

**Danida**

Royal Danish Ministry of Foreign Affairs

# Bhutan-Denmark Partnership



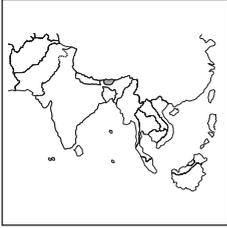
Strategy for Development Cooperation 2003-2007

**Strategy for  
Danish Development  
Co-operation with Bhutan  
2003 – 2007**

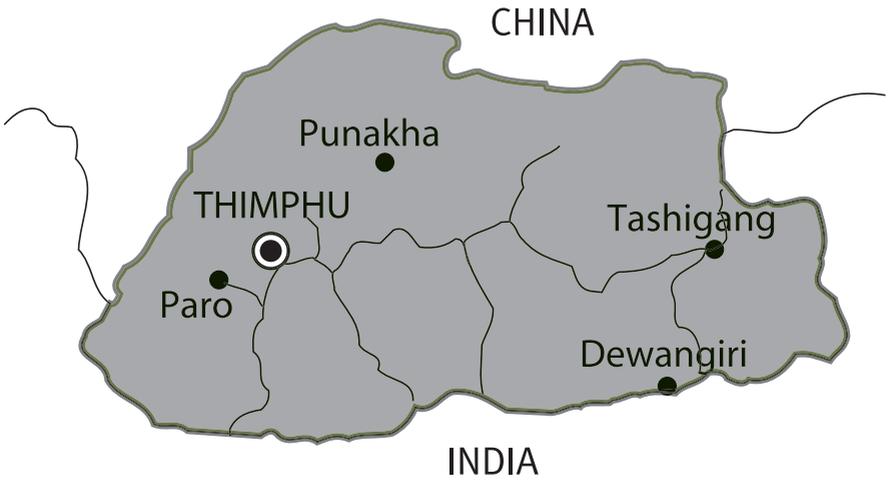


# Contents

<b>1. Introduction</b>	<b>3</b>
1.1 Denmark's Development Policy	3
1.2 Bhutan as a Programme Country	3
<b>2. Background</b>	<b>9</b>
2.1 The political, economic and social challenges	9
2.2 The national development framework	13
2.3 Donor support and lessons learned from prior Danish assistance	14
<b>3. Danish-Bhutanese Co-operation 2003-2007: The Framework</b>	<b>17</b>
3.1 Main objectives	17
3.2 Key strategies and priority sectors	17
3.3 Key targets for Danish-Bhutanese cooperation	19
3.4 Assumptions, obligations and major risks	20
3.5 Cross cutting and other priority issues	20
3.6 Implementation	22
<b>4. Danish-Bhutanese Co-operation 2003-2007: The Programme</b>	<b>25</b>
4.1 Health	25
4.2 Education	27
4.3 Environment and Urban development	28
4.4 Good Governance/Public Administration Reform/Human Rights	30
<b>5. Bilateral assistance outside the Country Programme</b>	<b>33</b>
<b>6. Monitoring of the Country Programme</b>	<b>35</b>
<b>Annex 1:</b>	<b>37</b>
Key economic and social figures	37



# Bhutan



# 1. Introduction

## 1.1 Denmark's Development Policy

The overriding objective of the Danish development policy is to promote sustainable development through pro-poor economic growth. The Danish assistance aims to help the poor by ensuring critical investments in education and health, by building up pro-poor infrastructure and by supporting the development of a private sector as an engine of growth. Women's participation in the development processes and the promotion of human rights and democracy are important objectives for the Danish assistance. A key principle is to provide effective and efficient support by way of strategic, result-based management.

The bilateral assistance is primarily channelled to a selected group of "partner countries" that demonstrate commitment and an ability to effectively promote a long-term sustainable development. Countries qualifying for assistance are those challenged by severe poverty constraints, but concurrently committed to confronting these challenges by way of preparing and implementing long-term national strategies for poverty reduction and a commitment to consolidating democracy and respect for human rights.

Partnership is a cornerstone of the Danish development co-operation with partner countries. Promoting and obtaining effective poverty reduction requires the establishment of broad-based partnerships with a variety of stakeholders involved in formulating, implementing and monitoring programmes, as well as recipients of support and other stakeholders affected by the interventions – governments, the private sector and the civil society, including the poor and marginalized. It is a key to the Danish development policy that such co-operation is built on partner countries' own strategies and policies.

## 1.2 Bhutan as a Programme Country

Bhutan is a small landlocked kingdom in the Himalayas, bordering China (Tibet) to the north and India to the east, south and west. The Country is 38,394 km<sup>2</sup> in area with approximately 800,000 inhabitants. Bhutan has a GDP per capita of USD 755. It is classified by the UN as a Least Developed Country and in 2001 ranked 140 out of 173 on UNDP's Human Development Index.

In recent years Bhutan has undergone a process of gradual modernisation and democratisation. A national assembly and a government have been formed and a gradual transfer of powers from the king to these institutions has taken place. Furthermore, extensive reforms of the public sector have greatly enhanced transparency and accountability of public administration. This determined process is expected to reach its peak in the planning period with the formulation and adoption of the country's first written constitution.

The economic outlook in the medium to long term is positive, and it is expected that Bhutan within the next decade will be able to finance the major part of its own development. Historically, the economy has depended on agriculture, but in recent years the hydropower sector has experienced rapid growth, taking advantage of the country's mountainous terrain.

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 to be improved; the democratisation process continued, and efforts must be strengthened to diversify the economy and create conditions for broad based economic growth, also to ensure employment opportunities for a growing population.

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

Bhutan will continue to be a programme cooperation 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 to make the most of the assistance, the strong focus in domestic policies on poverty eradication and democratic change, and the positive experiences from past Danish assistance.

This strategy is intended to cover the planning period 2003 – 2007 which coincides with Bhutan's 9<sup>th</sup> five Year plan (9<sup>th</sup> FYP). It is the result of a consultative process, based on Bhutan's development priorities and Denmark's development policy, "Partnership 2000". The overall objective of the cooperation with Bhutan will remain poverty reduction through promotion of sustainable economic development and strengthening of democratic processes. Denmark will support the following four areas: Health, Education, Environment & Urban Development and Good Governance. In addition

support will be provided under the Mixed Credit Programme and the Private Sector Development Programme.



## 2. Background

### 2.1 The political, economic and social challenges

#### *Democratisation, governance and human rights*

A process of gradual democratisation has been initiated in Bhutan, aimed at transforming the country into a modern democracy. His Majesty King Jigme Singye Wangchuck since ascending to the throne in 1972 has brought about far reaching political changes in the country that has so far culminated in 1998 with the transfer of total executive powers to a council of ministers elected by the National Assembly.

The democratisation process is expected to continue to progress in the planning period with the formulation and adoption of the country's first constitution as soon as possible. In 2001 the King mandated a 39 member committee to produce a draft, which on the one side ensures international recognition of Bhutan as a democratic society based on the rule of law and on the other side takes into account the country's unique history and culture. When finalised it is expected to deal with inter alia the relationship between state and nonstate actors, the future political system, including the question of political parties, and the civil and political rights of the population.

Alongside the democratisation process, reforms of the public sector have been undertaken, aimed at strengthening good governance, rule of law and public participation in decisionmaking by improving effectiveness, accountability and transparency of the administration. These reforms include restructuring of line ministries, strengthening of financial management, anti corruption legislation and establishment of a merit based civil service career system. The reforms have led to the establishment or strengthening of various control institutions, including an office for legal affairs, an institute for management, an audit authority and a civil service commission.

In addition a gradual decentralisation of political decisionmaking has taken place. The establishment of district (dzongkhag) development committees in 1981 and block (geog) development committees in 1991 has led to greater public participation in the development process and decision making. The decentralisation efforts are considered essential for achievement of the Bhutanese vision of democratisation and good gover-

nance. In 2002 decentralisation continued with devolution of various regulatory, administrative and financial powers to the districts and blocks. In the same year a notable development was election of the heads of Block Development Committees by universal adult franchise. The 9<sup>th</sup> Five Year Plan (FYP) 2002-2007, includes ambitious plans for further steps in the process. The overall plan is based on input from the 201 blocks and 20 districts, which will be implemented by the local committees. 25% of the 9<sup>th</sup> FYP outlay is expected to be channelled through the local administrations.

The human rights situation in Bhutan continues to be the subject of international attention. There are no reports of major systematic human rights violations, but certain restrictions are still placed on civil and political rights. Bhutan is a signatory to the Convention on the Rights of the Child and the Convention on the Elimination of all forms of Discrimination Against Women, but has not yet acceded to the conventions on Civil and Political Rights; Economic Social and Cultural Rights and Against Torture. It has signed but not ratified the Convention on Racial Discrimination. In the drafting of the Constitution efforts have been made to enshrine international human rights obligations.

Other concerns relate to the situation for ethnic minorities, in particular with regard to the problems that arose in the early 1990s with people of Nepali decent. The population of Bhutan is comprised of a number of ethnic groups. Two main groups are the Drukpas in the North of the country, which again can be divided into three subgroups: Ngalong in the west, Bumthap in central Bhutan and Sharchop in the east, and the Lotshampas of Nepali descent in the South. The Ngalongs, Bumthaps and Sharchops are in essence a homogenous group except for their different languages. Other smaller ethnic groups are Tibetans, Doyas, Khengs, Adivashis, Brokpas Monpa, Gongduk Lhop/Doya and Kurteops.

In the 50's and 60's Bhutan experienced a considerable immigration from Nepal, which led to a legal immigration stop in 1958. However, the immigration flow continued and in 1985 the government, with a view to cultivating a national identity rooted in language, religion and traditional Bhutanese culture introduced tightened citizenship rules, and withdrew residence permits for immigrants. This caused unrest in southern Bhutan, which culminated in the early 90's, resulting in the exodus of large numbers of people of Nepali decent now numbering 100,000 people who are still residing in camps in Nepal. Bilateral negotiations have been ongoing between Bhutan and Nepal to find a just and durable solution to the problem. In 2003 an agreement was reached to start repatriation of eligible persons from the first one camp. The Royal Government of Bhutan is committed to finding a just and durable solution, which is acceptable to all parties concerned, including the people in the camps.

There are complaints about discrimination against the Lotshampa population. These concern e.g. the right to citizenship, employment in the public sector, and access to public services including higher education. It is, however, not possible to ascertain whether such discrimination is systematic and rule based.

While Bhutan thus appears to be on a solid path toward becoming a modern democracy there is still ground to cover, in particularly in the area of democratisation and human rights. These areas will continue to be a focus of international attention and assistance and will remain a focus for Danish assistance in the planning period. It is expected that the constitutional process will provide a good platform for further improvements in both political and minority rights.

Bhutan supports the fight against terrorism and has acceded to a number of international conventions on terrorism and weapons control. A major foreign policy challenge is the presence of Indian separatist movements, such as the United Liberation Front of Assam (ULFA), the National Democratic Front of Bodoland (NDFB), and the Kantipur Liberation Organisation (KLO) in Southern Bhutan. The Government is increasing efforts to find an early solution.

#### *Economic developments*

Bhutan has a GDP per capita of USD 755 (2003). It is classified by the UN as a Least Developed Country, and was in 2001 placed as 140 out of 173 countries on UNDP's Human Development Index.

Bhutan is relatively rich in natural resources. It has considerable potential for hydropower as well as forests and mineral deposits. However, the mountainous terrain and the remote location hamper development. The economy is dominated by two sectors: agriculture, predominantly subsistence farming, and hydropower. Although 79% of the population continue to depend on agriculture for their livelihoods, the economic importance of the sector is declining, representing about 33% of GNP, while hydropower has increased to about 11%. The remaining 56 % of GDP derive from construction, services and industry.

In the recent past Bhutan has experienced stable economic growth of about 6-7% annually. The Government pursues a prudent fiscal policy. The economy is closely tied to that of India and the Bhutanese currency (Ngultrum) is pegged to the Indian Rupee. Over 90% of Bhutan's exports go to India, and India supplies some 70% of Bhutan's imports. There is a growing trade deficit, mainly because of growth in imports of food and building materials for hydropower installations. Bhutan has a low debt burden of USD 406 million (2003).

Bhutan has traditionally maintained only a small deficit on public finances. However, due to the population growth and an increase in social sector investments the deficit has increased and in 2001 amounted to 10%. Government revenues cover only little more than current expenditures and most of the capital expenditures are financed through foreign assistance. Revenues are expected to amount to 20% of GNP for the next five years. In order to broaden the tax base, Personal Income Tax was introduced in 2002.

The economic outlook for the future is fairly good, with expected increases in revenues generated in the hydropower sector. In 1996, with Indian financial and technical assistance, Bhutan started construction on the 1020 MW Tala hydropower plant. When this and a number of smaller hydropower plants are completed, it is expected that tax revenue from sale of electricity will improve significantly. Consequently, real opportunities exist for Bhutan to generate own resources, which within a reasonable time frame will make it independent of foreign financial assistance. However, these prospects are uncertain. Revenues from hydropower depend on the economic development and future energy consumption in India and negotiations about prices. Furthermore, challenges remain to transfer the expected increase in own resources into real economic and social development. The development potential outside the hydropower sector remains limited, and major efforts are needed to create the basis for broader based economic growth by strengthening other sectors and providing a framework for private sector development. At the same time rapid population growth leads to increasing demands for generation of employment opportunities.

In recent years considerable progress have been achieved in health and education sectors. An increasing number of children and adolescents receive an education, which provides a potential for future economic growth, but also enhances demands on the Government to provide job opportunities. At the same time basic health indicators have improved significantly in the last decade. HIV/AIDS is not at present a problem, with an estimated infection rate of only 16/100,000. However, efforts should be continued to prevent further spread of the disease.

### *Problems of poverty*

Poverty remains a problem in Bhutan. While comprehensive survey results are awaited, a preliminary pilot study conducted in 2000 showed that 29% of the population in rural areas and 3% of the population in urban areas live below the poverty line. The poor are mostly rural subsistence farmers located in remote and isolated areas with small land holdings, no road access, families with numerous dependents, limited education and little or no livestock. Studies conducted in recent years show that 31% of blocks in Bhutan were facing food insecurity. 22% were below the average primary enrolment rate. 33% did not have primary schools at all. 61% did not have access to electricity. And 33% were not connected to the rest of the country by road.

A high population growth rate and perceived economic advantages in the urban centres have caused rural to urban migration. The impact of migration on the management of rural natural resources and overall agricultural production has not yet been studied. However, it has created a small but growing poverty problem in urban areas.

The Government has identified a number of key causes and factors leading to poverty, which include: Lack of road access (which limits access to social services and opportunities for marketing surplus production), lack of farmland and productive skills and a high dependency ratio in the family. Considerable increases in social spending in recent decades means that many villagers now have access to primary education and basic health care services. However, villagers usually have to travel long distances to get access to higher education and hospitals.

There does not seem to be a major difference in poverty among men and women. Women enjoy a high degree of equality and there is no discrimination against them in laws or social practices. Conversely, some legislation, such as inheritance laws, actually favours women. In 1981 Bhutan ratified the UN Convention on the Elimination of Discrimination Against Women. However, women are still disadvantaged compared to men in a number of areas, and this trend seems to be reinforced by the gradual change from a rural to an industrial society. There is a higher proportion of boys than girls who go to school and who later takes a higher education. Only few women have reached higher positions in business, civil service or politics.

## **2.2 The national development framework**

In the document “Bhutan 2020, a vision for peace, prosperity and happiness” from 1998, the country’s overall development goal is stated as ‘Gross National Happiness’. This concept seeks to maximize quality of life rather than emphasising only economic growth. Focus is on five objectives: human development, balanced and equitable development, good governance, preservation of culture and heritage, and environmental conservation. The Millennium Development Goals (MDG’s) are central to the achievement of Gross National Happiness and the Government is committed to meeting the MDG’s, if possible even ahead of time.

The longterm vision of Bhutan is to develop a more diversified privatesector led economy by harnessing its hydropower potential and developing competitive knowledge based industries. This will include industries based on competitively priced power and high technology industries engaged in high value low volume production, to overcome the challenges posed by the mountainous geography. Increasing tax revenues from hydropower and a growing number of educated youth are seen as opportunities to pursue this vision. In order to reach the goals investments will be needed to strengthen inter alia education, IT and communication as well as other infrastructure. At the same

time the potential for development in other sectors, such as traditional production industries or agriculture will be pursued despite the limited potential due to the country's remote location.

The overriding goal of the 9<sup>th</sup> FYP is poverty reduction. The Government's strategy for addressing poverty problems concentrates on raising the general standard of living in rural areas. Other major objectives include promotion of decentralisation and public participation, strengthening good governance, development of the private sector, employment creation and preserving Bhutan's environment and cultural heritage.

These objectives will be pursued through implementation of sound macro economic policies; further reinforcing political and administrative reforms, in particular in conjunction with the ongoing constitutional process; infrastructure development; improving access to and quality of social services; developing human and institutional capacity; enhancement of private sector development; decentralisation and effective use and management of external assistance.

The total budget for the 9<sup>th</sup> FYP has been fixed at USD 1,517 million (USD 756 million for capital expenditure, USD 686 million for recurrent expenditure and USD 75 million for debt servicing). Domestic revenue is only projected to cover the recurrent expenditure, while the main part of capital expenditure will be covered by external assistance. According to the financing plan there is however still a funding gap of USD 173 million for the five-year period. The Government plans to increase domestic revenue inter alia through improving tax collection, in order to cover part of this gap. Another option is to increase external borrowing. Social sector development is a central element of the Government's strategy. It accounts for more than 25% of public spending.

With its strong focus on poverty reduction and decentralisation the 9<sup>th</sup> FYP is well in line with Denmark's development policy. It also constitutes a Poverty Reduction Strategy (PRS) for Bhutan, linking poverty analysis, policy formulation and distribution of funds with the aim of creating effective and poverty oriented growth. The plan is ambitious, but based on Bhutan's strong adherence to previous development plans there is confidence in the Government's commitment to implement it. Implementation will, however, depend on possibilities for financing the funding gap.

### **2.3 Donor support and lessons learned from prior Danish assistance**

Bhutan has chosen to work with a limited group of partners. In 2001 India was the largest donor followed by Denmark and the UN. Other major donors were ADB, Japan, World Bank, Austria, the Netherlands and Switzerland. The Ministry of Finance is the central coordinating authority for Official Development Assistance (ODA). Aid coordination at the highest level takes place at Round Table Meetings held biannually.

At country level no formal co-ordination mechanism exist, but there are several informal channels for donors to meet and discuss issues of common interest. Dialogue with the Government is conducted in a constructive and transparent manner, and access to decision makers at all levels is easy.

Due to the strong Government ownership of development assistance a good division of labour has been established between the major donors. Main areas of support are: India (general budget support, hydropower and infrastructure); Japan (agriculture and communication); Austria (energy and forestry); the Netherlands (sustainable development); UN (HIV/AIDS, health and Environment). ADB (physical infrastructure and private sector); World Bank (education).

Denmark has provided development assistance to Bhutan since 1978. From the outset assistance was channelled through multilateral organisations, but in 1985 the first bilateral development programme was initiated. In 1989 Bhutan was selected as Programme Cooperation Country. In the last five-year period Danish assistance has been concentrated in four areas: Health (DKK 120 million for the core programme with an additional component for rural water and sanitation of DKK 44.5 million), Environment and National Resource Management (DKK 85 million), Good Governance and Public Sector Reform (DKK 42 million) and Urban Development (DKK 77 million).

Experiences from Danish-Bhutanese cooperation have been positive, and Denmark has through its position as one of the largest donors had a unique opportunity to influence the development of the country. The programme has been characterised by strong Bhutanese ownership and execution. The limited size of the country has made it possible to create results, which are extremely visible and must be considered crucial for the development of Bhutan.

Thus, Danish assistance has played a key role in the nation wide progress in health, e.g. the significant improvements of major indicators such as infant, child and maternal mortality and life expectancy; in the environment, e.g. through development of a strong regulatory framework for the sector; and in good governance, e.g. by providing support for Government institutions essential for democratisation, good governance and decentralisation, thus playing a key part in the ongoing democratisation and public sector reform process.



# 3. Danish-Bhutanese Co-operation 2003-2007: The Framework

## 3.1 Main objectives

### Overall objective:

- 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.

### Sub-objectives:

- Increase access to quality health services for all, and in particular the poor and disadvantaged segments of the population.
- Increase access to quality education for all, in particular the poor and disadvantaged segments of the population.
- Promote sustainable and efficient management of natural resources as well as pollution abatement and mitigation.
- Promote sustainable urban development and a framework for creation of employment opportunities.
- Promote the rule of law, good governance, democracy and human rights, efficiency and professionalism in public administration and public participation in decision-making.

## 3.2 Key strategies and priority sectors

The cooperation programme will address the overall objective of poverty reduction through a multifaceted approach including assistance aimed at improvement of the livelihood of the population, in particular the poor and disadvantaged, through better access to quality health and education as well as actions to prevent urban poverty through support for private-sector led creation of employment opportunities, and enhancing peoples participation and influence on development processes.

The specific areas in which Denmark will provide support has been chosen in close consultation with the Government of Bhutan, based on the objectives and subobjectives mentioned above, the experience from the long standing Danish-Bhutanese devel-

opment cooperation, Bhutan's sector specific needs and the overall donor situation. It has been agreed that the programme during the planning period 2003 – 2007 will cover the following sectors: Health, Education, Environment and Urban Development. In addition support will be provided for good governance, public and administrative reforms and human rights (hereinafter referred to as good governance). Finally, support will be provided outside the country programme under the Mixed Credit Programme and the Private Sector Development Programme.

The Programme aims to support implementation of Bhutan's main development policy documents, especially the 9<sup>th</sup> FYP. The areas of intervention are considered essential for Bhutan in reaching the Millennium Development Goals. The overall objective is in line with the 9<sup>th</sup> FYP's focus on poverty reduction. Improvements in health and education are considered to play a pivotal role in poverty reduction, and strengthening quality and coverage of services in these fields are key elements in the Government's development strategy. Environment has been chosen since the poorest segments of the population for the main part depend on natural resources for their livelihood. Progress in urban development is considered essential to provide opportunities for growth and employment in towns and prevent problems stemming from urbanisation, in particular urban poverty, from escalating. And support to good governance, public sector reforms and decentralisation contribute to enhancing popular participation in the development process, which in turn will lead to improvements in the living conditions of the poor, and at the same time, by its cross-sectoral nature, support implementation of the entire 9<sup>th</sup> FYP.

The adjustments in the country programme in the present planning period aim at better promoting the overall objective of the assistance and creating a greater focus of the activities. Support to the education sector will be introduced as a response to a request from Bhutan, based on a wish to ensure quality education for all. Furthermore, support to the environment and urban development, which has hitherto been provided as separate sector programmes, will be merged into one "Environment and Urban Development Programme", with emphasis on natural resource management and environmentally sustainable development of towns. Finally, it is expected that by the end of the planning period health sector development has reached a level, where substantial Danish assistance is no longer necessary. Thus, the third phase of the Health Sector Programme is expected to be the last full-fledged sector programme.

### **The distribution of assistance between the areas in the planning period will be:**

Health/rural water	35 %
Education	18 %
Environment and urban development	35 %
Good Governance/Public and Administrative Reforms/Human Rights	2 %

It is projected that domestic revenue will increase in the next decade to not only meet the recurrent costs but also an increasing part of the development costs. It is hence foreseen that Danish assistance to Bhutan will be gradually adjusted according to this new situation. Assistance in the coming 5 years is designed with this perspective in mind and will seek to underpin this development wherever possible including in the choice of implementation modalities.

### **3.3 Key targets for Danish-Bhutanese cooperation**

The overall targets for the Danish-Bhutanese cooperation will be progress towards the objectives set for the planning period (see above) and – in the longer term – towards the MDG's.

More detailed targets for poverty reduction has not yet been formulated due to lack of reliable poverty statistics. However, recent studies have begun to remedy this problem. Specific goals for poverty reduction will be developed in the course of implementation of the 9 FYP. It is expected that a poverty monitoring and evaluation mechanism will be finalised as soon as possible. Once it has been adopted, the goals for poverty reduction fixed therein will be integrated into the Danish-Bhutanese cooperation programme.

At sector level the targets will be identical to the targets set by the Government in the 9<sup>th</sup> FYP. In order to monitor progress of the Danish-Bhutanese cooperation at this level, 4-5 key targets that are considered the most relevant for the Danish-Bhutanese cooperation objectives has been selected from the FYP targets. These are included in chapter 4.

In addition to the overall objective of reducing poverty a number of programme targets designed to monitor progress on general programme implementation and cross cutting issues have been developed. They are as follows:

Programme targets	Indicators
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>
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>
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>
Promote gender awareness and equality	<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>
Promote environmental awareness and sustainable development	<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>
Further enhanced Government ownership of programme implementation	<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>
Enhance coordination between international donors under the Government	<ul style="list-style-type: none"> <li>• Establishment of formal donor coordination mechanism under the Government</li> </ul>

Progress towards programme and sector targets will be monitored regularly throughout the planning period, in close cooperation between Denmark and Bhutan. As part of the programme, support will be provided through the Good Governance programme to key government institutions, including the monitoring and evaluation secretariat of the Planning Commission Secretariat, in order to ensure that the necessary monitoring capacity is present and developed.

### 3.4 Assumptions, obligations and major risks

A number of mutual assumptions and obligations govern the cooperation in the planning period. The most important of these can be summarised as follows:

**Denmark will:**

- Provide funding and technical assistance for implementation of the programme as elaborated in this strategy
- Coordinate with other relevant donors
- Report regularly on availability of funds to the Government of Bhutan

**Bhutan will:**

- Continue to pursue and strengthen the democratic process and promote human rights, including:
  - Adoption of a democratic constitution
  - Ratification of UN conventions on Civil and Political Rights; Economic, Social and Cultural Rights, Racial Discrimination and Against Torture.
  - Continuation of the decentralisation process
- Contribute to financing and implementing the 9th FYP with focus on pro poor policies, with a view to making progress towards realisation of the MDG.

The political situation in Bhutan is stable, economic prospects for the future are relatively good and the Government is committed to making the most of ODA. However, there are a number of factors that will shape the future of Bhutan in the years to come, and which therefore will influence the success of the co-operation. These include the success of the democratisation process, and inter alia a satisfactory resolution of human rights/refugee issues; implementation of the ambitious plans for decentralisation, realisation of the optimistic projections for macro economic development (which largely depend on the possibility to sell substantial quantities of electricity to India at appropriate tariff rates) and the ability to promote economic diversification, e.g. through development of the private sector and employment generation. The single most uncertain factor in the short term is the presence of foreign militants in southern Bhutan, which may result in a protracted conflict in parts of the country diverting attention from other important issues and negatively affecting economic development.

### **3.5 Cross cutting and other priority issues**

In accordance with Denmark's development policy three cross cutting themes will be pursued at all levels in the Danish assistance during the planning period. These are gender, environment and good governance/human rights. In addition support to the decentralisation process will be treated as a cross cutting issue in Bhutan, because of its importance and relevance for all sectors. These issues are addressed in chapter 4 dealing with each sector programme.

A number of new priority areas, the rights of children and young people, conflict prevention, HIV/AIDS and private sector development will also be addressed as appropri-

ate. With regard to children and young people they will be the prime beneficiaries of the Education Sector Programme. In the Health Sector Programme a major focus will be on improvement of children's health with the aim of reducing infant and child mortality, by improving access to services. Furthermore, support to urban development is intended to support job creation outside the agricultural sector for the growing population. With regard to conflict prevention activities will centre on improving rights through the Good Governance Programme, as well as through the Education and Health Sector Programme, where access for all is a major goal. Another possible area of intervention with clear conflict prevention potential is support for repatriation and reintegration of refugees from camps in Nepal, once an acceptable solution to the refugee situation has been found. HIV/AIDS will be addressed in the Health Sector Programme, as an important part of primary health care and health education where it will be ensured that sufficient funds are allocated to ensure adequate prevention and treatment efforts in order to keep the infection rate at the relatively low level and even reduce the rate. Finally promotion of the private sector will take place the Environment and Urban Sector programme through support for urban planning and infrastructure as well as through the Private Sector Development Programme. The Mixed Credit Programme will also provide an opportunity for cooperation between Denmark's and Bhutan's private sector

### **3.6 Implementation**

National ownership is a fundamental development policy in Bhutan. The Government will remain the key partner and development assistance will continue to be channelled through government channels. Consequently, the planning and implementation of Danish funded programmes and projects will be characterized by a strong Bhutanese engagement and national execution, and activities will be closely integrated into national structures. The Danish assistance is an integral part of the budget for the 9<sup>th</sup> FYP.

Focus on a limited number of sectors has enabled increased Danish involvement and insight in each sector, both financially and technically. This has led to a greatly enhanced dialogue and cooperation with both the Government and other donors. Efforts to fully integrate the Danish assistance into the Government's own systems and budgets will continue. Most advanced in this respect are the health sector and possibly the education sector, where Denmark has/will introduce sector budget support

The introduction of sector budget support is based on a number of factors, among which are Bhutan's clearly articulated goals and plans as well as its demonstrated will and capacity to implement these. Corruption is limited and monitoring mechanisms are strong. Denmark has provided substantial support for control mechanisms, including the Royal Audit Authority, which is generally considered to be well functioning. The expected increase in direct sector budget support in health and education will be

supplemented by earmarked funds for technical assistance especially within strategic planning, financial management and management information systems. The move towards sector budget support can be viewed as a natural development in the Danish-Bhutanese cooperation where capacity in key institutions has been build up during many years as well as a trust from the Danish side in the Bhutanese system but also as part of the strategy to gradually adjust the Danish assistance to Bhutan as the country is increasingly capable of financing its own development.

Technical assistance is expected to continue, albeit at a lower level than before. Although capacity has been build at the central government institutions, there is still need for carefully targeted technical assistance to ensure a reliable implementation of the 9<sup>th</sup> FYP.

There are only three registered NGOs in Bhutan. However, a number of informal organisations exist as well as traditional local community groups. Denmark will, as a supplement to the cooperation with the Government, seek to expand its partnerships with these groups, and others that may be formed, to support an emerging civil society.



## 4. Danish-Bhutanese Co-operation 2003-2007: The Programme

### 4.1 Health

#### **Targets to be achieved by 2007:**

- Reduce infant mortality from 60/1000 to 30/1000
- Reduce child (under 5) mortality from 84/1000 to less than 50/1000
- Reduce maternal mortality rate from 255/100,000 to 150/100,000
- Increase access to safe drinking water in rural areas from 73% to 100%

Bhutan assigns high priority to the health sector. During the 8th FYP 13% of the total budget were used in the sector. The long-standing focus on the sector has resulted in major improvements in the health of the general public. Infant mortality has dropped from 103 per 1,000 in 1984 to 60 in 2000. In the same period child (under 5) mortality has dropped from 162 per 1,000 to 84, maternal mortality has dropped from 773 per 100,000 to 255 and life expectancy has increased from 46 to 66 years. Long standing Danish support for the sector has contributed to these positive results. However, there is still scope for improvements. Quality of the services is still not adequate, and a considerable part of the population is without access to primary health care, in particular in the poorest and most remote parts of the country.

Phase III of the Danish funded Health Sector Programme Support (HSPPS III) will be implemented during the 9<sup>th</sup> FYP. The decision to continue support for the sector is based on the assessment that the sector plays an important part in improving living conditions of the poorest part of the population, the strong commitment of the Government to improving health services and the positive experiences from prior support. Bhutan's health policy is – with its strong poverty focus – well in line with Danish development objectives.

Objectives for Danish support will be identical to the objectives of the 9<sup>th</sup> FYP. The long-term objective is the attainment of healthy living by the people that permits them to lead socially, mentally and economically productive lives. The vision for the planning period is the continued strengthening of health services, with special emphasis on con-

solidation of results achieved and improvement in quality and access. Another priority is improvement in sexual and reproductive health with a view to further reducing infant mortality, improving women's health and reducing population growth.

Support for expansion of coverage and improvement of quality of primary health care will be the core strategy to achieve the objectives. The programme is divided into two components: A. Sector budget support, and B. Earmarked support for training, long term planning, technical support and monitoring and evaluation. Certain fundamental prerequisites for sector budget support has been agreed, including an allocation to current expenditures in the health sector of 11-12% of total current expenditures as planned in the 9<sup>th</sup> FYP, no major changes in the relationship between recurrent costs and capital investments, and allocations to primary health care of at least 50% of the health budget. Denmark will in partnership with Bhutan monitor progress in the sector closely. In addition support for access to clean drinking water in rural areas through the rural water component will continue as planned with the goal of achieving full coverage by the end of the planning period.

The Health Sector Programme will address all three cross cutting issues. With regard to gender activities the programme will support better access for women to health services, improve sexual and reproductive health and maternal mortality and promote advancement opportunities of female staff. As far as the environment is concerned the programme will support implementation of the Governments guidelines for dealing with dangerous hospital waste and ensure adequate environmental assessments for new infrastructure developments. In the area of good governance/human rights the programme will promote accountable administration, including access for all to the services. Furthermore, the programme will support the ongoing decentralisation of the health administration.

By the end of the planning period it is envisaged that Bhutan has a health system with access for all with services of improved quality and with improvements in the institutional and financial sustainability. Consequently, it is expected that HSPS III will be the last full scale Health Sector Programme, although it may still be necessary after 2007 to provide limited support, in particular for training and capacity building.

## 4.2 Education

### **Targets to be achieved by 2007:**

- Increase primary enrolment rates from 72% to 90%,
- Improve overall literacy rate from 54% to 80%
- Improve girl/boy ratio at secondary school level from 82/100 to 89/100.

Similar to the health sector, indicators for education in Bhutan have improved significantly in the last decades. Since the early 1960s adult literacy rates have quadrupled to about 54% in 1999. Primary school enrolment rates have increased from 63% in 1990 to 72% in 2000. The number of schools and students has increased from 31 and 440 in 1959 to 361 and 117,693 in 2001. Like in health these improvements are a consequence of a high priority assigned to the sector by the Government. During the 9<sup>th</sup> FYP it is foreseen that 15% of the budget will be spent on education, constituting the largest single share in the plan. However considerable problems persist in the education sector, especially with regard to access and quality.

The first Danish Education Sector Programme will be initiated during the planning period, in recognition of the pivotal role played by education in poverty reduction and the need for external financing to meet the ambitious objectives of the 9<sup>th</sup> FYP. Support to education will contribute to empower the poor to improve their economic situation and to take full advantage of their social and political rights. Support for education is particularly important in a situation where rapid population growth implies that an increasing part of the rural population need to earn their livelihood from other sources than traditional subsistence agriculture, and should be seen in the context of the overall vision of promoting Bhutan as a knowledge based society.

The objectives of Danish assistance will be to support the Government's goal of full access to basic education, with specific focus on equity and quality. Priority areas that the Government will address include improvement of quality of education both in terms of delivery and content; provision of basic education for all up to class ten; introduction of IT; development of greater synergy between the education system and skills requirement in the job market; formulation of clear policies for construction and management responsibility of urban and rural primary schools; and building a sound data and information base for informed decision making and rational planning.

The Danish assistance to the education sector is foreseen to be channelled primarily as sector budget support. The sector budget support will be based on specific indicators for the development of the sector, which can be monitored on a yearly basis. In addition to the financial assistance, Denmark will provide support to capacity building

within the education system. This will include training within the context of the sector's human resource development plan. Synergies and linkages to vocational training will also be considered. Close cooperation will be established with other major donors to the sector, which are expected to include the World Bank and Switzerland.

The programme will address all three cross cutting issues. With regard to gender it will support access of girls to education at all levels and promote equal advancement opportunities for female staff. With regard to environment it will promote environmental awareness in the curriculum. With regard to good governance it will support equal access for all to the services, promote a transparent and accountable administration and enable participation in a democratic society. Furthermore, it will support the ongoing decentralisation of educational administration.

By the end of the planning period significant improvements in access to and quality of education in Bhutan should have been achieved, in accordance with the targets listed above. However, it is expected that support for education will be continued in a second phase with a particular focus on increase in the quality of education.

### **4.3 Environment and Urban development**

#### **Targets to be achieved by 2007:**

- Adoption of the National Environmental Protection Act
- Maintain 60 % forest cover at all time
- Improved urban infrastructure
- Enhancement of capacity for urban management, including maintenance of infrastructure

Bhutan has a unique and well-preserved environment, with a rich flora and fauna. This is a result of a strict environmental policy on the part of the Government. However, a number of factors, such as high population pressure on arable land, road construction, expansion of industries, modernisation of the agricultural sector and further development of hydropower and mining, will put increasing pressure on the environment in the future. An area of particular attention is the urban environment. Urbanisation in Bhutan is still limited, with only 21% of the population living in urban areas. But a fast growing population and lack of employment opportunities in rural areas is expected to result in increased migration to urban centres, placing great demands on infrastructure and capacity for urban planning and management.

Previously, Danish support has been provided as two separate programmes for environment and urban development respectively. In the planning period the two will be

merged into one “Environment and Urban Sector Programme”. Support to the environment will be continued because of its relevance in a poverty reduction context as well as the continued need for capacity development at all levels of government in the area of natural resource management. Through the merger with the urban development programme, support will also address the growing demands for environmentally sustainable development of urban infrastructure, including treatment of sewage and water, and the need for building capacity for environmentally sustainable urban planning and management, thus helping to prevent growth in problems related to urban poverty.

The 9<sup>th</sup> FYP assigns high priority to both environment and urban development. For environment the major objectives for the planning period are, strengthening overall environmental management and coordination; establishment of adequate legal frameworks, including national legislation; promoting increased environmental awareness and implementation of pollution control and environmental management initiatives. Within the urban sector focus is on preparation of land use and management plans for urban areas and preparations of concrete plans for regional growth centres around smaller provincial towns and formulation of urban development and housing policies and regulations.

For the Danish support the dual objective will be related to: (1) achievement of the development objective of the national environmental strategy “the middle path” as well as poverty reduction through sustainable equitable and efficient management of natural resources and pollution abatement and mitigation, and; (2) reduction and prevention of poverty in small towns through environmentally sustainable urban development. It will build on the experiences gained and achievements reached so far in the Danish supported activities.

In order to reach the objectives the programme will support (1) enforcement of environmental acts through capacity development of enforcing agencies and strengthening regulatory frameworks; (2) field testing and documentation of more sustainable, efficient and equitable land and water management, leading to poverty reduction and improved living standards and enhancement of environmental awareness in all sectors of society; (3) promotion of cleaner technology; (4) increased capacity at all levels to manage and develop the urban sector in an environmentally sustainable way, and (5) support for infrastructure development.

The programme will support gender equality by ensuring female representation in land and water management. The ongoing decentralisation process will be supported within the sectors, inter alia through capacity building for environmental impact assessments at decentralised levels.

By the end of the planning period capacity in Bhutan for both environmental and urban management as well as urban infrastructure, will have been strengthened. It is, however, expected that support for selected components in environment and urban development will be continued beyond 2007, in order to ensure the long-term sustainability of Danish support.

#### **4.4 Good Governance/Public Administration Reform/Human Rights**

##### **Targets to be achieved by 2007:**

- Adoption of a democratic constitution
- Ratification and implementation of the major UN conventions on Civil and Political Rights; Economic, Social and Cultural Rights, Racial Discrimination and Against Torture.
- 25% of Government resources administered at district and block levels.

Bhutan has seen considerable progress in the area of good governance in recent years, inter alia, the significant steps taken towards devolution of power initiated by the King in 1998, administrative reforms, which began in 1999, the constitutional process initiated in 2001 and the decentralising process, which has gained momentum with adoption of the 9<sup>th</sup> FYP. Danish support has played a significant role in these achievements. While Bhutan thus seems to be on the path to becoming a democracy major challenges still remain. These include success in the political reforms, resolution of the human rights and refugee issues and addressing the problem of the presence of foreign militants inside Bhutan.

The overall goal of Bhutan's governance policy is to provide opportunity for individuals and society to grow in a structure governed by laws and socially responsive policies. The 9<sup>th</sup> FYP sets out a number of strategies, which includes strengthening the rule of law and judicial reforms, enhancing accountability and transparency, promotion of economic and political decentralisation and improving management of public services. Important milestones expected during the planning period will be the adoption of the Constitution and the implementation of increased authority to block and district administrations.

Phase II of the programme (GG/PARP II 2003-2007) will be implemented during the planning period. Continued development of democracy and good governance at both central and local levels is essential for popular participation in, and influence on, the development process.

The programme has as the overall objective to promote administrative efficiency and professionalism, strengthen the rule of law and enhance popular participation in deci-

sion-making. It will build on the results of phase I, and focus Danish support in four essential areas of governance: 1.) Decentralisation and strengthening of public administration, by strengthening capacity of the key institutions at central level responsible for the process and capacity building at decentralised levels, 2.) Further development of the rule of law, including through institutions responsible for legal advice to the government, support for development of the criminal law and media law, 3.) Radio broadcasting, with the aim of expanding radio coverage to the entire country and improving quality of public service broadcasts, and 4.) Key institutions responsible for public finance, in particular the audit authorities, and institutions involved in public revenue collection. It will also offer support to future key challenges for Bhutan, including support to new democratic institutions following from the constitution, strengthening the National Assembly and capacity building for ratification and implementation of the major UN Conventions on Human Rights.

Through the programme's general support to implementation of the decentralisation reforms the programme will support the implementation of interventions in other sectors. Coordination and synergies between these interventions will be ensured and developed. With regard to gender the programme will promote female participation in politics and employment and advancement in the public sector.

By the end of the programme period it is expected that democratic institutions and public participation as well as public administration have been further strengthened in Bhutan. It is expected that support to democracy/good governance/public administration, will continue beyond 2007, in particular in the area of support for decentralisation and capacity development at decentralised levels, with the aim of consolidating results achieved as well as support for democratic institutions emerging as a result of the Constitution.



## 5. Bilateral assistance outside the Country Programme

In addition to the support provided in the four areas above, support is also envisaged through the Mixed Credit Programme and the Private Sector Development Programme.

Support under these windows is well justified, in particular with a view to providing support for strengthening of the private sector. Hitherto private sector development in Bhutan has been limited, but the Government has made this a priority in the 9<sup>th</sup> FYP, in order to create conditions for a more broad based economic growth in the future and provide employment opportunities outside the public sector for the increasing number of young people who leave school.

As far as mixed credits are concerned, being a programme country and a LDC, 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%. Danida has approved mixed credit financing of the first part of the "Rural Telecommunications Project" with an estimated contract value of USD 20 million. Support under the Mixed Credit Programme will to the extent possible aim at underpinning activities in the country programme. The possibilities for support of other infrastructure projects under the Mixed Credit Programme will be examined.

The Private Sector Development Programme was initiated in 2002. There are preparations under way for joint ventures between a number of Bhutanese and Danish companies, in i.e. construction, agriculture and eco-tourism.



## 6. Monitoring of the Country Programme

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

Sector reviews will be performed in the priority sectors, if possible in association with other donors. The results of these reviews are included as basis for the overall consultations between Bhutan and Denmark. Similarly, regular reviews are conducted of Danish support to activities outside the priority sectors.

Verifiable and measurable indicators will be used to monitor progress in the programme. Bhutan has not yet developed general indicators for poverty reduction to be achieved during the 9<sup>th</sup> plan period. A new division in the Planning Commission (Monitoring and Evaluation 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. It is expected that national indicators on poverty reduction will be established in 2004.

A number of key indicators (targets) on sector level have been identified based on the indicators of the 9<sup>th</sup> FYP, and will be used to measure progress in implementation of the Strategy. These are listed in chapter 4 under each sector.

In addition it is expected that an evaluation of the country programme, assessing the results achieved and providing direction for the future development cooperation between Denmark and Bhutan, will be take place during the planning period.



# Annex 1

## Key economic and social figures

### Key economic figures:

Area	38,394 km <sup>2</sup>
Population approximately	800.000
GDP per inhabitant	USD 755
Annual economic growth (GNP) per inhabitant	7%
Economic sectors:	
Agriculture	33%
Industry	37%
Services	30%
Development assistance per inhabitant, 2001 (OECD)	59 USD
Foreign debt, 2003	
Total foreign debt (EDT)	USD 406 million

### Key social figures:

Population growth, annual, 2003	2,5 %
Life expectancy, 2003	66 years
Infant mortality per 1,000 live births, 2000	60
No access to clean drinking water	22 %
No access to health facilities	10 %
Total doctors per 100,000 inhabitants	17
Adult illiteracy, 2000	46 %
Primary education, 2000	72 %
Girls in primary education, 1998	62 %
Social sector, percentage of public expenditure	25 %

## Key development indicators

	1990 <sup>1</sup>	2000	9th FYP 2007 <sup>2</sup>	MDG 2015 <sup>3</sup>
Incidence of poverty (%)	-	-	-	-
Incidence of extreme poverty (%)	-	-	-	-
Primary enrolment rate (%)	55	72	90	100
Under 5 mortality rate per 1000 live births	123	84	50	41
HIV cases detected	0	38	-	-
Maternal mortality rate per 100,000 births	560	255	150	140

1 Baseline figures

2 Selected targets from the 9<sup>th</sup> FYP

3 UNDP – MDG Progress Report 2002

Danida  
Royal Danish Ministry of Foreign Affairs

Production:  
© 2004  
Ministry of Foreign Affairs  
2, Asiatick Plads  
DK-1448 Copenhagen K  
Denmark  
Phone: +45 3392 0000  
Fax: +45 3254 0533  
E-Mail: [um@um.dk](mailto:um@um.dk)  
Internet: [www.um.dk](http://www.um.dk)

Design and print:  
Schultz Grafisk

Cover Photo:  
Mikkel Østergaard

The publication can be ordered from:  
Danish State Information Centre  
[www.danida-publikationer.dk](http://www.danida-publikationer.dk)  
Phone +45 7010 1881

ISBN:  
Print version: 87-7964-988-2  
Internet version: 87-7964-990-4

Final drafting September 2003

## **Danida**

Royal Danish Ministry of Foreign Affairs

Ministry of Foreign Affairs  
2, Asiatisk Plads  
DK-1448 Copenhagen K  
Denmark  
Phone: +45 33 92 00 00  
Fax: +45 32 54 05 33  
E-Mail: [um@um.dk](mailto:um@um.dk)  
Internet: [www.um.dk](http://www.um.dk)

ISBN: 87-7964-988-2