

The World Bank in Bhutan

COUNTRY BRIEF

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Bhutan's Unique Development Vision: Gross National Happiness

While economic growth is considered important, the Royal Government of Bhutan is concerned with preserving its culture, environment, and identity. Thus, creating an atmosphere where every individual can seek and achieve happiness has been chosen as a major goal. Accordingly, the government is pursuing a holistic path of change framed by a unique and homegrown development vision: Gross National Happiness. This political philosophy is underpinned by four pillars that further define the effort to balance spiritualistic and material advancement: sustainable socioeconomic development, conservation and sustainable use of the environment, promotion of culture, and good governance.

All policy and planning documents, projects, programs, and legislation strive to make the concept of Gross National Happiness operational. Bhutan's Poverty Reduction Strategy Paper—underpinned by the Ninth Five-Year Development Plan—reflects this vision through concrete objectives and strategies, including improving quality of life and income, especially for the poor; promoting private sector growth and employment; strengthening governance, particularly at the decentralized level; and promoting culture and environmental conservation.

DEVELOPMENT PROGRESS

Nestled in the remote eastern Himalayas, the small, mountainous Kingdom of Bhutan is flanked by India to the south and the Tibet region of China to the north. Bhutan has made great progress in improving the living standards of its presently estimated 896,000 people since it first set forth on a plan for modernization in the early 1960s. Per capita gross national income (GNI), one of the highest in South Asia, has consistently risen from \$470 in 1999 to \$760 in 2004. About 90 percent of the population lives in remote areas, according to the government, and 85 percent of the population depends on agriculture.¹

Bhutan's development has been rapid. Until the 1950s, Bhutan isolated itself from the rest of the world, and its dispersed rural population depended on subsistence agriculture. Once it opened to the outside world in the 1960s, Bhutan embarked on a far-reaching development strategy that has been articulated in nine Five-Year Plans. The Ninth Five-Year Plan (July 2002 to June 2007) is currently under implementation, and constitutes the basis for the country's Poverty Reduction Strategy Paper. Bhutan's public administration of dedicated professionals has a clear vision for Bhutan's future based on extensive consultations with the people and elected representatives at all levels of society.

Over the past decade, social indicators have improved. Infant mortality per 1,000 live births has been reduced from 77 in 2000 to 67 in 2004. Maternal mortality rates in 2000 were estimated at 420 deaths per 100,000 live births, compared to 564 in the South Asia region as a whole. The prevalence of child malnutrition in Bhutan has dropped from 37.9 percent in 1990 to 19 percent in 1999. Literacy and education enrollment rates have also risen. Unlike much of the rest of South Asia, primary school enrollment among girls is higher than boys in many urban areas, and nationwide almost half of primary school students are girls. Property rights are also much more equal than in most of South Asia, with women rather than men inheriting property in some areas.

A Threat to Development: HIV/AIDS in Bhutan

The Government of Bhutan has stated that HIV/AIDS prevention will remain high on its agenda. Attention will focus on capacity building for an effective national public health program and intensified health promotion interventions targeting vulnerable groups and border areas in the south.



WORLD BANK ASSISTANCE TO BHUTAN

Bhutan became a member of the World Bank in 1981. Through the International Development Association (IDA), the World Bank's concessionary lending affiliate that provides interest-free loans, the Bank began its program of assistance in the early 1980s. To date, Bhutan has received 11 credits and two IDA grants totaling \$123 million.

In January 2006, Bhutan was the beneficiary of a Global Environment Fund (GEF) grant for the Sustainable Land Management Project (\$7.66 million) to strengthen institutional and community capacity for anticipating and managing land degradation. A previous GEF grant was approved in May 1992 for a \$10 million Trust Fund for Environmental Conservation which aimed to assist the government in conserving its forestry and in preserving its rich biological diversity. The Bank is an implementing agency of the GEF.

There is growing global focus on the Millennium Development Goals, including ensuring environmental sustainability and achieving universal primary education by 2015. Bhutan has already achieved some of the goals and has concrete plans to achieve the others.

Bhutan became a member of the International Finance Corporation (IFC), the World Bank's private sector development arm, in December 2003. Since that time, the IFC has financed one investment in the tourism industry. IFC's role in Bhutan is to promote growth of the domestic private sector, including development of small businesses, to build capacity in the financial sector, and to support foreign investment, especially in tourism.

LENDING

Protecting a Valued Resource. IDA has been a consistent partner in Bhutan's efforts to develop its forest resources. The Forestry Development Project, approved in FY84 with a credit of \$3.9 million, helped build capacity within the government to plan and operate an effective logging and reforestation program. The Second Forestry Development Project, approved in FY88 with a credit of \$1.81 million, built upon these improvements in addition to strengthening managerial capacity for forest pest management. The Third Forestry Development Project, approved in FY93 with a credit of \$5.4 million, helped make forest development activities in eastern Bhutan financially self sustaining through beneficiary participation in village forest management.

Expanding Access to Education. IDA, in close partnership with Switzerland, has worked with Bhutan to expand education through two credits which are now completed. The Primary Education Project, approved in FY88 with a credit of \$4.2 million, supported the government's development plan for quality primary schooling, emphasizing quality of education and student achievement. The

Bhutan Country Assistance Strategy 2006-2009

The new Bhutan Country Assistance Strategy (CAS) is selectively aligned with Bhutan's vision of Gross National Happiness and the priorities and goals of the Ninth Five-Year Plan/PRSP. The pillars and expected outcomes are:

CAS Pillar 1: Expanding Access to Better Infrastructure and Social Services, and Connecting Communities to Markets

- Improved rural road access and quality of road network
- Increased access to adequate urban services in Thimphu and selected towns
- Improved access to and quality of education
- Change in risky behaviors and better treatment of Sexually Transmitted Infections to prevent the spread of HIV/AIDS

CAS Pillar 2: Promoting Private Sector Development and Employment

- Reduction in selected critical constraints to private sector development
- Increased agricultural productivity and diversification in selected geogs

CAS Pillar 3: Strengthening Management of Public Resources, and Monitoring and Evaluation of Development Outcomes

- Improved budget management and public financial management
- Improved capacity for monitoring and assessment of development outcomes

Crosscutting Support to Decentralization, Good Governance, and Environmental Management

- Increased capacity for decentralized rural development
- Improved capacity for decentralized school management
- Increased environmental management capacity at the national, sector, and local levels

Second Education Project, approved in FY98 with a credit of \$13.7 million, built the capacity necessary to expand basic education to grade 10 and developed the human resource base to maintain education quality. The project also helped communities construct simple primary schools in their locales, thus limiting the need for costly boarding facilities.

Building on the achievements of the first two projects, the World Bank in FY04 approved a third education project with a credit of \$31 million. The project is working to expand access to primary and secondary education and improve educational quality at all levels.

Developing Infrastructure. As Bhutan's major towns are rapidly growing, the government's infrastructure priorities are urban planning and development and road maintenance and improvement. In rural areas, Bhutan is emphasizing better access to basic services to enhance quality of life. The main interventions are improved maintenance of existing roads and developing priority rural roads based on environmentally friendly road construction.

IDA is actively supporting the government's plan to improve urban and road infrastructure. Approved in FY99 with a credit of \$10.8 million, the Urban Development Project supports Bhutan's policy of decentralization and balanced regional development by strengthening urban planning and management capacity at the national and local levels. The project also finances investments in high priority urban services, such as water supply, urban roads, and other civil works in the 10 project towns. The Rural Access Project, approved also in FY99 with a credit of \$11.6 million, is improving rural access in four districts to increase basic access to health and education services. The project has supported the development and adoption of the Environmental Code of Practice for rural road construction, which is now being adopted in other sectors in the country. In March 2005, the Decentralized Rural Development Project was approved with a credit of \$7 million. The project aims to improve rural market access and increase agricultural output for rural communities.

Preventing an HIV/AIDS Epidemic. Though isolated geographically, Bhutan is no longer impervious to HIV/AIDS. Increasing cross-border migration and international travel, combined with behavioral risks of the population, mean Bhutan could face an exponential growth of HIV cases in the coming years. The epidemic is at a very early stage, meaning there is still time for vigorous action to stop its spread.

In June 2004, IDA approved a grant to the government to combat the spread of HIV/AIDS and sexually transmitted infections (STIs). The HIV/AIDS and STI Prevention and Control Project will contribute to maintaining the low prevalence of HIV/AIDS by increasing safer sex behaviors and improving management and treatment of STIs among highly vulnerable populations and the general public.

Enhancing Economic Growth. In November 2005, IDA approved a grant to support the government's ongoing medium-term policy and institutional reform program. The First Development Policy Grant provided budget support for the government's development strategy in enhancing economic growth, achieving better socioeconomic outcomes, and reducing poverty.

LOOKING TOWARD THE FUTURE

The government began implementing its Poverty Reduction Strategy Paper (PRSP) in 2004 as part of its broader ongoing efforts to combat poverty. Building directly on the Ninth Five-Year Plan, the five objectives of the PRSP are to improve the quality of life and income, especially of the poor; ensure good governance; promote private sector growth and employment generation; preserve and promote cultural heritage and environment conservation; and achieve rapid economic growth and transformation.

In FY06, the World Bank and the government prepared a new country assistance strategy (CAS), which is aligned with the PRSP. The CAS supports expanding access to better infrastructure and quality of social services, and connecting communities to markets; promoting private sector development and employment; and strengthening management of public resources, and monitoring and evaluation of development outcomes. The Bank will also provide support to the Bhutanese Government's cross-cutting efforts to promote decentralization, good governance, and environmental management.

The Bank's program of analytical and advisory activities (AAA) will aim to be responsive to the country's needs and capacity constraints focused. The CAS includes a flexible AAA program characterized by a limited number of formal activities, programmatic non-lending technical assistance in selected areas, and just-in-time AAA to respond to emerging demands of the government.

All dollar figures are in US dollar equivalents.

¹ Bhutan conducted its first National Census of Population and Housing in 2005. Initial population figures are below previous official estimates.

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