

BHUTAN COUNTRY ASSISTANCE STRATEGY FY06-09

In-Country Consultations
June 6-11, 2005





Outline

- **What is a CAS?**
- **Bhutan's Development: Unique Vision, Challenges & Opportunities**
- **Proposed World Bank Assistance Strategy**
- **Proposed Program**

What is a CAS?

- **World Bank Group's business plan in support of a country's growth and poverty reduction goals (including MDGs)**
- **Reflects partnership with Government -- aligned in IDA countries with their poverty reduction strategies (PRSPs)**
- **Takes into account views of Government, civil society, development partners & other stakeholders**
- **Results-oriented, focusing on supporting realistic outcomes linked to a country's medium- and long-term development goals**

CAS Process

- Prepared at least every 4 years
- Consultations (in-country)
- Internal Bank-wide and regional reviews
- Agreed with Government
- Endorsed by the Bank's Board
- Implemented and assessed



Unique Development Vision

Four Pillars of GNH:

1. **Equitable Economic Growth and Development**
2. **Preservation and Promotion of Cultural heritage**
3. **Preservation and Sustainable use of Environment**
4. **Good Governance**



Development Challenges



Geography & Location

- Landlocked
- Difficult terrain
- Scattered population
- Remote, small rural communities

Duality of Economy

- Hydro-power revenues / public sector-led growth
- Subsistence agriculture
- Small private sector

Development Challenges (cont.)

Ensuring access to infrastructure and services

Employment Generation – especially for school leavers

Managing urbanization

Developing the private sector



Development Opportunities

Hydro-Power

- The timing and net impact of Tala Hydropower Project (1020 MW) will be critical

Private Sector

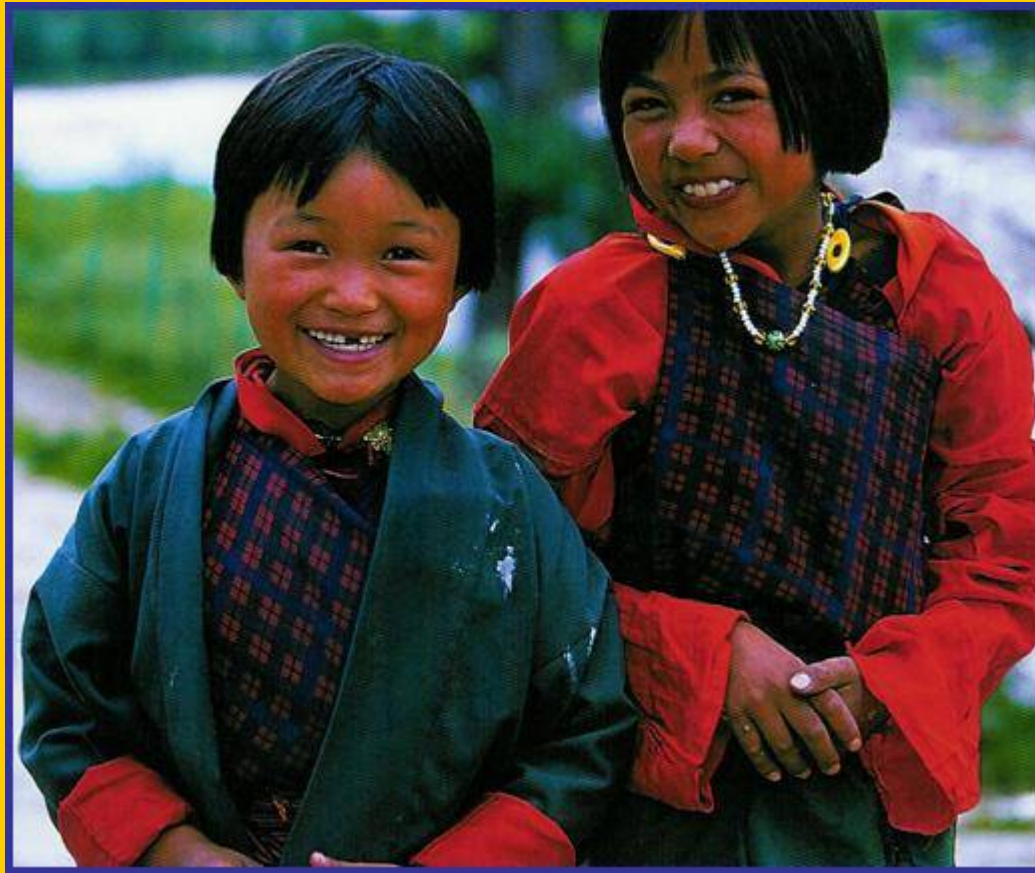
- Tourism potential
- Agri-processing
- Horticulture
- Non-timber forestry products
- ICT
- Forestry

9FYP/PRSP Objectives

Reflecting Bhutan's vision and development challenges:

- **Improve quality of life and income – especially of the poor**
- **Ensure good governance**
- **Promote private sector growth and employment generation**
- **Preserve and promote culture and environment**
- **Achieve economic growth**

Proposed World Bank Group Assistance Strategy



Proposed World Bank Group Assistance Strategy

- Aligned with 9FYP/PRSP objectives and priorities
- Selective but flexible country program, responsive to country conditions and client needs
- Focus on outcomes achievable during CAS period
- Blends financing and advisory services
- Enhanced coordination and collaboration with development partners
- Exploring other sources of financing (such as carbon finance or guarantees)

Challenge is to be selective, focused on outcomes, not spread World Bank resources too thinly and work in partnership with other donors

Proposed World Bank Group Assistance Strategy

Supporting Bhutan's efforts through three pillars to:

1. Expand access to better infrastructure, improve access and quality of social services, and connect communities to markets
2. Promote private sector development and employment
3. Improve public financial management and M&E of development outcomes

Cross-Cutting:

Decentralization, Good Governance and Environmental Management

Pillar 1: Access to Quality Services

Outcomes:

- Improved rural road access and quality of road network
- Better access & quality of education
- Promoting access to STD services
- Increased level & coverage of urban services

Supported by:

- Studies & TA in urban strategy, education, fiscal decentralization, land management
- Financing rural roads, rural development, education, HIV/AIDS, urban development

Pillar 2: Private Sector Development for Employment and Growth

Outcomes

- Reducing constraints to PSD
- Raising agricultural output, productivity & value added

Supported by:

- Annual “Doing Business” reports
- Studies on youth employment & labor markets, deregulation
- IFC SEDF & FIAS technical assistance SMEs & FDI.
- PSD project, decentralized rural development project
- IFC investments in tourism and other sectors.

Pillar 3: Public Financial Management and M&E

Outcomes

- Improved planning, execution, transparency & accountability in use of public resources
- Strengthened monitoring and evaluation

Supported by:

- Non lending TA and economic studies
- Fiscal decentralization study
- IDF grants for improving fiscal management & pensions
- Possible development policy credit/grant
- Grant for statistical capacity building.

Cross Cutting Support: Decentralization, Good Governance & Environmental Management

Outcomes

- Increased capacity for decentralized management of rural development
- Strengthened decentralized school management capacity
- Improved national and sectoral environmental management

Supported by:

- Country fiduciary, environmental & social systems harmonization advice
- Fiscal decentralization study
- IDF grants for improving fiduciary systems
- GEF sustainable land management project
- Capacity building components in education and rural development projects

Previous World Bank Group Support

Sectors / areas:

- Education
- Forestry Management
- Urban Development
- Rural Access
- HIV/AIDS Prevention

Financial assistance – lumpy and irregular

- 1994 – USD 5.4 m
- 1998 – USD 13.7 m
- 2000 – USD 22.4 m
- 2004 – USD 36.8 m
- 2005 – USD 7.0 m

Proposed World Bank Group Financial Support

- **IDA allocation of US\$14.5 million (100% grant) in FY06**
- **Indicative amount of about US\$45 million for the FY06-08 period (decision whether grant and/or credit taken year by year, based on the country's debt situation)**
- **Financial support involving investment projects, and possible programmatic development policy lending (DPL) / budget support, based on implementation of the Government's program**
- **Lower transaction costs to government by adopting government fiduciary, environmental and social safeguards and promoting donor harmonization in alignment with country systems**

Proposed World Bank Group Support: Lending Services

**IDA - In addition to possible DPL in FY06 and FY08,
investment lending for:**

- Urban development II (FY07)**
- Rural Access Roads II (FY08)**
- Decentralized Rural Development II (FY09)**
- Possibly support to: higher education, statistical capacity building**

- IFC – supporting investments in tourism and other critical sectors; through SEDF supporting development of small and medium enterprises**

Proposed World Bank Group Support: Analytical and Advisory Services

Flexible AAA program including:

- **A limited amount of formal analytical work (perhaps 1 report and 1 - 2 policy notes each year)**
- **Analytical work to promote harmonization and application of country systems**
- **Programmatic non-lending TA to support, for instance, capacity development in public expenditure management and poverty M&E**
- **A larger window for “just-in-time” AAA to respond to government requests in a timely fashion**
- **IFC TA through FIAS and SEDF**

Potential Risks to the Country Strategy Implementation

- **Key economic assumptions holding: hydropower, relations with India, donor support, sound management of macro economy & power revenues**
- **Political uncertainties**
- **Natural hazards & external events**
- **Government capacity constraints**





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