; establishment of a national poverty/MDG monitoring system to enhance pro-poor policies <p>World Bank, WFP, SNV, SDS</p> <ul style="list-style-type: none"> • Roads (Farm roads, mule tracks, power tiller tracks) • Urban Development, Education, Public Expenditure Management <p>FAO, UNDP, UNIDO, SNV, and Netherlands Development Organization</p> <ul style="list-style-type: none"> • Rural enterprise development for economic growth in rural areas <p>European Commission in co-operation with ITC and UNESCAP</p> <ul style="list-style-type: none"> • Technical assistance, capacity building and awareness-raising for trade promotion and export development, including strengthening the capacity of the Bhutan Export Promotion Centre and sector-specific support to the private sector. • Review of Bhutanese legislation for WTO compliance, including suggesting and drafting necessary amendments; Raising awareness in the public and private sector on requirements for and consequences of WTO membership; exchanging experience with other acceding LDCs in the region.
Energy	<p>ADB Contribute to poverty reduction through rural electrification, governance, and institutional capacity building.</p> <ul style="list-style-type: none"> • Rural Electrification Projects (three projects) • Capacity Building of Bhutan Energy Authority (2003) • Establishment of Druk Hydro Power Corporation (2003)

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • Private Sector Participation in Hydropower Development (2004) • Energy Efficiency Management (2005) • Renewable Energy/Rural Electrification (2006) <p>Austria</p> <ul style="list-style-type: none"> • Grant and credit for upper stage construction on the Basochhu hydropower plant; Basochhu I and II advisory, and operation and maintenance training; rural energy and fuelwood consumption study; rural electrification; export credit for lower stage construction of the Basochhu hydropower plant; parallel cofinancing for electrification of about 1,000 rural households through the NFYP <p>India</p> <ul style="list-style-type: none"> • Construction of transmission lines, preparation of detailed project reports for new hydropower projects and hydropower development. <p>Japan</p> <ul style="list-style-type: none"> • Dzongkhag-wise master plan for rural electrification • Rural electrification <p>Netherlands</p> <ul style="list-style-type: none"> • Parallel cofinancing for electrification of 2,000 to 3,000 rural households through the NFYP. <p>Switzerland</p> <ul style="list-style-type: none"> • Involved in regional initiatives in which Bhutanese programs take advantage of services and products of international agencies such as IRRI, ICIMOD, and RECOFTC etc. <p>UNDP</p> <ul style="list-style-type: none"> • Renewable energy policy framework
Environment Protection	<p>ADB</p> <ul style="list-style-type: none"> • Monitor environmental progress, particularly forces that increase environmental stress, and ensure that Bhutan's interventions are environmentally sustainable. • ADTA: Strengthening environmental sector capacity (2003). The purpose of the intervention is to strengthen and devolve institutional capacity in the environmental sector's regulatory functions through updated and new guidelines for environmental assessment; updated environmental quality and effluent/emission standards, enhanced capacity within NEC, line ministries and districts to implement and enforce the Environment Act and its supporting regulations; and promote private service sector development in environmental impact assessment and monitoring <p>Austrian Development Cooperation (ADC)</p> <ul style="list-style-type: none"> • Glacial Lake Outburst Flood mitigation measures project (\$495,000) (1999–December 2002)

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<p>Denmark (DANIDA)</p> <ul style="list-style-type: none"> • Environment Sector Program Support including support for environmental awareness activities (1998–31 December 2003) • Environment and Urban Sector Program Support (2004-2009) <p>SNV and SDS</p> <ul style="list-style-type: none"> • Support for the introduction of environmentally friendly road construction concepts in all agencies (public and private) involved in road construction <p>UNEP</p> <ul style="list-style-type: none"> • Support to National Environment Commission for preparation of the State of Environment report; and participation at the Male Declaration on control and prevention of Air Pollution and its Likely Tans boundary Effects for South Asia <p>UNICEF</p> <ul style="list-style-type: none"> • School Water and Sanitation Programme <p>UNIDO</p> <ul style="list-style-type: none"> • Technical support for the National Energy Program for Rural Areas <p>UN-Habitat</p> <ul style="list-style-type: none"> • Assistance for the implementation of national housing policy to improve living conditions of the poor <p>WWF</p> <ul style="list-style-type: none"> • The Sakteng Wildlife Sanctuary (2003–2005) aims to develop a 5-year conservation management plan for the Sakteng Wildlife Sanctuary through collection of baseline information on vegetation, wildlife and socio-economic aspects of the sanctuary; implementing integrated conservation and development activities; and building of basic infrastructure and human resources capacity • Linking & Enhancing Protected Areas in the Temperate Broadleaf Forest Ecoregion of Bhutan (2003–2007). This project is to develop policy framework for biological corridor management and to start implementing integrated conservation initiatives at the landscape level • The Royal Manas National Park. This project is to help maintain the park's rich biodiversity through the integration of conservation, development, and capacity building • The Bhutan Tiger Conservation Program is to protect tiger and other wildlife populations in Bhutan by protecting core areas and conserving existing wildlife corridors by monitoring wildlife movement and habitat changes. Raising awareness of the general public on the importance of tiger conservation, and strengthening the capacity of forestry personnel • The Bhutan Biological Conservation Complex is to develop a management action plan for a network of protected areas and biological corridors through field surveys to collect baseline information on wildlife, vegetation, and socio-economics; and to review and analyze data for protection and implementation of Integrated Conservation and Development Program activities • The Integrated Conservation and Development Program Project develops and supports a village community in Trongsa, Bumthang and Trashigang to reduce dependence on natural resources through increasing food and cash crop production, intensifying livestock production, protecting forests, and developing local leadership by ensuring the local community needs in health and education, agriculture, forestry, livestock, communication, energy and local governance

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • The Women in Environment Project is to improve the economic conditions of poor farmers, particularly of women, who live in and around the protected areas through environment friendly and sustainable livelihood programs • The Mushroom Community Development Project is to help the mushroom growers' group increase cash income; to promote sustainable harvesting of wild mushrooms; to identify markets for wild mushrooms; and to protect mushroom exporters by maintaining quality standards <p>UNDP/GEF</p> <ul style="list-style-type: none"> • The Greenhouse Gas Project (1996–2003) is to strengthen the capability of RGOB to identify and quantify greenhouse gas sources and sinks, to assess vulnerability, mitigation and adaptation options and to determine national response strategies • The National Biodiversity Conservation Strategy and National Action Plan (1996–2003) is to promote conservation of the major ecosystems and their biological diversities, and to devise action plans and programs to sustainably utilize these diversities to improve people's livelihoods • Integrated Management of Jigme Dorji National Park (1996–2003) • Removing Barriers to Mini and Micro Hydropower Development for Decentralized Rural Electrification • The National Capacity Self-Assessment Project (2003–2004) is to prepare a national assessment of capacity building that Bhutan needs to meet national obligations under United Nations environmental conventions (Climate Change and Biodiversity) • Building Local Capacities for Sustainable Development. This project, which is awaiting approval for 2003–2004) will develop capacities of local governments and communities in environmental management. It will implement micro-environmental action plans that the communities define and prioritize, and will build on these and other experiences to develop local capacity in environmental management and sustainable livelihoods <p>Other projects supported by the GEF-Small Grants Program (SGP)</p>
Finance and Industry	<p>ADB Strengthen the financial sector and industry infrastructure to promote private sector development</p> <ul style="list-style-type: none"> • Strengthening the Debt Management Capacity of DADM (three phases) • Development of Payment System (2004) • Cluster TA for financial sector including development of non-bank Financial Institutions (2005) • PPTA SME Development (2005) • PPTA Financial Sector Reform (2006) • Financial Sector Development Loan <p>Austria</p> <ul style="list-style-type: none"> • Institutional strengthening of the Tourism Department; and a feasibility study for the Hotel Management and Tourism Training Institute (2002) <p>India</p> <ul style="list-style-type: none"> • Industrial Investment studies and infrastructure <p>European Commission in co-operation with ITC and UNESCAP</p>

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • Technical assistance, capacity building and awareness-raising for trade promotion and export development, including strengthening the capacity of the Bhutan Export Promotion Centre and sector-specific support to the private sector. Review of Bhutanese legislation for WTO compliance, including suggesting and drafting necessary amendments; Raising awareness in the public and private sector on requirements for and consequences of WTO membership; exchanging experience with other acceding LDCs in the region. <p><i>World Bank</i></p> <ul style="list-style-type: none"> • <i>Strengthening of Financial Sector through IT use</i> <p>Kuwait</p> <ul style="list-style-type: none"> • Financial sector, and industries <p>UNCDF</p> <ul style="list-style-type: none"> • Microcredit for the poor, and decentralized public investments for the poor <p>UNCTAD</p> <ul style="list-style-type: none"> • Technical assistance on trade issues; facilitation of access to Global System of Trade Preferences <p>UNDP</p> <ul style="list-style-type: none"> • Analysis of WTO accession <p>UNIDO</p> <ul style="list-style-type: none"> • Technical assistance for establishing a division for the promotion of foreign investments; establishing and operating industrial estates; analysis of textile, wood, cane, and bamboo products for export; regional program on trade facilitation
Gender and Development	<p>ADB</p> <ul style="list-style-type: none"> • Provide economic opportunities for women. <p>India</p> <ul style="list-style-type: none"> • Establishment of RENEW (Respect, Empower, Nurture and Empower Women) Centre. • Establishment of Youth Centre <p>Switzerland</p> <ul style="list-style-type: none"> • General project specific considerations <p>UNDP</p>

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • Support for production of the first Royal Government of Bhutan report on the Convention on Elimination of All Forms of Discrimination against Women (CEDAW) and follow-up activities <p>UNFPA</p> <ul style="list-style-type: none"> • Assistance for life skills education for female adolescents, along with advocacy for gender equality and women's empowerment; mainstreaming gender concerns in population and development planning <p>UNICEF</p> <ul style="list-style-type: none"> • Support for non-formal education for women <p>UNIDO</p> <ul style="list-style-type: none"> • Support for women's entrepreneurial development <p>UNIFEM</p> <ul style="list-style-type: none"> • Technical assistance in gender analysis and gender equity policies
Good Governance	<p>ADB Strengthen public resource management and aid coordination; enhance sectoral capacity for project implementation; improve economic statistics; assist decentralization</p> <ul style="list-style-type: none"> • Strengthening the Debt Management Capacity of Department of Aid and Debt Management (DADM), (2004) • Public Sector Financial Management System (2004) • Public Utilities Development (2006) • Strengthening the capacity of Royal Audit Authority (2007) • Support for Anticorruption and Good Governance (RETA 6337 - 2007) <p>Denmark</p> <ul style="list-style-type: none"> • Democratization, good governance, and decentralization through good Governance and Public Administrative reform Program, Phase II. <p>India</p> <ul style="list-style-type: none"> • Information Technology and Media (construction of TV Centre, equipment for TV Centre and SW Transmitter) <p>SNV</p> <ul style="list-style-type: none"> • Capacity strengthening support to Royal Institute of Management and to Public Health Engineering <p>Switzerland</p> <ul style="list-style-type: none"> • Decentralization as a transversal theme, political dialogues, organized study tours;

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • Training of national finance service accountants at district level <p>UNDP</p> <ul style="list-style-type: none"> • Deficiency and accountability in the civil service; information communication technology (ICT) for improved efficiency in public sector; Royal Audit Authority support; support to judiciary; human resource development for local government; information, education and communication for decentralization; strengthening capacity of legislators to articulate pro-poor policies; services for drafting key legislation; strengthening of judicial and administrative powers, including revision of civil service rules and introduction of position classification system; ensuring transparency and accountability of governance <p>UNFPA</p> <ul style="list-style-type: none"> • Strengthening of population planning management in focus districts <p>World Bank</p> <ul style="list-style-type: none"> • Public expenditure analysis <p>UNDP, UNCDF</p> <ul style="list-style-type: none"> • Block grants to Gewogs. <p>UNCDF, UNDP, and SNV</p> <ul style="list-style-type: none"> • Decentralization and local participation
Human Development	<p>ADB Institutional development for economic governance and sustainable development</p> <ul style="list-style-type: none"> • Building a Poverty Monitoring System (2004) • Development of Payment System (2004) • PPTA Small and medium enterprise (SME) Development (2005) <p>Austria</p> <ul style="list-style-type: none"> • Human resource development for National Finance Service, Ministry of Finance <p>FAO</p> <ul style="list-style-type: none"> • Strengthening national capacities for food control, and effective participation in the Codex <p>India</p> <ul style="list-style-type: none"> • Undergraduate and Post graduate scholarships in India. <p>Netherlands</p> <ul style="list-style-type: none"> • Fellowship Program

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<p>Switzerland</p> <ul style="list-style-type: none"> • Capacity building at project, district and central level in education, suspension bridges, RNR (incl. forestry) and finance services <p>UNDP</p> <ul style="list-style-type: none"> • 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; and support to 20 district multi-sectoral teams to develop regional awareness and prevention programs for HIV/AIDS <p>UNFPA</p> <ul style="list-style-type: none"> • Sustained advocacy for raising the profile of the girl child; assistance for family planning, population education, advocacy of issues concerning adolescents and women, and promotion of literacy and education; strengthening of information base for population and development planning, including technical assistance to national census; assistance in the prevention of HIV/AIDS <p>UNICEF</p> <ul style="list-style-type: none"> • Immunization Programme, Comprehensive support to Iodine Deficiency Disorder program to maintain IDD elimination status, achieved in 2002–03; support to ChildInfo Network; support for curriculum development ; support in the establishment of 8 comprehensive and 14 basic emergency obstetric care centers, tripling the proportion of births in such centers from 11% to 30%; support to prevent mother-to-child transmission of HIV/AIDS, including establishment of voluntary testing, counseling and support facilities in 20 districts; development of life skills-based education for 10,000 male and female scouts trained as peer educators on HIV/AIDS <p>WFP</p> <ul style="list-style-type: none"> • School feeding programme in remote schools and basic school infrastructure like kitchen and store, dining hall, fuel efficient stoves <p>WHO</p> <ul style="list-style-type: none"> • Assistance for integrated management of child health, including immunization and nutrition; strengthening the organization of health services through capacity building and research promotion; capacity building and technical advice for improving maternal health; assistance to improve malaria control; strengthening of HIV surveillance through capacity building; improvement of DOTS treatment for TB through capacity building; support for strengthening of essential drugs supply through standardization and adoption of legal provisions <p>UNDP, UNFPA, and UNICEF</p>

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • Capacity building for the Central Statistical Organization through the monitoring of millennium development goals <p>World Bank</p> <ul style="list-style-type: none"> • Education Development Project • HIV/AIDS and Sexually Transmitted Infection Prevention & Control Project
<p>Private Sector Development</p>	<p>ADB 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, (iii) promoting exports by establishing a dry port and industrial estate, and (iv) establishing the necessary legal and institutional framework and examining viable financial modalities for private sector participation in economic development</p> <ul style="list-style-type: none"> • Subregional: Industrial Estate and Dry Port Development Project (2004) • Private Sector Participation in Hydropower Development (2004) • Development of Payment System (2004) <p>MSME Development (2005)</p> <p>FAO</p> <ul style="list-style-type: none"> • Assessment of agro-processing industries <p>SNV</p> <ul style="list-style-type: none"> • Support for Bhutan Development and Finance Corporation; support for the tourism sector <p>Switzerland</p> <ul style="list-style-type: none"> • Small activities in farm business training; construction and maintenance management <p>UNDP</p> <ul style="list-style-type: none"> • Policy, legal, and regulatory reform to support private sector development; and electronic-commerce pilot study <p>World Bank</p> <ul style="list-style-type: none"> • Private Sector Survey (2002) • Establishment of IT Park and development of IT skills program <p><u>European Commission</u> in co-operation with ITC and UNESCAP</p> <ul style="list-style-type: none"> • Technical assistance, capacity building and awareness-raising for trade promotion and export development, including strengthening the capacity of the Bhutan Export Promotion Centre and sector-specific support to the private sector.

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> Review of Bhutanese legislation for WTO compliance, including suggesting and drafting necessary amendments; Raising awareness in the public and private sector on requirements for and consequences of WTO membership; exchanging experience with other acceding LDCs in the region.
Regional Cooperation	<p>ADB Build on bilateral partnerships under SASEC-I to enhance growth potential through regional cooperation among Bangladesh, Bhutan, India, Nepal and Srilanka, particularly in (i) energy; (ii) transport; (iii) environment; (iv) tourism; and (v) trade, industry, and private sector development and (vi) ICT. Follow-on activities under SASEC-II.</p> <ul style="list-style-type: none"> Subregional: Industrial Estate and Dry Port Development Project (2004) Road Network Expansion Project (2005) <p>Austria</p> <ul style="list-style-type: none"> ICIMOD Rangeland Development, for the promotion and development of bee keeping <p>FAO</p> <ul style="list-style-type: none"> Improvement of agricultural statistics in Asian and Pacific countries <p>India</p> <ul style="list-style-type: none"> Trade and investment, and infrastructure development <p>UNDP</p> <ul style="list-style-type: none"> HIV/AIDS subregional program
Social Infrastructure	<p>ADB Facilitate urban infrastructure development</p> <ul style="list-style-type: none"> Urban infrastructure Development Project (2004) Urban Development Project (2006) <p>Austria</p> <ul style="list-style-type: none"> Renovation of portal building at Trongsa Dzong and training of conservation in frescos <p>Demark</p> <ul style="list-style-type: none"> Program support to development of 5 urban centers through Environment and Urban Sector Program Support; Budget support to health the education sectors. <p>India</p> <ul style="list-style-type: none"> Construction of schools and hospitals

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<p>Japan</p> <ul style="list-style-type: none"> • Education, cultural exchange, and training <p>Switzerland</p> <ul style="list-style-type: none"> • Education and culture, with emphasis on teacher training, improving teacher learning processes, human resources development, and selected cultural activities <p>UNFPA</p> <ul style="list-style-type: none"> • Support for the lowering of fertility and slower population growth to reduce poverty; and for smaller families to increase female labor participation <p>WHO</p> <ul style="list-style-type: none"> • Health <p>World Bank</p> <ul style="list-style-type: none"> • Urban development • Roads, • School Infrastructure •
Transport and Communications	<p>ADB</p> <p>Support economic development by providing better access to regional and domestic markets, and improving the road system and expanding the road network in rural Bhutan to gain from potential opportunities in tourism, agroprocessing, and mining</p> <ul style="list-style-type: none"> • Road Network Expansion Project (2005) • Road Improvement Project (closed) <p>IFAD</p> <ul style="list-style-type: none"> • Agriculture Marketing & Enterprise Promotion Program (rural roads and marketing development). <p>India</p> <ul style="list-style-type: none"> • Airport strengthening, information technology and roads. <p>Japan</p> <ul style="list-style-type: none"> • Reconstruction of bridges and farm road development • Rural infrastructure development <p>WFP</p>

Sector/Thematic/Area	Other Development Partners' Strategies and Activities
	<ul style="list-style-type: none"> • Construction of mule tracks selected districts to allow greater access to agricultural markets <p>World Bank</p> <ul style="list-style-type: none"> • Rural access roads

ADTA = advisory technical assistance, AIDS = acquired immuno-deficiency syndrome, ADB = Asian Development Bank, AIT = Asian Institute of Technology (Bangkok), BDFC = Bhutan Development Finance Corporation, CEDAW = Convention on the Elimination of All forms of Discrimination against Women, DADM = Department of Aid and Debt Management, EA = executing agency, FAO = Food and Agriculture Organization, GEF = Global Environment Facility, HIV = human immuno-deficiency virus, HRD = human resource development, ICDP = Integrated Conservation and Development Program, ICIMOD = International Centre for Integrated Mountain Development, ICT = information and communication technology, IFAD = International Fund for Agricultural Development, IRRI = International Rice Research Institute, ITC = International Tendering Company, MDG = millennium development goal, NECS = National Environment Commission, PPTA = project preparatory technical assistance, RECOFTC = Regional Community Forestry Training Center, RGOB = Royal Government of Bhutan, RMA = Royal Monetary Authority, RNR = renewable natural resources, RSEB = Royal Stock Exchange of Bhutan, SASEC = South Asia Subregional Economic Cooperation, SDS = Sustainable Development Secretariat, SEZAP = Second Eastern Zone Agricultural Program, SME = small and medium enterprise, SNV = Netherlands Development Organisation, TA = technical assistance, UNCDF = United Nations Capital Development Fund, UNDP = United Nations Development Programme, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, UNIDO = United Nations Industrial Development Organization, VERCON = Virtual Extension–Research Communication, WHO = World Health Organization, and WTO = World Trade Organization.

**ANNEX VI: EU-BHUTAN TRADE AND INVESTMENT, KEY FACTS
AND FIGURES**

(see attached EXCEL FILE)