

**MINISTRY OF FOREIGN AFFAIRS OF DENMARK**  
Danida

# BHUTAN-DENMARK PARTNERSHIP



STRATEGY FOR DEVELOPMENT COOPERATION 2008-2013





Bhutan has twenty Dzongkhags (districts) shown on the map with blue lines and 205 Geogs (counties).

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**2008-2013**

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# 1. INTRODUCTION

## **1.1 Denmark's Development Policy**

Poverty reduction is the overriding objective of Denmark's development policy. Danish development cooperation is aimed at helping poor populations by ensuring critical investments in people and promoting sustainable development through poverty-oriented economic growth. Denmark will seek to underpin further progress in the field of democratisation. The participation of women in the development process, pursuit of sustainable environment and the promotion of human rights and democracy are important concerns for Danish development cooperation. The delivery of effective development cooperation through strategic, performance-oriented activities centred on sector programme support is a fundamental principle in Denmark's development policy.

Denmark's bilateral development cooperation is channelled primarily to a selected group of programme countries who have demonstrated the will and ability to promote long-term sustainable development. The countries that meet the conditions for receiving Danish development cooperation are challenged by severe poverty but at the same time live up to their responsibility to meet this challenge by formulating and effectuating long-term national poverty reduction strategies and working to consolidate democracy, respect for human rights and good governance.

Partnership is a cornerstone of Denmark's development cooperation. Effective poverty reduction requires the establishment of partnerships on a broad front, both with national and international actors involved in the formulation, effectuation and monitoring of the programmes as well as with partners in the development cooperation and other actors who are affected by the activities – governments, the private sector, civil society,

including poor and marginalised groups. Another fundamental principle of Denmark's development policy is that this cooperation should be based on the programme country's own strategies and policies.

This country strategy sets out the principles for Denmark's development cooperation with Bhutan over a 5-year period aligned to Bhutan's own 10th Five-Year Plan (FYP) July 2008 – June 2013 and at the same time constitutes the strategic framework for the long-term partnership with Bhutan.

## **1.2 Bhutan as a Programme Country.**

Bhutan is a small (38,394 km<sup>2</sup>) landlocked kingdom in the Himalayas, bordering China (Tibet) to the North and India to the East, South and West. Bhutan has a population of 634,982 according to the 2005 Census of Bhutan.

Danish development cooperation with Bhutan was initiated in 1978, and in 1989 Bhutan was chosen as a Danish programme country. Assistance has focused on four areas of cooperation: Health, Education, Environment and Urban Development and Good Governance. The first country strategy was elaborated in 1997 covering the planning period 1998 – 2002. For a number of years Denmark has been one of the largest donors of development assistance to Bhutan.

In recent years, Bhutan has undergone a process of gradual modernisation and democratisation including extensive reforms of the public sector, greatly enhancing transparency and accountability of the administration. A draft Constitution, introducing a Democratic Constitutional Monarchy was published in 2005, and free and universal elections to Bhutan's National Assembly were held in March 2008, and a parliamentary based Government was formed on 11 April 2008. The Parliament is to adopt a new Constitution based on Parliamentary democracy.

The economic outlook in the medium to long term is positive with an average annual expected GDP growth rate of 8%. It is expected that Bhutan will be able to finance the major part of its own development within the next decade. Historically, the economy has depended on agriculture which accounted for 18% of GDP in 2007, but in recent years the hydro

power sector has experienced rapid growth, taking advantage of the country's mountainous terrain.

Bhutan has made rapid progress in achieving the Millennium Development Goals especially in providing more than 84% of the population with access to safe drinking water, considerably increasing the net enrolment rate of basic education, improving gender equality in education at all levels, improving basic health care and integrating the principles of sustainable development in all policies and programmes. The average living age in Bhutan has been raised from 47 to 66 years over the period 1985-2005.

However, the country is still facing major social and economic challenges. Poverty, in particular in rural areas, remains the largest problem. Health and education services need further improvement, the democratic development and decentralisation processes must be continued, and efforts must be strengthened to diversify the economy in order to create conditions for broad based economic growth, and to ensure employment opportunities for a growing population.

Bhutan will continue to be a programme country for Danish development assistance. This decision is based on the country's continued need for external assistance to overcome the development challenges, the demonstrated commitment and capacity of the government, the strong focus in domestic policies on poverty reduction, strong commitment to achieve the Millennium Development Goals, decisive strive towards democracy and the positive experiences from past Danish development assistance. However, based on the positive macroeconomic trend, it is expected that the Danish assistance will be gradually phased out after 2013.

This strategy is the result of a consultative process, based on Bhutan's development priorities and Denmark's development policies and covers the period July 2008 – June 2013. It coincides with Bhutan's 10th Five Year Plan that is also Bhutan's Poverty Reduction Strategy.

It is with the clear and unambiguous aim of achieving equitable socio-economic development that the 10th Five Year Plan has adopted poverty reduction as the overarching theme and primary goal. The overall objective of the cooperation with Bhutan will remain poverty reduction through

promotion of sustainable economic development and strengthening of the democratic processes with the view of enabling broad participation in all spheres of society. Denmark will continue to focus on the following priority sectors: Social Sector, Environment and Urban Development, and Good Governance. Major development challenges remain and with the aim of creating a more diversified economy, one of the strategic objectives of the next strategy period will be the strengthening of private sector development. The private sector will be strengthened through support in the focus sectors supplemented by activities financed under the Mixed Credit Programme, the Public-Private Partnership facility and the Business-to-Business Programme.

### **1.3 Experience from Previous Cooperation.**

Denmark has provided development assistance to Bhutan since 1978. In the beginning assistance was channelled through multilateral organisations, but in 1985 the first bilateral programme was initiated and Bhutan was chosen as a programme country in 1989. In the past five years (2003-2007), the Danish development assistance has been targeted at health, education, environment and urban development, and good governance.

All Danish assistance is channelled through the Ministry of Finance and thus fully integrated into the national budget. The assistance, within the framework of the Public Finance Act of Bhutan, 2007, is subject to Bhutan's financial rules and regulations for budgeting, accounting, cash management and procurement. All auditing is done by Royal Audit Authority, Bhutan's state auditors. All assistance to Bhutan is implemented by the recipient, and all procurement is executed by the recipient thus benefitting Bhutan's corporations and private sector.

The experiences from Danish support to Bhutan have been positive. As one of the largest donors, Danish development assistance to Bhutan has contributed to the important changes in the Bhutanese society, including a reduction in people living below the poverty line. The Danish assistance has been implemented in close cooperation with the Royal Government of Bhutan, and Bhutanese ownership and implementation have been key priorities within the development programmes. The Danish Auditor-General in his report of 2007 substantiated the satisfactory alignment of the Danish support to the Government procedures and systems.

The Danish assistance has had a positive impact and contributed to the positive development within the health sector; e.g. increased access to quality health services including access to safe drinking water, and improvements in the infant, child, and maternal mortality rate; within education, e.g. increased access to quality education, especially for the poor and increased overall literacy rate; within environment and urban development, e.g. maintenance of protected areas and forest cover, air quality monitoring, legislative strengthening and improved urban infrastructure; within good governance and public sector reform, e.g. draft constitution publicised, strengthening of judiciary, increased level of decentralisation, strengthening of the public financial management and procurement, civil service reform and increased quality of the media broadcasting thus playing a very important part in the ongoing democratisation of Bhutan and strengthening of quality of the public institutions. The Capacity Development Outcome Evaluation of 2006 found that Denmark through its assistance to six Bhutanese institutions (Royal Audit Authority, Department of Urban Development and Engineering Services, Policy and Planning Division (Ministry of Education), National Environment Commission Secretariat, Department of Revenue and Customs, and Punakha Dzongkhag (District)), had contributed substantially or to a large degree to their capacity development.

The partnership between Bhutan and Denmark is very strong. A number of reciprocal commitments have governed this partnership in the past strategy period. It is the assessment that both countries have met most of these commitments. The transition to a parliamentary democracy initiated by His Majesty the Fourth King is the most significant achievement. Decentralisation is progressing well and the target of 24% of government resources administered at the district and block level has been met. Progress has also been achieved in reducing poverty and meeting the Millennium Development Goals(MDGs).

Bhutan has experienced significant improvement with regard to freedom of press. This is witnessed in the appearance of the first two privately-owned newspapers and in an increase in the quality of the news broadcasting in Bhutan. This resulted in a rise from a ranking of 142 to 98 on the Worldwide Press Freedom Index, 2006. It has been one of the priorities of the Danish good governance programme to support media development and increase the quality of news broadcasting in Bhutan.

As part of strengthening governance and with a view to improving aid effectiveness by enabling donors to align with Government procedures, Bhutan has, with Danish support, strengthened public financial management including financial reporting, budgeting and data flow between district and national level. New procurement guidelines issued in 2007 have brought Government procurement up to international standards. The Danish development assistance to Bhutan is aligned with public systems on reporting, monitoring, procurement and auditing. With the “Roadmap towards universal reliance on Bhutan’s country system”, full donor alignment with the public financial management system is within reach. A substantial part of the Danish development assistance in the next strategy period will be given as sector budget support or general budget support. This also reflects the strength of the partnership between Bhutan and Denmark.

The Danish cooperation with Bhutan outside the sector programmes has also been positive. A number of projects within the Mixed Credit programme, the Public-Private Partnership programme and the Business-to-Business programme have been implemented. Support for these programmes is very important in particular with a view to strengthening private sector development. A number of different joint-venture projects between companies in Denmark and Bhutan are under preparation.

The monitoring and evaluation situation including statistical capacity for tracking development performance in the Millennium Development Goals still remains weak. Recent initiatives including the drafting of a National Results-Based Monitoring and Evaluation System – a standardised system for assessing development performance expected to be operational from mid 2008, would improve future assessment of development performance.

The table on the next page, presents the development in the overall and specific objectives of the previous planning period (2003 – 2007).

**Table 1. Developments in the Overall and Specific Objectives of the Previous Country Partnership Strategy 2003-2007**

Objectives	Status 2007
<p><b>Overall:</b> Poverty reduction through promotion of sustainable economic development and strengthening of the democratic process, including popular participation, good governance, gender equality and respect for human rights.</p> <p><b>Specific:</b> Increase access to quality health services for all, in particular the poor and disadvantaged segments of the population.</p> <p>Increase access to quality education for all, in particular the poor and disadvantaged segments of the population.</p> <p>Promote sustainable and efficient management of natural resources as well as pollution abatement and mitigation.</p> <p>Promote sustainable urban development and a framework for creation of employment opportunities.</p> <p>Promote the rule of law, good governance, democracy and human rights, efficiency and professionalism in public administration and public participation in decision-making.</p>	<p>Contributed to: (a) Reduction of poverty from 36.3% in 2000 to 23.2% in 2007 (defined as 0.9 USD/day). (b) Draft Constitution including fundamental human rights expected to be enacted in 2008; (c) Enactment of important legislation. (d) Establishment of Constitutional institutions: (e) Inclusion of gender issues and concerns made mandatory in the planning process.</p> <p>90% have access to quality health services. Efforts underway to identify the unreached segments of the population using the population and housing census of Bhutan 2005.</p> <p>84% have access to Primary education. A commission is reviewing the quality aspects of education.</p> <p>Maintenance of the 26% protected area and 72% forest cover through sustainable use of natural resources. The National Environment Protection Act will further enhance current efforts. Air quality monitoring being strengthened to mitigate air pollution. Monitoring and data collection of industrial emissions regularised.</p> <p>Basic infrastructure in five district towns under implementation. National sustainable urbanisation strategy under preparation. Basic infrastructure and the Labour and Employment Act, 2007, provides the key framework for creation of employment opportunities</p> <p>The final version of the draft Constitution introducing a Democratic Constitutional Monarchy publicised August 2007. A Judicial Service Act enacted. 'Know the law to protect your rights' education disseminated. Civil service reform through the introduction of Position Classification System enforced. National Council elections held. Following CEDAW and Convention on the Rights of the Child, a National Commission on Women and Children established.</p>

Progress on general programme implementation and cross cutting issues in the Danish supported programmes 2003-2007 is included in annex 2.

## 2.

# POVERTY AND DEVELOPMENT IN BHUTAN

### **2.1 Poverty Profile.**

Bhutan's development philosophy is based on the concept of Gross National Happiness focusing on sustainable and equitable socio-economic development, conservation of the environment, preservation and promotion of culture and promotion of Good Governance as the four main pillars of growth. This basic needs model has emphasised the welfare of the poor and disadvantaged parts of the population.

Bhutan has established an official national poverty line of Nu. 1,096.94 per person per month (approximately Nu. 37 or USD 0.9 per person per day). The poverty line is a combination of a daily calorie intake and an allowance for basic non-food goods. The proportion of the population in Bhutan living under the poverty line decreased from 31.7% in 2004 to 23.2% in 2007.

Poverty has been found to be more severe in rural Bhutan with as many as 30.9% of the rural population living in poverty compared to just 1.7% in the urban areas. Poverty is also found to vary by districts with high poverty rates in the five districts of Samtse, Samdrup Jongkha, Monggar, Zhemgang and Lhuentse. 52.9% of the population in Zhemgang are living under the poverty line. Bhutan has a relatively high level of inequality with the richest 20% of the population consuming almost seven times more than the poorest 20%. The Gini-coefficient is 0.352.

While basic education is free in Bhutan, the affordability issue remains an important reason for not attending school. Enrolment rates are far higher in urban than in rural areas. Although huge investments have been made

in health facilities, the rugged and difficult terrain, remoteness, sparse population and lack of reliable communication facilities is still hindering the delivery of health care services. The main challenges are staffing and quality of services.

There are no visible differences in poverty incidence, depth and severity between male and female-headed households. The share of the poor and non-poor households headed by men and women are about the same, with men heading close to two-thirds of both groups of households. Women's rights and interests are safeguarded by a number of provisions of different legal acts, including the draft Constitution. Further, Bhutan works in line with international conventions, such as the Convention on the Elimination of Discrimination Against Women (CEDAW), the Vienna Declaration and Programme of Action, 1993, the UN General Assembly declaration on the Elimination of Violence against Women and the Beijing Platform of Action of 1995.

Several efforts are aimed at protecting and empowering women in Bhutan. The civil society organisation RENEW (Respect, Educate, Nurture and Empower Women) is specifically focusing on empowering women; the media has wider coverage on gender issues; and the Government has taken an initiative to establish a Women and Child Protection Unit (WCPU) under the Royal Bhutan Police.

Nevertheless, areas remain where gender gaps are apparent. There are certain dominant socio-cultural perceptions, which perpetuate male superiority. Balancing work with family life is still considered a women's issue. The impact of this may well be the low representation of women in decision-making, especially at the higher levels of governance. Although the legal framework is in place, firmer actions from the government are needed to improve equality. However, the strong emphasis by the government on providing equal education opportunities is an important means of enhancing women's participation more fully and actively in the long run. Further, the National Action Plan for Gender 2006 and the 10th FYP emphasize the need for mainstreaming gender and outline policies and strategies for women in development. These include good governance, education and training, economic development with focus on employment, health, violence against women, prejudices and stereotypes, ageing and mental health and disabilities.

## **2.2 Economic Development**

Real GDP grew at an average of over 9% over the Ninth Plan period between 2002 and 2006, taking into consideration an estimated growth of 18.9% in the last year of the plan 2006/07 boosted by the earnings from the newly commissioned Tala Hydro power plant. According to data from the Royal Government of Bhutan, GDP per capita has during risen from USD 835 in 2002 to USD 1200 in 2006. According to World Bank statistics Bhutan has a GNI per capita of USD 1,410 (2006). The UN has classified Bhutan as a Least Developed Country and ranked Bhutan 133 out of 177 on UNDP's Human Development Index in 2005. Inflation has been between 3-5% per year over the last years.

India is Bhutan's largest trading partner by far, accounting for 77.2% of exports and 68.7% of imports in 2006. Hydro power exports to India were still the most important export, accounting for 26.5% of total exports in 2006. This was largely because of additional sales from the Tala plant, although exports from the Chukha plant also increased. Exports of recorded media took a 16.8% share of exports in 2006, compared with just 1,7 % in the previous year.

The sectoral composition of Bhutan's economy is changing. The past five years' trends indicate that while the share of the secondary sector (including manufacturing, electricity and construction) has remained more or less the same, accounting for 34% of total GDP, the share of the tertiary sector (including wholesale and retail trade, restaurants and hotels, transport, finance, real estate, private and government social services etc.) in the overall GDP has increased to 42%. On the other hand, the share of the primary sector (including agriculture, forestry, and mining) shows a decreasing trend accounting for 24% of GDP in 2006.

Revenue from hydro power has been the driving force for economic growth since the commissioning in 1988 of the first hydro power project in Chhukha (336 MW). Two other projects have been constructed (Kurichu 40 MW and Basochu 64 MW), and the Tala Hydro power Project, downstream of Chhukha of 1,020 MW was commissioned in 2007. In total, 1,472 MW or about 5% of the potential of estimated 30,000 MW has been realised. In 2006/07 the electricity sector was the main source of Government revenue contributing 45.4% of the total revenue of Nu. 9,960.320 million. 2006/07 recorded a growth in both tax and non-

tax revenue which is the major source of funds for the Government of Bhutan. The revenue growth for 2006/07 was 46% with the tax revenue increasing by 3.5% and non-tax revenue by 109.3%. Trade and services, respectively are the second and third highest contributors to the Government's revenues, including excise and import duties, sales tax and other tax revenues. Direct royalty from tourism represents 3.6% of the total Government revenue. More than 21,000 tourists visited Bhutan in 2007, an increase from 17,342 in 2006. Similarly, the foreign currency earnings from tourism increased by 25% from USD 23.9 million in 2006 to USD 29.9 million in 2007.

With the aim of improving the revenue base and increasing the social responsibility, Bhutan introduced a personal income based tax system in 2002. The personal income based tax system was well received by the population in Bhutan. The Personal Income Tax rate, which was earlier adjusted downwards to 15%, has been adjusted back to the original rate of 25% as proposed during the launching of Personal Income Tax. The adjusted rates came into effect from January 2007. In 2006/07 Personal Income Tax made up 4% of the total tax revenue and 1.7% of the total revenue

In spite of these positive economic developments, Bhutan's economy still remains vulnerable.

First of all, Bhutan's economy is one-sided with a decisive economic dependency on revenue from hydro power based electricity exports to India. Despite Bhutan's very large hydro power potential, environmental experts warn that due to climatic changes, this potential could diminish drastically over the next 30-50 years. With almost 32% in 2006, rising to 45% in 2007 of the Government's revenue originating from export of hydro power, the economy is very vulnerable to changes in the power production. A diversification of the structure of the economy in Bhutan and a real development in the private sector economy is therefore of high priority.

Secondly, poverty continues to be widespread, and the gap between rich and poor is substantial, although it is being slightly reduced. Hydro power is creating economic growth but very few jobs, and an increasing number of young people leaving the education system find themselves

unemployed. The public sector used to be the main employer, but as Bhutan has committed itself to a small and efficient civil service, the growth in public employment is foreseen to be minimal. Furthermore, Bhutan is employing approximately 75,000 foreign contract workers (including day workers), mostly for manual work. Until now, there has not been sufficient incentive or relevant educational background for the people of Bhutan to seek skilled or unskilled jobs in the private sector. Private sector growth and vocational training are therefore important not only to diversify the economy but also to secure jobs for the many young and well-educated people entering the job market every year.

Thirdly, Bhutan has a high debt/GDP ratio, mainly due to large loans obtained to finance hydro power projects, which makes Bhutan vulnerable. The World Bank now categorizes Bhutan among the group of highly indebted countries with debt/GDP ratio above 93%. However, most of these loans are sustainable as they are self-servicing and are related to hydro power.

Fourthly, it continues to be difficult to establish and do business in Bhutan. The World Bank ranks Bhutan 138th out of 175 on the World Bank Doing Business Index. However, several strategies have been implemented and more will be implemented in the near future to streamline licensing procedures and ease conditions for businesses. The strategies include the de-licensing of the Micro Trade Category (turnover of less than Nu. 1 million, about 25,000 USD) of the trade sector whereby micro traders can operate their businesses with a simple registration of the enterprise. The Labour and Employment Act aims at balancing the needs of workers with the objective of promoting private sector growth. Bhutan's geography implies high transaction costs, which also makes the country relatively less attractive to foreign investors.

### **2.3 Democratisation, Good Governance, Popular Participation and Respect for Human Rights**

The draft Constitution to be enacted in 2008 will usher Bhutan into a constitutional monarchy with parliamentary democracy and free elections for Bhutanese citizens above the age of 18 to the Parliament's two chambers. The draft Constitution guarantees basic human rights, including civil and political rights. It also guarantees the freedom of the press, radio and television and right to freedom of speech, opinion and expression. The draft Constitution provides for accountability of the government, independence of the Constitutional bodies, responsible and accountable management of public resources, rule of law and legal protection of individual rights. The draft Constitution also ensures direct involvement of communities and community organisations in the local governments, including the planning and implementation of development activities. Public consultations on the draft Constitution in all twenty districts have been conducted.

In preparation of the above significant political changes, constitutional bodies i.e. Election Commission and Anti-Corruption Commission have been established. A number of laws have been enacted to promote the rule of law, anti-corruption measures, and to ensure the independence of the free media. These include the Judicial Services Act, the Information Communication Media Act, the Anti-Corruption Act, the Office of the Attorney General's Act, the Audit Act, the Local Governments' Act, the Public Finance Act and the Civil Society Organisations Act. The Election Bill of Bhutan is expected to be enacted by the new parliament. Furthermore, Bhutan has introduced the Position Classification System to enhance a culture of professional excellence in the public civil service. Meritocracy will be the norm in recruiting public servants and an objective performance management system will guide promotion and training.

The Election Commission of Bhutan has successfully completed the preparation and implementation of the historical first national elections to the Parliament. The country was delimited into 20 districts as constituencies for the National Council or Upper House and 47 constituencies for the National Assembly or Lower House of the Parliament. On 31 December 2007 and 29 January 2008 The Election Commission successfully conducted the elections to the 20 National Council seats. The election to the National Assembly was conducted free and fair on

24 March 2008 as observed by international observers, including an EU Observation Mission,. The results had a high degree of legitimacy due to a very high voter turn-out (nearly 80% of the registered voters).

Bhutan is undergoing many momentous changes in its transition towards parliamentary democracy as envisaged by His Majesty the 4th King. However, Bhutan still faces the challenge of translating constitutional rights and intentions into reality. Equal access and opportunities for all Bhutanese will continue to be of importance. Bhutan will continue to need the support of the international community up to, during and after the transition to parliamentary democracy.

There is an urgent need to resolve the issue of people living in camps in Nepal. In 2003 an agreement was reached between the Governments of Bhutan and Nepal to start repatriation of eligible persons from the first camp. The Core Working Group of countries on the people in the camps in Nepal has expressed commitment to a solution involving repatriation of eligible persons to Bhutan, resettlement in third countries and local integration in Nepal. The Royal Government is committed to finding a durable solution through a bilateral process and in accordance with the agreements that have been reached with the Government of Nepal.

Bhutan is yet to ratify the UN conventions on Civil and Political Rights, Economic, Social and Cultural Rights, Racial Discrimination and Torture. It is recognized that the enactment of the draft Constitution will guarantee fundamental rights.

#### **2.4 Bhutan's Five-Year Plans 2002-2008 and 2008-2013**

The long-term vision for Bhutan's development over the next two decades is based on the Gross National Happiness philosophy and laid down in the document "Bhutan 2020: A Vision for Peace, Prosperity and Happiness". These long-term visions are translated into concrete sector policies, strategies and programmes in the five-year development plans taking into consideration the Millennium Development Goals, the SAARC Development Goals and the commitments under the Brussels Programme of Action for the Least Developed Countries.

The 10th FYP (2008-2013) will serve as Bhutan's poverty reduction strategy. The 10th FYP, using a results-based planning approach, is based on broad consultations at both national and local level. Poverty reduction is the main development priority. The 10th FYP is expected to consist of six interrelated key strategies: (i) vitalising industry (ii) national spatial planning to promote balanced regional development; (iii) synergising integrated rural-urban development for poverty alleviation (iv) infrastructure development, (v) investing in human capital and (vi) fostering an enabling environment through good governance. In addition there are considerations on the cross-cutting development themes of decentralised governance, employment, environment, women in development, information and communications technology and HIV/AIDS.

The total development outlay for the 10th FYP is Nu. 141.692 billion (USD 3,542 million), of which current expenditures account for 44% and capital expenditures account for 56%. Domestic revenue, including revenue from the Tala Hydro power plant and other receipts, will provide about 46.3 % of the financing of the 10th FYP. Development assistance is expected to finance 39.5%. After accounting for other receipts the resource gap is estimated at 9.3%. The need for assistance in the coming years continues to be critical for Bhutan. As the 10th Plan is still to be approved by the new Parliament before 1 July 2008, there may be some final adjustments.

The overall pro-poor expenditures continue to be maintained at high levels with share of the budget allocations to the social sector at 24% and 10% in the agriculture sector to help reduce rural poverty. The ratio applied to distribute the outlay between the centre and decentralised levels is planned to be 80:20.

## **2.5 Support Provided by other Development Partners.**

The Gross National Happiness Commission is the central coordinating authority for development assistance, and aid coordination at the highest level takes place at Round Table Meetings held biannually. The 10th Round Table Meeting was held in February 2008 in Thimphu. The Round Table concluded that the coming years coincide with significant political reforms aimed at establishing parliamentary democracy. The democratic process and the poverty targets of the 10th FYP need the

continued support and cooperation of the development partners in this important phase for Bhutan.

Due to the strong Government ownership a good division of labour has been established between the major donors. Bhutan has chosen to work with a limited number of development partners. In 2006/07 India was the largest donor with USD 77 million (61% of the total grants) followed by the World Bank USD with USD 16.5 million (13%). The second and third largest bilateral donors during the 9th FYP have been Denmark (USD 11.4 million 2006) and Japan (figures not available). Other donors are the Netherlands (USD 3.4 million 2006), UNDP (USD 2.7 million 2006), the European Commission (USD 2.8 million annually over the period 2007 – 2013), Austria (USD 1.7 million 2006), Switzerland (USD 1.5 million 2006), Canada, Norway, Australia, The Kuwait Fund, ADB and UN organisations. Several donors including the Netherlands and ADB have indicated intentions to increase their contributions during the 10th FYP

**Table 2. Donor Assistance to Bhutan – Divided in Sectors.**

Sector	Donors
Infrastructure	India, ADB, World Bank, the Netherlands, Japan
Agriculture	Japan, World Bank, EC, India
Social sectors (Health & Education)	India, Denmark, World Bank, UNICEF, Switzerland, Japan, Canada, Australia
Water & Sanitation	UNICEF, ADB
Natural Resources	Denmark, World Bank, ADB, Switzerland, the Netherlands, Austria, EC
Good Governance (incl. Judiciary/Public Admin.)	Denmark, UNDP, India, World Bank, ADB, the Netherlands, Switzerland, UNCDF, JICA, SNV, EC
Communication	Japan, India
Energy	India, World Bank, Austria, ADB, Japan, Norway, UNDP/GEF
Private Sector	ADB, Austria, India, Denmark
Trade Facilitation	EC

### 3. DANISH-BHUTANESE COOPERATION 2008-2013: THE FRAMEWORK

#### **3.1 Overall Objectives for the Development Cooperation**

The overall objective for the development cooperation between Bhutan and Denmark during the strategy period is poverty reduction through the promotion of sustainable economic development, strengthening of the private sector development, democratisation and good governance, gender equality and respect for human rights.



Children on their way to school in Thimphu – Photo: Jørgen Schytte

In preparation for the 10th FYP, Bhutan has identified a number of development targets. Table 3 on the next page lists the most important of these targets for the Bhutanese-Danish cooperation, while the more specific targets are included in the descriptions of the sector programmes in chapter 4.

**Table 3. Bhutan's Development Targets**

Target	Baseline 2005	Target 2013
Reduce proportion of people living under the national poverty line (USD 0.9 per Day)	31.7%	15%
Increase net primary enrolment*	65%	Near 100%
Enhance enrolment of girls in tertiary education, girl/boy ratio	54% (2007)	80%
Enhance adult literacy rate, with special focus on empowerment of girls and women	53% (2007)	80%
Reduce maternal mortality rate (per 100,000)	255	100
Access to safe drinking water	84%	> 95%
Coverage of rural electrification	36%	84%
Increase in manufacturing and industries' contribution to GDP	8% (2004)	12%

*\* With a rapid enrolment rate for girls at both primary and secondary levels, Bhutan has moved faster than projected in the 9th FYP to achieving gender parity in primary and secondary school education with 93 and 98 girls for every 100 boys respectively in 2006.*

The targets reflect the Royal Government's ambitions for development over the five-year period 2008-2013 in the 10th FYP. As for the past FYP, it is the aim of the Royal Government to at least fund recurrent costs from domestic resources leaving donor contributions to the investment side of the budget. As one of the major donors to Bhutan, Denmark will be able to make an important contribution in achieving these targets. Decisive factors will thus be the development of the country's economy including diversification, private sector growth and donor support as well as for the Royal Government to maintain a pro-poor focus also in a situation where the 10th FYP is not fully financed.

The 10<sup>th</sup> Five-Year Plan will be implemented through the Multi Year Rolling Planning and Budgeting System. Resource allocations have been determined on the overall resource availability, and based on a three-year Medium Term Fiscal Framework, a/the macroeconomic framework and debt sustainability Annual Budgets will be presented to the Parliament for endorsement. Decentralised agencies will receive annual grants directly from the government based on a formula that takes into consideration area, food security, population and forest cover. In addition central

sectoral agencies will provide tied grants to the local governments, besides policy direction and technical support. Budgets will be prepared and revised considering existing capacity, realistically matched with available resources. Thus the total outlay of the 10<sup>th</sup> FYP can only be regarded as indicative and is subject to revision on a rolling basis.

It is imperative that the national systems for tracking development performance continue to be developed. The overall yardstick designated is the Bhutan Development Index which will seek to approximate progress towards GNH. The monitoring and evaluation will be done within the framework of the National Monitoring and Evaluation System – a standardised system for assessing development performance. All sectors have developed specific and measurable targets to be achieved during the planning period.

Policy measures towards developing a dynamic and strong private sector including strengthening the legal and regulatory framework, participation in infrastructure development, support to small and micro-enterprises and promoting partnership between the financial and private sector will continue in the 10<sup>th</sup> FYP. Direct assistance in the form of significant tax incentives and tax exemptions have been given to the private sector since 2003. Doing business has been simplified with businesses allowed to operate with a single business license and de-licensing of micro trade business.

### **3.2 Strategic Focus for Priority Sectors and Crosscutting Issues**

Within the overall objective of poverty reduction, the priority sectors for the Danish development assistance will be the following: Social Sector, Environment and Urban Development, and Good Governance. Across the sectors the Danish assistance will address the three cross-cutting issues of (i) environment, (ii) gender equality, and (iii) democratisation, respect for human rights, good governance and popular participation. Further, the prevention of the HIV/AIDS epidemic will be a cross-cutting theme in the Danish support. Overall, the Danish support will be guided by five interrelated strategies:

Firstly, support for activities which promote private sector development will be a key strategic objective for Danish assistance to Bhutan. This

is essential for diversification of the economy and hence for continued growth and poverty reduction also in the longer run. Support for private sector development will be an integral part of the programme support in all sectors. As part of support to the education sector, support will be provided for vocational education and training for the youth and private sector involvement in maintenance of physical infrastructure; as part of the urban and environment sector, support will be provided for an enabling environment for small and medium sized enterprises through basic infrastructure in district towns. The Business-to-Business cooperation will also be continued and further use of mixed credits to enhance private sector development will be pursued.

Secondly, continued support will be given to the social sectors as an important aspect of poverty reduction. These sectors have a high priority for the Government with approximately 24% of the development budget allocated to health and education. Bhutan is one of the few countries that have exceeded the global 20:20 compact for basic social programmes agreed at the World Summit for Social Development in 1995. Main challenges will be to improve quality of services both in health and education and to a lesser extent to increase the number of facilities. The ongoing decentralisation in the sectors will ensure a more participatory planning approach but will also put pressure on the central ministries' prioritisation and resource allocation. Gender equality is a major aspect of the support to the social sectors. The programme directly supports the Government's objectives to eliminate gender disparities in education, and the MDG gender-related goals of the health sector. Gender will also be mainstreamed in the good governance programme, and the environment -and urban sector support programme.

Thirdly, Danish assistance will continue to support Bhutan in its transition to parliamentary democracy, good governance, including strengthening of the rule of law, and safeguarding human rights. The success of the democracy will to a large extent hinge on strong and well functioning institutions, in particular the judiciary, civil service and a thriving civil society. Emphasis will be on increasing popular participation through enhanced devolution to local governments and community groups and ensuring mechanisms for accountability. A number of reforms have been introduced to promote good governance. Danish assistance will directly support the Constitutional process and reforms through support for the

judiciary, the National Land Commission, the local governments and a number of civil society organisations. Moreover, these cross-cutting issues will also be addressed by mainstreaming in the sector support programmes.

Fourthly, Danish assistance will focus on promoting sound and sustainable management of natural resources with a direct impact on reducing poverty. Being a predominantly agrarian society, 69% of Bhutan's population is living in rural areas, subsisting on a livelihood system of crop growing, livestock rearing and use of a wide variety of forest products. Assistance to the emerging NGOs focusing on environment could be considered, in order to ensure a continuing strong government emphasis on environment. Environment issues will also be mainstreamed in the social sector support programme and the good governance programme.

Finally, Danish assistance will address the challenges of quality of services and basic infrastructure. This could include ensuring the availability of the necessary capacity at district level, i.e. achieved through outsourcing of jobs presently being carried out by the districts, e.g. planning, engineering tasks and supervision of contractors. Bhutan is facing large-scale internal migration from rural to urban areas. The problem is partly due to limited opportunities and lack of basic infrastructure and services in the districts and the district towns. The Royal Government has succeeded in establishing a large number of health and education facilities but the quality of services offered are unevenly distributed across the country. Also, in order to attract industries and businesses to the district towns a minimum of infrastructure e.g. water, sanitation and solid waste management is required.

The five-year strategy period July 2008-July 2013, aligned to the schedule of Bhutan's 10<sup>th</sup> Five-year Plan, is expected to be the last full-fledged programme support period for Denmark's development assistance to Bhutan followed by a gradual phasing out to ensure sustainability of Danish support. Thereafter, the partnership will focus on other areas and relationships, including cultural exchanges and private sector collaboration through Business-2-Business, Mixed Credit Schemes and Public Private Partnership.

### 3.3 Sector Distribution

The five interrelated strategies which are contributing to the overall goal of the Government's development plan will be pursued through assistance to three core areas: social sectors, good governance, and environment and urban development.

**Table 4. Sector Allocation of the Danish Development Assistance.**

Tentative distribution of assistance during 2008-2013	
Social Sectors (Health, Education, Vocational Training)	48%
Environment and Urban Development	24%
Good Governance	17%
Other	11%

The Royal Government's ambition is to fund all recurrent costs out of its own resources, thus donor support including the Danish support will be contributing to the investments over the next five years. Over the past 10 years emphasis has been given to ensure that the needed physical infrastructure was in place within the sectors supported by Denmark, in particular health and education. Therefore, the challenges ahead are now to enhance the quality within the sectors, to ensure sustainability of the services and to sustain the huge investments made in infrastructure. This will require large investments in human resources development.

Following the recommendations of an evaluation of Danish capacity building to a number of Bhutanese institutions, based on an assessment of the needs for technical input within the areas supported by Denmark, a limited number of long term, recurrent and short term technical experts will be offered within specific technical in areas where Bhutan still needs the expertise.

Assistance outside the bilateral programme includes Business-to-Business activities, Public-Private Partnerships, research projects, Mixed Credit funded activities and possible future NGO cooperation between Danish and Bhutanese NGOs based on the new legislation enacted in 2007.

Over the next 5 to 10 years it is important for Bhutan and Denmark to prioritise new relations which can ensure continued cooperation also after

the development assistance has been phased out. During the strategy period more focus will be on nurturing the cooperation between Denmark and Bhutan in new areas e.g. in the international arena of mutual interest, on possible support to civil society organisations and cultural exchanges. Through a continuation of mixed credits and/or other financing instruments, a continued support to the emerging private sector will be explored.

#### **3.4 Alignment and Harmonisation of Development Assistance**

The Country Strategy will be synchronised with the time schedule for the 10<sup>th</sup> FYP and Danish assistance will continue to be aligned with the Bhutanese country systems, and all procurements of equipment and technical assistance are government executed, thus contributing to capacity building within the government as well as facilitating the use of the private sector in Bhutan.

Although not a signatory to the Paris Declaration, Bhutan is committed to improving aid effectiveness through taking a lead role in coordination, harmonisation of development partner procedures and alignment to government systems. Over the last few years Bhutan has strengthened public financial management including financial reporting, budgeting and data flow between districts and the national level. This development has enabled donors to align with the Royal Government's procedures. The Royal Government prefers the aid modality of sector- or general budget support in order to limit transactions cost. So far, only India and Denmark have provided support through this modality. However, at the 10th Round Table Meeting in Thimphu in February 2008 several donors including the World Bank, the Netherlands and the European Commission expressed the possibility of future budget support. In this context there was an interest in learning from the positive Danish experience with sector budget support.

Denmark has also been supporting the Government's efforts in increasing aid effectiveness in other areas. Examples are the agreement between Danida, the World Bank and the Bhutanese Government on close collaboration in sustainable land management activities which

include sharing short and long term advisers and the cooperation with the World Bank on strengthening public financial management. Furthermore, joint donor reviews and evaluations have been successfully pursued in order to decrease the Government's transaction costs. Finally, Denmark is intending to support good governance through the harmonization and alignment of development assistance with support to a joint donor programme under the leadership of the Gross National Happiness Commission.

Considering the small number of donors, issues of common interest are discussed through several informal channels. Following the recommendations from the Government's Good Governance review in 2005, some of the ministries such as the Ministry of Health have quarterly reviews on progress in implementation of planned activities. All interested development partners are invited to these review meetings.

The Royal Government ensures that all donor funded activities are within the approved FYP and always channelled through the Ministry of Finance. This means that all donor funds are reflected in the national budget. Activities funded outside the FYP require the approval of the Gross National Happiness Commission and are subsequently to be included in the plan. Support to the Business-to-Business activities is transferred directly to the partner organisation with a copy to the Ministry of Finance for inclusion in donor contributions. Support to the NGOs will be determined based on the provisions of the Bhutan Civil Society Organizations' Act.

### **3.5 Obligations, Assumptions and Major Risks**

A number of obligations for both Denmark and Bhutan are governing this strategy. These obligations have evolved in this strategy since Bhutan became a programme country for Danish development assistance and have been further refined with Bhutan's rapid move towards democracy.

**Denmark will:**

- Provide financial and technical assistance for implementation of the programmes as described in this strategy.
- Actively participate in a government lead donor coordination.
- Align all Danish assistance with Bhutan's Development Plan/Poverty Reduction Strategy and with Bhutanese procedures.
- Support the harmonisation agenda to reduce transaction costs and continue to increase the alignment of Danish assistance to the Bhutanese systems.
- Report regularly on a multi-year basis on expected availability of funds for development assistance to Bhutan.

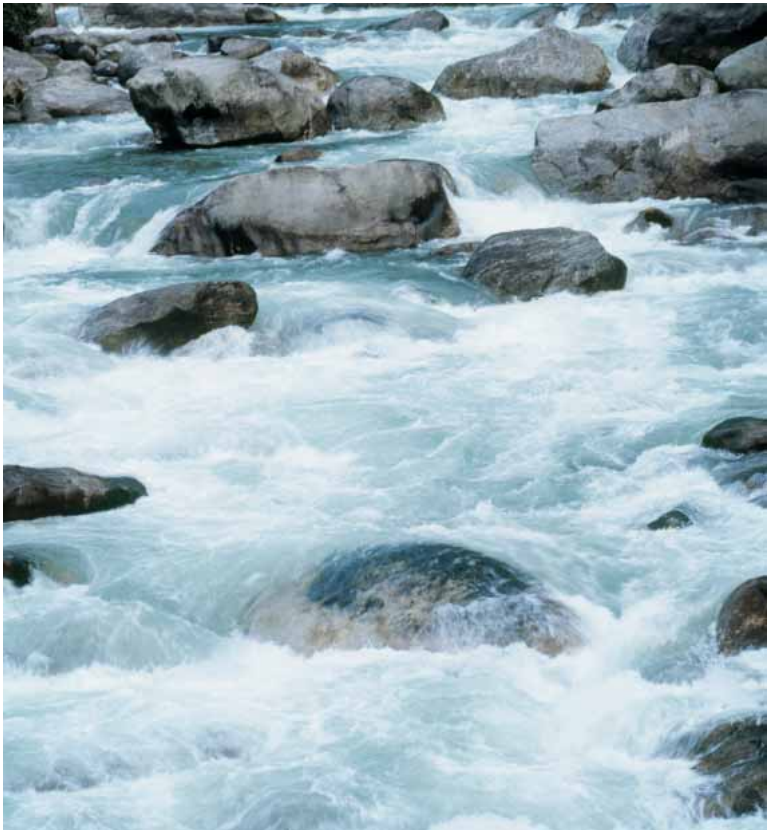
**Bhutan will:**

- Actively contribute towards strengthening the four main pillars of Gross National Happiness: i) Promotion of equitable and sustainable socio-economic development; ii) Preservation and promotion of cultural values; iii) Conservation of the natural environment; iv) Good Governance.
- Work actively to achieve the Millenium Development Goals through pro-poor policies, budget allocation and balanced regional development.
- Deliver on Bhutan's stated commitment to find a durable solution (for the people in the camps) in accordance with the agreements that have been reached with the Government of Nepal.
- Further promote gender equality and women's representation in elected and government bodies at all levels.
- Actively promote private sector development as a means of economic development and poverty reduction.

The political situation in Bhutan is stable but the country is facing huge challenges in its transition to parliamentary democracy in 2008. Preparations for these political changes have been intense and well planned, and it is widely expected that the transition will be smooth. Continued assistance from development partners including Denmark will be crucial during and after the political changes.

Corruption in Bhutan is at comparatively a very low level. An Anti-Corruption Commission has been established in 2006 with the mandate to fight and root-out corruption. Bhutan has proven to be utilising development assistance in a very efficient way over the years. The continued strengthening of public financial management and the fight against corruption have been the determining factors.

The vulnerability of Bhutan's economy has caused concern both to the Royal Government and the development partners. As previously mentioned, Bhutan's economy is to a large extent relying on one commodity, hydro power. The Royal Government has made strengthening of the private sector one of the main strategies of the 10th FYP, which should ensure stronger and more focused measures on private sector development. To make the private sector more competitive and dynamic, the Royal Government has reformed the ownership of the many fully or partly government owned corporations, establishing the Druk Holding and Investments (DHI) as the Government's central holding company.



River in Tongsa, Bhutan's economy is to a large extent relying on hydro power – Photo: Mikkel Østergaard

## 4. DANISH-BHUTANESE COOPERATION 2008-2013: SECTOR ACTIVITIES

The overall objective of the 2008 – 2013 strategy is poverty reduction, which is in alignment with the poverty reduction strategy of the Bhutanese government. Further, the strategy will mainstream gender equality, sustainable use of the environment, democratisation, good governance, human rights and popular participation.

The goals for the 10<sup>th</sup> FYP are based on the 2005 census, which was the first census conducted in Bhutan. This has enabled Bhutan to establish a more accurate baseline for measuring development and has thus resulted in a number of adjustments of the previous and quite insufficient baseline figures used for the 9<sup>th</sup> FYP.



Young woman reading the paper in a market in Thimphu – Photo: Mikkel Østergaard

## 4.1 Social Sector Programme Support

### Goals for support to the social sectors by 2013

- Child (under 5) mortality less than <math>30/1000</math>
- Maternal mortality rate less than  $100/100,000$
- Improve proportion of population within 3 hours walking distance of a health facility to more than 90%
- Access to safe drinking water >95%
- Primary net enrolment rate near 100%
- Proportion of females to males in tertiary education at least 80/100
- Accommodate 70% of school leavers pursuing a vocational education.
- 100% of courses conducted in vocational training institutes are in line with the labour market demand

Denmark has supported Bhutan's health sector for more than 15 years and the education sector since 2003. Both sectors are given high priority by the Royal Government with approximately 24% of the total outlay of the FYP to the sectors. The Constitution of Bhutan states that the Royal Government shall provide free access to basic health services and provide free education to all children up to tenth grade. Compulsory education is yet to be introduced. Based on the sound and well-prepared sector plans the Danish assistance was shifted to sector budget support, which will also be the modality for the new programme.

The sector budget support gives the sectors the necessary flexibility to adjust priorities when needed and to ensure that all parts of the plan can be supported. The basis of Danish sector budget support is to give equal access for all to health and education services. Technical reviews carried out in the sectors also confirmed that the implementation followed the intentions of the plans with special emphasis on primary health and primary education. Hence, the Social Sector Programme Support was designed as a sector budget support aimed at both sectors. The specific implementation plans, the sectors' capacity to implement the plans and ability to attract additional funding will, through discussions with the GNH Commission and Ministry of Finance, determine the distribution of the Danish assistance between the sectors. As for the previous support, the monitoring will be based on goals and indicators from the implementation plans with special emphasis on indicators leading towards fulfilling the goals for Education For All and the Millennium Development Goals. A recent progress report on achieving the Millennium Development

Goals has shown that Bhutan on the whole is on track with all the goals and that some of the goals most likely will be realised before 2015.

As mentioned under 3.2 the main challenges for the social sector will be to improve the quality of services in health as well as education and to ensure equal access for all. Therefore, it will be necessary to allocate sufficient funds for human resources and strategic planning development as well as infrastructure maintenance in the 10th FYP. During the implementation of the programme, emphasis will be on monitoring the development in the quality of services as well as on access for all with special focus on the “unreached”, a significant number of mainly rural people who for different reasons do not make use of the health and education services.

The Social Sector Programme Support has an earmarked component allocated to vocational education and training. The objective is to link the education system and the vocational education system to the private sector to ensure that the training programmes offered are in line with market demands. To achieve this the component will focus on a few strategic objectives of the overall Vocational Education and Training Plan and in particular enhancing access, upgrading qualifications of instructors, improving quality assurance, strengthening employment promotion services and finally strengthening the human resource department in the Ministry of Labour and Human Resources, which will be responsible for the overall implementation of the Vocational Education and Training Plan, including curriculum development, training of trainers and in-country training for the private sector.

Thus the programme’s support to private sector development will mainly be through the supporting vocational education and training component. However, an increasing number of private schools are coming up in Bhutan encouraged by the Ministry of Education. Bhutan maintains free health services for all. Considerations are going on in the Ministry of Health to look at possibilities of privatising both procurement and distribution of the drugs supply in Bhutan. The Danish supported programme will closely monitor further developments in the education and health areas of special interest to the private sector to promote further private sector involvement.

The Royal Government is fully aware of the grave threat that HIV/AIDS poses and considers it not merely as a health issue but a critical development concern that could severely affect growth and productivity. Therefore, a National AIDS programme has been initiated. Bhutan intends to implement a National HIV/AIDS Policy, which will support additional measures to prevent mother to child transmission, provide anti-retroviral treatment and standardized care and support for people living with HIV/AIDS, besides the general efforts of prevention. Since the discovery of two individual HIV/AIDS infection cases in 1993, the number of registered infected individuals has grown to 125 as of October 2007.

The Social Sector Programme Support is being implemented from 2008.

#### 4.2 Good Governance Programme

##### Goals for support to Good Governance

- Support to the Constitutional process to ensure free and fair elections.
- An independent and accessible judiciary, including a legal representation system.
- A well functioning and fair land policy and administration.
- Civil society organisations based on the approved Bhutan Civil Society Organizations Act established.
- Local governments established with at least 24% of government resources administered at decentralised levels.

Denmark intends to continue to support good governance through a joint harmonised donor support aligned to the 10th Five Year Plan. It is expected that the joint programme will aim at supporting 1) the constitutional bodies; 2) the local government development; 3) non state actors.

As one of the results of the review of Good Governance carried out by the Bhutanese Government in 2005 a number of activities and institutions were identified, which should be in place before the constitution and the parliamentary democracy were introduced. The review took stock of the impressive development within good governance and the rule of law and presented a roadmap for future developments. The Danish assistance will take its point of departure in the roadmap, concentrating on constitutional institutions needed for supporting democracy and on activities pro-

moting rule of law. Support to Bhutan's constitutional bodies including the Election Commission and the Judiciary, as well as the National Assembly, the National Land Commission, crucial public financial management areas and the civil service will thus be part of the Good Governance Programme.

The judiciary in Bhutan has developed significantly during the last 6 – 8 years. However, further developments are needed to regard the judiciary as the guarantor of a society built on the rule of law. Alignment of existing laws to the new constitution will be a major task after 2008. As more lawyers are introduced into the system, the professional law firms will be able to provide and guarantee legal assistance in all areas of legal service including professional representation. The continuing practice of hiring para-legals or traditional legal representatives may be discontinued once private law firms are gradually established. Through the Good Governance Programme these issues will be addressed in close cooperation with the judiciary in Bhutan.

Denmark will, together with UNDP, UNCDF and other development partners, support the local government reform through capacity development and by contributing to the Government's block grants mechanism for the local governments. The major part of this programme is therefore expected to be sector budget support directly to the block grant for the decentralised levels.

The Bhutan Civil Society Organization legislation has been enacted in 2007. With the upcoming constitution introducing parliamentary democracy, a thriving civil society is needed to give citizens a voice and to form civil society organisations catering to the different needs of Bhutan. Close coordination between all Danish supported programmes will be sought to maximise support to private sector organisations, to assist in setting up local committees and to promote women's representation in elected and government bodies at all levels. As part of the capacity building to these new institutions contact to and possible twinning with relevant Danish NGOs may be explored.

Support to the Joint Good Governance Programme is foreseen to be budget support to the Government's fiscal decentralisation to local governments, and earmarked support to the constitutional bodies and

the non-state actors. The monitoring of development will be on selected indicators leading towards the goals for the Danish support and based on the Government's monitoring and evaluation system.

### 4.3 Environment and Urban Development Programme

#### Goals for support to environment and Urban Development

- Improved basic infrastructure in selected district towns
- Bhutan's forest cover maintained at 60%
- Farmer's average income increased significantly
- Farmers' associations established

The support will be targeted at the agriculture and urban sectors with special emphasis on natural resources management and regional development. The indicators for the programme will be focusing on interventions at the field and district town level and will thus support the 10th FYP's strategy of rural development and balanced development at regional and local levels.

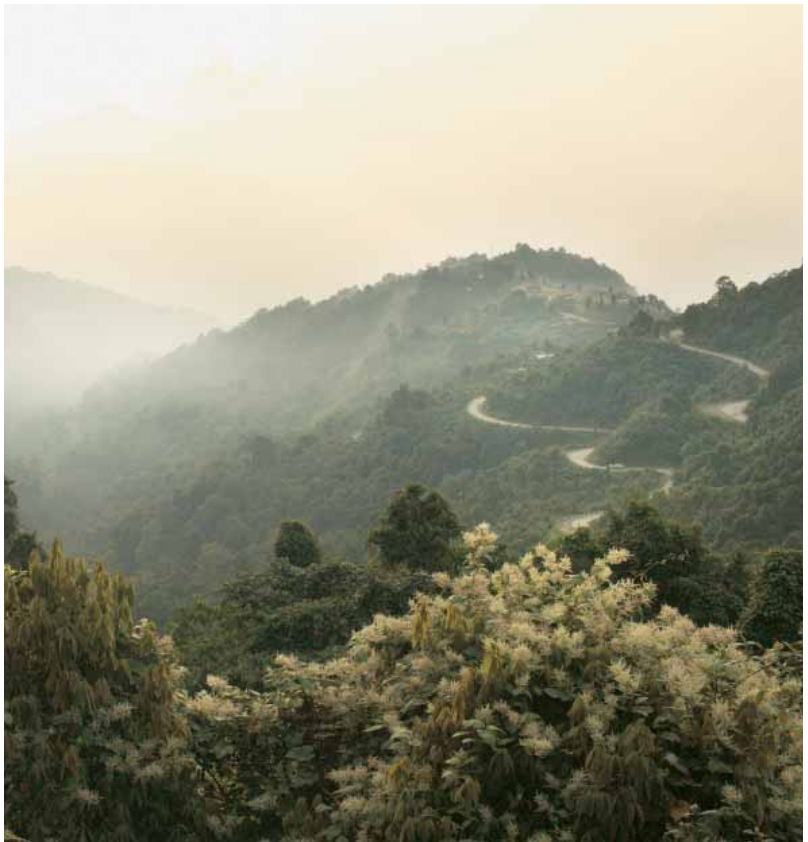
The support to the natural resource management will be based on the development plans worked out at the decentralised level, which will also help ensure accountability for the sustainable use of the natural resources, and will thus assist the farmers in implementing their own plans for improving their livelihood. A minor part will be for planning and capacity building to the Ministry of Agriculture and Ministry of Works and Human Settlement.

The support to the urban development will be a continuation of the first phase, concentrating on basic infrastructure in a number of district towns. The support will assist the Government in its policy to curb rural-urban migration by creating the necessary environment for good-quality social services and growth of small and medium size enterprises through the provision of basic infrastructure.

The support will be in the form of budget support directly to the decentralised level funding the gewogs' (communes) and the towns' own plans for development. In close cooperation with the activities funded under

the Good Governance programme assistance will be given to farmers to establish local farmers associations and to create local democracy by setting up elected town committees. Thus the programme will strengthen decentralisation, local level public financial management and direct involvement of communities and community organisations including private sector participation in the implementation of the activities.

Considerations of the effects of the climate changes and relevant adaptive measures will be included in the programme, part of which will be based on the climate screening of all Danish programmes to be undertaken in 2008.



Mountain view, more than 60% of Bhutan is covered by forest – Photo: Mikkel Østergaard

## 5. OTHER BILATERAL ACTIVITIES

In addition to the support provided in the three areas mentioned above, support will also be continued through the Mixed Credit Programme, Public – Private Partnerships and the Business to Business Programme.

Support under these programmes is well justified, in particular with a view to providing support for strengthening the private sector. Hitherto private sector development in Bhutan has been limited, i.a. due to the very difficult terrain, high transport costs, relatively high salary levels and the small population. However, the government has made private sector development a priority in the 10th FYP in order to create conditions for a more diversified economic growth in the future and to provide employment opportunities outside the public sector for the increasing number of young people entering the job market. Focus on private sector development is important in the 2008-2013 strategy programme, and will be supplemented by the Business-to-Business programme, which was initiated in 2002. Present activities include a joint venture between Group 4 and Chhundu Enterprises under implementation and preparations are under way for joint ventures between a number of companies in Bhutan and Danish companies in seed multiplication, wooden flooring and indigenous medicine.

Being a programme country and a Least Developed Country, Bhutan is eligible for support under the tied as well as the untied facility of the Mixed Credit Programme with a subsidy of a minimum of 50%. Support under the Mixed Credit Programme will to the extent possible aim at underpinning activities in the country programme. The possibilities for further support to infrastructure projects under the Mixed Credit Programme will be examined.

## 6. MONITORING AND EVALUATION OF THE COUNTRY PROGRAMME

All Danish supported sector programmes will include strong requirements for monitoring and evaluation in full conformity with the guidelines for Danish development assistance. Funds will be allocated in the programmes to ensure that the Royal Government has capacity to carry out monitoring and evaluation functions.

Sector reviews and technical reviews will be undertaken regularly in the priority sectors with the Bhutanese partners and preferably in collaboration with other donors. The timing of these reviews are decided by the Steering Committee of the individual programmes. Recommendations from the review will be presented to the Steering Committee for consideration and possible action. Further the Steering Committees have the responsibility to oversee the implementation of the programmes and give guidance on possible adjustments.

High level consultations between Bhutan and Denmark, which normally take place every second year, are used as a forum for discussion of overall strategic issues.

Verifiable and measurable indicators will be used to monitor progress in the programmes. All indicators used for monitoring Danish supported activities will be based on the Royal Governments own indicators. Overall goals for the 10th FYP are included in the plan document and more specific indicators are expected to be ready during 2008. A new division in the Gross National Happiness Commission (Plan Monitoring and Coordination Division) has been established, which will be responsible for indicator development and monitoring. Denmark has offered to assist

in establishing the poverty monitoring mechanism as part of the Danish supported Good Governance Programme.

An evaluation of the country programme, assessing the results achieved since Bhutan became a Danish programme country, has been initiated and will provide direction for the future development cooperation between Denmark and Bhutan. The evaluation is expected to be carried out in three stages, the first of which was carried out in 2006, and the second one to be carried out in 2009, with the purpose of creating a framework for a sustainable phasing out strategy.



Father carrying his son in the Chukkha province – Photo: Jørgen Schytte

## Annex 1: Key Economic and Social Data

Key economic data		Unit	Source
Area		38,394 km <sup>2</sup>	RGoB
Population (2005)		0.635 million	RGoB *
GNI per capita (2006)**		1,410 USD	WB
Average annual economic growth, GDP (2002-2006)		9 %	RGoB
Average annual growth in GDP per capita (2002-2006)		8,7 %	RGoB
Economic sectors:			RGoB
	Agriculture (2006)	23.7 %	RGoB
	Manufacturing and Industry (2006)	34.0 %	RGoB
	Services (2006)	42.4 %	RGoB
Development assistance per capita (2006)		142 USD	WB
Foreign debt (June 2007)			
	Total foreign debt**	756.2 million USD	RGoB
	Current value of foreign debt (ratio to export of goods and services – PV/XGS)(2002)	3.3	WB
	Debt service Ratio as a percentage of the export of goods and services**	4.2 %	RGoB

Key social data		Unit	Source
Population growth (annual average) (2006)		1.3 %	RGoB *
Life expectancy (2000)		66 years	RGoB
Infant mortality (number of deaths per 1000 births during the first year) (2005)		40.1	RGoB
Access to clean drinking water (percentage without access) (2007)		16%	RGoB
Access to health facilities (percentage without access)(2006)		10%	RGoB*
Number of doctors (per 10,000 inhabitants) (2006)		2.3	RGoB
Adult literacy rate (2007)		53.0%	RGoB
Primary education (percentage of children of school age) (2007)		83.7%	RGoB
Girls for every 100 boys in primary education (2006)		93	RGoB
Social sectors (percentage of public expenditure) (2006/07)		33.6%	RGoB
Military expenditure (percentage of GDP)		Not available	
Consumption: 20% richest consume seven times more than the 20% poorest			

RGoB: Royal Government of Bhutan

\* Based on Bhutan's Population and Housing Census, 2005

\*\*Annual Report, Royal Monetary Authority (January 2008)

**Annex 2:  
Progress on General Programme Implementation and Cross Cutting Issues  
in the Danish Supported Programmes 2003-2007**

Programme Targets	Indicators	Status 2007
Promote further development of national poverty reduction strategies	<ul style="list-style-type: none"> <li>• All sector programmes in planning period designed to support the 9th FYP</li> <li>• Poverty and evaluation mechanism established by 2005</li> </ul>	<ul style="list-style-type: none"> <li>• All programmes support the 9th FYP national and sector policies, strategies and objectives</li> <li>• Bhutan Poverty Monitoring and Assessment System, Planning and Monitoring System and a National Results Based M&amp;E System drafted to track poverty reduction</li> </ul>
Promote decentralisation	<ul style="list-style-type: none"> <li>• All interventions designed to support 9th FYP goals for decentralisation</li> <li>• 25% of national budget administered at local level.</li> </ul>	<ul style="list-style-type: none"> <li>• All sector/programmes and projects support decentralisation</li> <li>• 20 % (June 2007)</li> </ul>
Promote good governance, public sector reforms and human rights	<ul style="list-style-type: none"> <li>• All sector programmes in planning period designed to support good governance, public sector reforms and human rights</li> <li>• Strengthened capacity at national and decentralised levels</li> </ul>	<ul style="list-style-type: none"> <li>• Good Governance Phase II programme specifically supports good governance, public sector reforms and human rights. The sector programmes have integrated and supported sector specific concerns</li> </ul>

<p>Promote gender awareness and equality</p>	<ul style="list-style-type: none"> <li>• All sector programmes in planning period designed to support gender and indicators developed at sector level</li> <li>• Strengthened capacity at national and decentralised levels to incorporate gender</li> </ul>	<ul style="list-style-type: none"> <li>• Sector programmes are supporting national efforts on gender mainstreaming. Inadequate capacity has hampered gender mainstreaming including gender/sector assessments, identification of opportunities and approaches to incorporate gender</li> </ul>
<p>Promote environmental awareness and sustainable development</p>	<ul style="list-style-type: none"> <li>• All sector programmes in planning period designed to support sustainable development and indicators developed at sector level</li> <li>• Strengthened capacity for Environmental Impact Assessment at national and decentralised levels</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable development constitute integral part of the planning process</li> <li>•</li> <li>• Decentralised to four key ministries and all 20 districts</li> </ul>
<p>Further enhanced Government ownership of programme implementation</p>	<ul style="list-style-type: none"> <li>• Part of the Danish assistance provided as sector budget support in planning period increased</li> <li>• Strengthened implementation capacity at all levels of administration</li> <li>• Reduction of international advisors</li> </ul>	<ul style="list-style-type: none"> <li>• Health and Education sectors received 75% support as sector budget support</li> <li>• Capacity Development Outcome Evaluation 2006 confirmed strengthened capacity</li> <li>• From 13 to 3 long term advisers</li> </ul>
<p>Enhance coordination between international donors under the Government</p>	<ul style="list-style-type: none"> <li>• Establishment of formal donor coordination mechanism under the Government</li> </ul>	<ul style="list-style-type: none"> <li>• Four thematic donor coordination meetings and the ninth and tenth RTM held</li> </ul>



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