



# Country Partnership Strategy

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**INTERNAL**

August 2024

## Bhutan, 2024–2028 —Supporting Inclusive, Sustainable, Resilient, and Job-Creating Growth

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 6 August 2024)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.012
\$1.00	=	Nu83.95

## ABBREVIATIONS

ADB	–	Asian Development Bank
COL	–	concessional ordinary capital resources lending
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
CSO	–	civil society organization
FDI	–	foreign direct investment
GDP	–	gross domestic product
IDA	–	International Development Association
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MW	–	megawatt
OP	–	operational priority
PFM	–	public financial management
PPP	–	public–private partnership
PSD	–	private sector development
PSM	–	public sector management
RCI	–	regional cooperation and integration
SDG	–	Sustainable Development Goal
SOE	–	state-owned enterprise
TA	–	technical assistance
TVET	–	technical and vocational education and training

## NOTES

- (i) The fiscal year (FY) of the Government of Bhutan ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2025 ends on 30 June 2025.
- (ii) In this report, “\$” refers to United States dollars.

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## COUNTRY AT A GLANCE

Economic <sup>a</sup>	2019	2020	2021	2022	2023
GDP (\$ billion, current)	2.74	2.46	2.77	2.90	2.99
GDP per capita (\$, current)	3,688	3,281	3,661	3,797	3,879
GDP growth (% , in constant prices)	5.8	(10.2)	4.4	5.2	4.0
Consumption (annual % change)	1.2	3.5	0.2	3.1	3.1
Investment (annual % change)	(7.3)	(22.2)	20.7	29.2	(4.9)
Consumer price index (annual % change)	2.7	5.6	7.3	5.6	4.2
Overall fiscal surplus (deficit) (% of GDP)	(1.1)	(1.8)	(5.8)	(7.0)	(6.7)
Total revenue (% of GDP)	22.8	29.1	30.9	25.1	25.7
Tax revenue (% of GDP)	14.7	12.2	10.7	12.0	13.3
Merchandise export (\$) growth (annual % change)	13.1	(5.4)	20.0	(6.9)	(11.5)
Merchandise import (\$) growth (annual % change)	(4.6)	(12.7)	35.4	29.3	(13.1)
Current account balance (% of GDP)	(12.9)	(13.0)	(20.1)	(31.2)	(25.2)
External debt (% of GDP)	102.1	120.1	108.1	104.3	102.0
General government gross debt (% of GDP)	102.1	123.6	117.2	115.2	113.4
Reserves (\$ million)	1,213.6	1,453.9	970.4	766.6	607.0
Average exchange rate (local currency unit/\$)	70.4	74.1	73.9	78.6	82.6
Poverty and Social <sup>b</sup>	2015			2023	
Population (million)	0.743 [2015]			0.782 [2022]	
Population growth (annual % change)	0.9 [2015]			0.6 [2022]	
Unemployment rate <sup>c</sup>	2.5 [2015]			3.5 [2023]	
Population with access to electricity (%)	95.4 [2015]			100 [2021]	
Maternal mortality ratio (per 100,000 live births)	73.7 [2015]			60 [2020]	
Infant mortality rate (below 1 year/per 1,000 live births)	27.4 [2015]			22.5 [2021]	
Life expectancy at birth (years)	70.3 [2015]			71.8 [2022]	
Number of years of schooling				13.2 [2022]	
Completion rate for primary education	94.8 [2015]			78.6 [2022]	
Population below poverty line (%) <sup>c</sup>	8.2 [2017]			12.7 [2022]	
Proportion of population using safely managed drinking water services	47.5 [2015]			73.3 [2022]	
Proportion of population using (i) safely managed sanitation services, and (ii) a handwashing facility with soap and water	(i) 48.2 [2015]			(i) 50.5 [2022]	
	(ii) 86.0 [2015]			(ii) 93.2 [2022]	
Environment <sup>b</sup>	2023				
Carbon dioxide emissions (tons)	10,352,000 [2020]				
Carbon dioxide emissions per capita (tons)	1.3 [2020]				
Forest area (million hectares)	2.7 [2021]				
Urban population (% of total population)	43.7 [2022]				
Renewable energy share in total final energy consumption	87.5 [2021]				

<b>ADB Portfolio (active loans and ADF grants)<sup>d</sup></b>	<b>As of 31 December 2023</b>
Total number of loans and ADF grants	
Sovereign	21
Nonsovereign	0
Total loan and ADF grant amount (\$ million) <sup>e</sup>	
Sovereign	353.10
Nonsovereign	0
Disbursements (sovereign)	
Disbursed amount, total (\$ million, 2023)	39.12
Disbursed amount, excluding PBL (\$ million, 2023)	39.12
Disbursement ratio, excluding PBL (%)	24

( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, PBL = policy-based lending.

<sup>a</sup> ADB. 2024. *Asian Development Outlook April 2024*.

<sup>b</sup> Data are from the World Bank, unless specified otherwise.

<sup>c</sup> Data from the National Statistics Bureau's labor force survey reports.

<sup>d</sup> Covers ADF and ordinary capital resources financing for projects and programs, including PBL, unless otherwise stated.

<sup>e</sup> Net of droppages and cancellation.

Source: Asian Development Bank.

## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Development context.** Bhutan is a small, landlocked, and mountainous country located along the eastern ridges of the Himalayas. It has a population of about 780,000, with 40% being below the age of 24.<sup>1</sup> Bhutan has made good progress in reducing poverty and improving its education and health indicators, assisted by strong economic growth (which averaged 6.5% during 1990–2019), and the constitutionally mandated provision of free basic health services and education up to the tenth grade. It achieved the target of reducing extreme poverty rate by 50%—set under the Millennium Development Goals—in 2007, ahead of schedule. Headcount poverty, based on the poverty line of \$3.65 per person per day in 2017 purchasing power parity, fell from 9% in 2017 to 1% in 2022, despite the disruptions caused by the coronavirus disease (COVID-19) pandemic. Primary school enrollment is nearly universal, and the gross secondary school enrollment rate in 2022 was 95% for girls and 82% for boys. Participation in college has doubled since 2013, and there is broad gender parity. From 2010 to 2020, the infant mortality rate improved from 34 per 1,000 live births to 23 per 1,000 live births, and the maternal mortality rate declined from 117 per 100,000 live births to 60 per 100,000 live births. As of 2021, all households had access to electricity, 97% to basic drinking water, and 77% to at least basic sanitation. Bhutan is making progress on about 58% (72 indicators) of the Sustainable Development Goal (SDG) indicators for which sufficient data are available. However, rural-urban differences in levels of income, poverty, and access to public services, and persistently high levels of youth unemployment remain matters of concern.

2. **Emerging challenges.** Bhutan's annual average gross domestic product (GDP) growth slowed from 8% during 2000–2009 to 6% during 2010–2019, and further to –0.3% during 2020–2022 due to the pandemic. Post-pandemic economic recovery remains weak. Bhutan's GDP grew by 4.4% in 2021, 5.2% in 2022, and 4.0% (estimated) in 2023.<sup>2</sup> It is projected to grow by 5.7% during 2024–2025.<sup>3</sup> To reverse the slowdown and create conditions for high and inclusive growth, Bhutan needs to address the following challenges: (i) a narrow economic base and heavy dependence on the hydropower sector, (ii) worsening macro-fiscal position and growing debt, (iii) continuing dominance of state-owned enterprises (SOEs), (iv) absence of an enabling environment for the private sector, (v) vulnerability to climate change and disasters, (vi) high levels of youth unemployment and outmigration, and (vii) weak public sector management (PSM) and lack of adequate transparency.

3. **Asian Development Bank strategic priorities.** The overarching goal of the new Asian Development Bank (ADB) country partnership strategy (CPS), 2024–2028 is to reinforce Bhutan's efforts in fostering inclusive, sustainable, resilient, and job-creating growth. The priorities of the CPS are based on Bhutan's needs, ADB's comparative advantage and experience, and lessons and recommendations of the final review of the CPS, 2019–2023 and its validation report prepared by ADB's Independent Evaluation Department.<sup>4</sup> The CPS will focus on: (i) strengthening PSM and enabling private sector development (PSD), (ii) building climate-adaptive and resilient infrastructure and systems, and (iii) supporting human capital development and enhancing the

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<sup>1</sup> Government of Bhutan, National Statistics Bureau. 2023. [Statistical Yearbook of Bhutan 2023](#).

<sup>2</sup> Further details are in the Inclusive and Sustainable Growth Assessment (Annex 1).

<sup>3</sup> If the 1,020-megawatt (MW) Punatsangchhu-2 hydropower project is commissioned and power sales to India begin by early 2025, it is projected that Bhutan's GDP growth in 2025 will increase to 7%. ADB. 2024. [Asian Development Outlook April 2024](#).

<sup>4</sup> ADB. 2023. [Country Partnership Strategy Final Review: Bhutan \(2019–2023\)](#); and Independent Evaluation Department. 2024. [Bhutan: Validation of the Country Partnership Strategy Final Review, 2019–2023](#). ADB.

employability of youth.<sup>5</sup> In line with ADB's new operating model, there will be a shift towards PSD, and climate change and disaster risk reduction and management under the CPS, 2024–2028.<sup>6</sup> There will be more focus on regional cooperation and integration (RCI) to facilitate trade, improve cross-border connectivity, and create business and employment opportunities. ADB staff across sovereign and nonsovereign teams will work together to offer multisector, integrated solutions. Gender equality and social inclusion will be further mainstreamed in the design and implementation of loans, technical assistance (TA), and knowledge products.

4. **Alignment with government plans and ADB's corporate strategy.** Bhutan's substantial achievements in economic growth and poverty reduction enabled it to graduate from least-developed country status on 13 December 2023.<sup>7</sup> The Thirteenth Five Year Plan, 2024–2029, and the long-term growth strategy, 2024–2034, lay down ambitious targets:<sup>8</sup> (i) increase GDP from about \$3 billion in 2023 to \$5 billion in 2029, and \$10 billion by 2034; and (ii) make Bhutan a high-income economy by raising per capita income from \$3,879 in 2023 to more than \$12,000 by 2034.<sup>9</sup> Under the CPS, 2024–2028, ADB will reinforce the government's efforts in working towards these goals. The strategic priorities are aligned with the operational priorities (OPs) of ADB Strategy 2030—in particular, addressing remaining poverty and reducing inequalities (OP1); accelerating progress in gender equality (OP2); tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3); strengthening governance and institutional capacity (OP 6); and fostering RCI (OP7).<sup>10</sup>

5. **Value addition and selectivity.** ADB will add value by tapping synergies across different sectors and themes, and its sovereign and nonsovereign operations. The three strategic priorities will be operationalized through a combination of (i) policy-based loans that support public sector and financial market reforms to unlock systemic obstacles impeding PSD and trade, and to incentivize climate adaptation; (ii) investment loans to create sustainable, resilient, and ecologically friendly infrastructure; and (iii) TA and knowledge products to build capacity for analytical work and policy reforms, improve PSM, promote public–private partnerships (PPPs), and strengthen climate adaptation and disaster resilience. ADB will be selective and operate in areas of its comparative advantage—e.g., renewable energy (solar and hydropower), river basin management, urban resilience, transport connectivity with a focus on RCI, and human capital development—where other development partners are either absent or operate at a small and fragmented level, and where the government values on ADB's expertise and knowledge.

## II. COUNTRY DEVELOPMENT CONTEXT

6. **Significant progress in poverty reduction and human development.** Bhutan has done well in reducing poverty, and improving social, education, and health indicators. It is on track to achieve SDG 1 (no poverty), SDG 3 (good health and well-being), SDG 6 (clean water and sanitation), and SDG 7 (affordable and clean energy). Performance on SDG 2 (zero hunger), SDG 4 (quality education), SDG 12 (responsible consumption and production), and SDG 15 (life on land) has also been good. However, Bhutan is regressing on SDG 8 (decent work and economic growth), SDG 9 (industry, innovation, and infrastructure), and SDG 13 (climate action).

<sup>5</sup> From 1983 to 31 December 2023, ADB committed \$1.2 billion to Bhutan across 207 public sector loans, grants, and technical assistance (TA) projects. Cumulative loan and grant disbursements to Bhutan total \$914.7 million.

<sup>6</sup> For details, refer to the Private Sector Development Plan (Annex 5) and Climate Change and Disaster Risk Reduction and Management Plan (Annex 6).

<sup>7</sup> United Nations Least-Developed Countries Portal. [Bhutan graduation status](#).

<sup>8</sup> Government of Bhutan. 2024. [Thirteenth Five Year Plan, 2024–2029](#).

<sup>9</sup> This will require an average annual growth of about 13% over 10 years.

<sup>10</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#).



Bhutan ranked 125th out of 193 economies in the Human Development Index for 2023.<sup>11</sup> While school and college enrollment rates are quite high in Bhutan, the quality of education and employment outcomes remains weak. Quality of education as measured by learning-adjusted years of schooling places Bhutan second-lowest in South Asia at 6.3.<sup>12</sup> Bhutan was the second-lowest South Asian country on the Human Capital Index in 2020, with a score of 0.48.<sup>13</sup> Only 1 in 4 persons with disabilities were literate or had attended formal education in 2021.<sup>14</sup> During 2017–2022, life expectancy rose from 70.8 years to 71.8 years, while the multidimensional poverty index declined from 5.8% to 2.1% as delivery of basic services improved. Since the national poverty line was revised upward in 2022, the rate in 2017 (8.2%) cannot be compared with that in 2022 (12.4%). The 2022 rural poverty rate was 17.5%, as compared to the urban rate of 4.2%.

7. **Decline in long-term economic growth, 2000–2019.** Bhutan's economic performance in recent years has been weak. It faces both structural constraints and new challenges (para. 2). Unless these are addressed, Bhutan will find it difficult to achieve its ambitious development goals (para. 4). Bhutan's strong average annual GDP growth during 2000–2009 (8%) was mainly due to the commissioning of two hydropower plants—the 60 megawatt (MW) Kurichhu plant in 2002 and the 1,020 MW Tala plant in 2007; strong manufacturing growth led by power-intensive, mineral-based industries including ferrosilicon, cement, and ceramics; and the opening up of the economy as a result of economic reforms. Hydropower, manufacturing, construction, financial services, and real estate contributed about 60% of the growth during this period. However, Bhutan's average annual growth rate declined to 6% during 2010–2019 because of a slowdown in manufacturing, lack of effective reforms to reduce the regulatory burden on the private sector, growing dominance of SOEs, and the commissioning of only a single hydropower plant (the 720 MW Mangdechhu plant) in late 2019. GDP per capita tripled from \$723 in 2000 to \$2,194 in 2010, but grew by only 1.7 times to \$3,688 in 2019.<sup>15</sup>

8. **Slow post-pandemic recovery.** The COVID-19 pandemic dealt a severe blow to Bhutan's economy, which had already begun to slow down over the preceding decade. Through a combination of measures, including lockdowns, strict travel and quarantine requirements, and high vaccine coverage (about 95%), the government controlled the spread of infection effectively. There were only 21 COVID-19 deaths in Bhutan. However, the prolonged restrictions, border closure with India, and ban on tourism caused Bhutan's economy to contract by 10.2% in 2020. Fiscal and monetary stimulus measures helped to buffer small businesses and vulnerable sectors from the adverse impact of the economic slowdown and job losses, but weakened Bhutan's fiscal position and raised debt levels.

9. **Worsening fiscal performance.** In 2018 and 2019, Bhutan's fiscal deficit was low at 2.4% and 1.1% of GDP. The collapse in economic activities during the pandemic caused tax and nontax revenue to decline sharply. Government spending on COVID-19 relief, rescheduling of loan repayments, and economic stimulus spending pushed up the fiscal deficit to 6.7% of GDP by 2023. The tax-to-GDP ratio declined from 15.7% in 2018 to 12.2% in 2020 before increasing to 13.3% in 2023. More needs to be done to reform tax policy and modernize tax. The Property Tax

<sup>11</sup> UNDP. 2023–2024. [Human Development Index](#).

<sup>12</sup> World Bank. 2020. [Gender Data Portal](#).

<sup>13</sup> The Human Capital Index is calculated as a function of learning-adjusted years of schooling, stunting rate, and survival rates. It captures the expected productivity of a country's workforce and ranges from 0 to 1. A child with 0.48 Human Capital Index score can expect to be 48% as productive in employment as she or he would be if she or he enjoyed complete education and full health. World Bank Group. [Human Capital Project](#).

<sup>14</sup> Government of Bhutan, Ministry of Education and United Nations Children's Fund (UNICEF) Bhutan. 2022. [Evaluation of the Inclusive and Special Education Programme in Bhutan 2010–2020](#).

<sup>15</sup> In current United States dollars. World Bank. [World Development Indicators](#) (accessed 26 January 2024).

Act of Bhutan 2022 introduced a uniform value-based property tax rate of 0.1% on all properties. This led to a sharp increase in revenue, from \$0.7 million in 2022 to \$7.5 million in 2023. The Ministry of Finance (MOF) projects an annual revenue of around \$7 million because of the revised property taxes. It is estimated that if Bhutan transitions to a goods and services tax (expected in July 2025), additional taxes of around 1.1% of GDP can be mobilized.<sup>16</sup>

10. **Large current account imbalance.** Due to its small size, Bhutan relies heavily on imports of essential goods, including petroleum, machine parts, consumer goods, computers, coal, and rice and other food items from India. Barring hydropower exports to India, most other Bhutanese exports (ferrosilicon, gypsum, dolomite, cement, and boulders) are extractive and have low value addition. Owing to this heavy dependence on imports, low value-added exports, and poor terms of trade, Bhutan's current account continues to be in deficit. It was 19.8% of GDP on average between 2016 to 2019, but it worsened to 31.2% of GDP in 2022. From 2019 to 2023, gross international reserves, comprising mainly Indian rupees and United States (US) dollars, declined from \$1,214 million to \$607 million. Low foreign exchange inflows because of the weak recovery of the tourism sector, depreciation of the ngultrum relative to the US dollar, and a large increase in imports of bitcoin mining equipment—valued at about \$539 million from July 2021 to June 2023—contributed to this decline in foreign exchange.<sup>17</sup> Import coverage fell from 14.7 months in 2019 to 5.5 months in 2023.<sup>18</sup> Hydropower exports to India declined from \$303 million in 2021 to \$217 million in 2023 because of poor hydrologic flows and an increase in domestic power consumption from bitcoin mining.<sup>19</sup> Since the bulk of Bhutan's imports is denominated in Indian rupees, a decline in rupee earnings from hydropower exports is cause for concern.

11. **Growing debt levels.** The public debt-to-GDP ratio increased from 94% in fiscal year (FY) 2019 to 136.8% in FY2023. The external debt-to-GDP ratio is 120.6%, or 88.2% of total public debt. About 69% of Bhutan's external debt is because of hydropower projects. The Government of India is the lender for these projects and the main buyer of the power generated. This debt is self-liquidating because it is paid back after the hydropower projects are commissioned and the sale of power to India begins. There is no exchange rate risk because the debt is denominated in Indian rupees. Consequently, the Article IV mission of the International Monetary Fund (IMF) in May 2022 (footnote 16) assessed the risk of public debt distress as *moderate*. Domestic debt rose from 4.2% of GDP in FY2019 to 16.2% of GDP in FY2023. More than 95% of domestic debt is composed of government bonds and treasury bills, reflecting a high level of financial repression.<sup>20</sup>

12. **Narrow economic base and dominance of hydropower.** Bhutan's economic base is narrow. Hydropower projects, both, during construction and after commissioning, have traditionally been the main driver of Bhutan's economy. During 2011–2020, annual earnings from hydropower exports to India accounted for an average of 10% of GDP, 33% of government revenue, and 35% of export earnings. However, since the hydropower sector is very capital-intensive, it accounts for only around 1% of direct employment. GDP growth spikes in the years when new hydropower plants are commissioned and begin selling power to India. Bhutan's hydropower production capacity increased from 1,660 MW in 2015 to 2,326 MW in 2019. This is

<sup>16</sup> International Monetary Fund (IMF). 2022. Bhutan: Staff Report for the 2022 Article IV Consultation. *IMF Staff Country Report*. No. 22/146.

<sup>17</sup> T. Zangpo. 2024. [Bhutan invests USD539 million in cryptocurrency](#). *Kuensel*. 6 May.

<sup>18</sup> Government of Bhutan, Royal Monetary Authority. 2024. [Monthly Statistical Bulletin for March 2024](#).

<sup>19</sup> Domestic sales of electricity increased from \$50 million in 2021 to \$81 million in 2023. If significant power exports are diverted for bitcoin mining instead of being sold to India, this will impact the inflow of Indian rupee reserves, which are critical given Bhutan's high import dependence on India.

<sup>20</sup> Government of Bhutan, Ministry of Finance. 2023. [Public Debt Situation Report for the quarter ended 30th September 2023](#).

expected to increase to 3,473 MW by 2025 with the commissioning of the Nikachhu hydropower project (118 MW), which is partly funded by ADB, and the Punatsangchhu II project (1,020 MW), which is funded by the Government of India. The Government of Bhutan plans to increase hydropower capacity further and is looking for financiers for large projects such as Dorjilung (1,125 MW) and Kholongchhu (600 MW). While the expanded hydropower production will help Bhutan increase power sales to India, part of the added generation capacity must be used to provide inexpensive and reliable power to support diversification of Bhutan's economy into light manufacturing, food processing, call center, (given the English language fluency of many Bhutanese and its good internet coverage), and creative industries.

**13. Dominance of state-owned enterprises.** Bhutan has 35 state-owned enterprises (SOEs) operating across multiple sectors including agriculture, energy, manufacturing, real estate, wholesale and retail trade, banking, insurance, telecommunication, aviation, manufacturing, and mining. Representatives of Bhutan's private sector often raise concerns that some SOEs (e.g., those in agriculture, livestock, media, and housing) crowd out private players because they benefit from government subsidies, tax incentives, and preferential procurement terms. Over the years, the mandates of most SOEs have expanded beyond their core social objectives, resulting in mismanagement and higher losses. In 2021, SOEs generated revenues of \$729.5 million or about 30% of GDP, an increase of 16% over 2020. The five best-performing SOEs generated a profit of \$140.8 million while the five worst-performing posted a loss of \$24.0 million.<sup>21</sup> The SOEs accounted for 11,000 jobs (3.5% of total national employment) in 2021.<sup>22</sup> Their assets equaled 207.0% of GDP in 2021. Ten SOEs alone account for 95% of SOE assets. From FY2017 to FY2021, about \$125 million (at an exchange rate of \$1 = Nu78) was disbursed as subsidies to the SOEs under MOF. Considering the small size of Bhutan's economy and the growing fiscal stress, the rationale and performance of some SOEs should be reassessed.

**14. Lack of an enabling environment for private sector growth.** Economic diversification has been constrained because of Bhutan's location, small market, and the absence of an enabling policy and regulatory environment for the private sector. While the government has enacted several reforms to promote foreign direct investment (FDI) and PPPs, develop the finance sector, and encourage competition, the desired results have not been achieved so far.<sup>23</sup> FDI (excluding the hydropower sector) remains very low, falling from 0.13% of GDP in 2019 to an average of 0.04% of GDP for 2020–2022. The private sector continues to be heavily regulated. Frequent policy changes and lack of adequate consultations raise uncertainty for the private sector. Despite government pronouncements seeking to boost FDI, some requirements imposed on foreign ventures make Bhutan less attractive. Barriers include the complex approval process and absence of a single window for investors, equity restrictions that make it difficult to find local partners, minimum investment restrictions, and difficulties in obtaining and renewing visas for foreign staff. Bhutan's banks are burdened by high nonperforming loan rates. The private sector has to compete with the SOEs for credit, raw materials, labor, and market share. In 2022, only 30% of employed individuals worked for a private business. Without the private sector generating more quality jobs, economic growth in Bhutan will not be equitable. More needs to be done to promote trade by harmonizing customs procedures and export certification requirements.

<sup>21</sup> Government of Bhutan, Ministry of Finance. 2022. *Bhutan State Enterprises Report. Annual Performance Review for Calendar Year 2021*.

<sup>22</sup> Bhutan's civil service has about 25,000 employees. Therefore, total current public sector employment (including SOEs) is about 35,000.

<sup>23</sup> These include the FDI Regulations, 2019 as amended in July 2021; the Fiscal Incentives Bill, 2016; the PPP Policy, 2016; the PPP Guidelines, 2019; and the National Competition Policy, 2020. Government of Bhutan, Gross National Happiness Commission. Approved Policy.

15. **High youth unemployment and migration.** Bhutan's overall unemployment rate increased from 2.7% in 2019 to 5.9% in 2022, and then declined to 3.5% in 2023. However, youth unemployment reached an alarming 28.6% in 2022 owing to the slowdown in economic activities and the return of many overseas Bhutanese workers during the pandemic. The post-COVID-19 lifting of travel restrictions has allowed most of these workers to resume their overseas assignments. This lowered youth unemployment to 22.9% in the first quarter of 2024. While emigration of Bhutanese youth and professionals began in 2014, the level has increased sharply since the end of the pandemic because of the continuing lack of adequate job opportunities. During 2021–2023, 9,352 civil servants resigned, while several hundreds availed of long leave.<sup>24</sup> Ex-civil servants, students, doctors and health workers, teachers, engineers, and other professionals account for the majority of migrants. About 64,000 Bhutanese, or 9% of the total population, are estimated to be overseas.<sup>25</sup> This brain drain is destabilizing for a small country such as Bhutan.

16. **Mismatch between labor supply and demand.** There is a mismatch between the jobs available domestically and those for which Bhutanese youth aspire. Paradoxically, although youth unemployment is high, in 2023 the Department of Labor issued permits for 137,324 foreign workers. About 72% were for jobs in the construction sector, with 79,201 approvals for masonry workers, 18,298 for concrete workers, 8,132 for carpenters, 5,846 for process workers, and 4,675 for rod binders or sheet metal workers.<sup>26</sup> Local employers often prefer to hire foreign workers rather than locals because they are perceived to have higher skills and are willing to work for lower wages.<sup>27</sup> With ADB's support, the government is reforming and expanding its technical and vocational education and training (TVET) system. It is emphasizing science, technology, engineering, and mathematics education. While these are positive steps, more needs to be done to lower the cost of doing business, enable the private sector, and reduce the dominance of SOEs so that more job opportunities aligned with changing youth aspirations can be created.

17. **Shifting health needs.** Despite a strong service delivery structure, Bhutan's health system faces several challenges, including disparities in access to and utilization of health services between urban and rural areas.<sup>28</sup> Although health infrastructure and facility distribution have been planned based on health facility catchment zones, the migration of people from rural to urban areas has led to overcrowding in urban hospitals and underutilization of rural health facilities.<sup>29</sup> While communicable diseases remain a substantial burden, noncommunicable diseases are increasing and account for about 69% of all deaths in Bhutan.<sup>30</sup> The outmigration of doctors, nurses, and other health personnel is affecting the government's capacity to provide timely health services.

18. **Gender equality and social inclusion.** Bhutan ranks 103rd out of 146 countries in the Global Gender Gap report.<sup>31</sup> Despite the progress made in gender equality and women's empowerment, gender inequalities persist, intersecting with issues of social exclusion. Challenges remain for women in employment and decision-making, deepened by cultural and

<sup>24</sup> K. Sharma. 2024. [RCSC plans to revamp work culture amid surge in civil servant resignations](#). *Kuensel*. 17 April.

<sup>25</sup> D. Dolkar. 2024. [Migration poses an existential threat: PM](#). *Kuensel*. 5 July.

<sup>26</sup> K. Sharma. 2024. [More foreign workers raise local job opportunity concerns](#). *Kuensel*. 9 April.

<sup>27</sup> Government of Bhutan, Ministry of Education and Skills Development. 2024. [TVET Statistics of Bhutan 2023](#).

<sup>28</sup> World Health Organization. 2017. [The Kingdom of Bhutan Health System Review](#). *Health Systems in Transition*. 7(2).

<sup>29</sup> K. Tenzin et.al. 2022. [Health inequities in Bhutan's free healthcare system: a health policy dialogue summary](#). *Public Health Challenges* 1 (34). pp. 1–8.

<sup>30</sup> World Health Organization. 2024. [People-centered model supported by WHO's PEN Package improves access to non-communicable disease healthcare in Bhutan](#).

<sup>31</sup> World Economic Forum. 2023. [Global Gender Gap Report 2023](#).

societal norms that limit their participation in the workforce. Women's unemployment rate (7.9%) exceeds that of men (4.4%). The labor force participation rate is much lower for women (56.8%) than men (72.4%). In 2021, about 58% of the workers in the agriculture sector were women. The poverty rate for households headed by women (12.5%) is slightly higher than the rate for households headed by men (12.3%).<sup>32</sup> Gender-based violence is pervasive—44.6% of women and girls in Bhutan in 2017 report having experienced one or more types of violence from their partner in their lifetime. Fewer women than men are enrolled in TVET and in science, technology, and engineering fields. While informal safety nets are strong, there are few formal mechanisms, for vulnerable groups such as persons with disabilities, injuries, and illnesses, who accounted for 9% of the unemployed in 2022. About 80% of people with disabilities reside in rural areas.

19. **Rise in economic inequality.** While progress against poverty has been strong, including in rural areas, overall income inequality has widened. The income-based Gini coefficient increased from 0.55 in 2007 to 0.60 in 2022. Rural poverty rate is nearly four times higher than the urban rate. During 2017–2022, the urban population increased from 40% to 44% of the total population. Households in rural areas have difficulty in accessing essential services. Their travel time to hospitals and banks is about four times that of urban households. The average rural household is a 45-minute walk from the nearest paved road, compared to 8 minutes for the average urban household.<sup>33</sup>

20. **Regional disparities.** Bhutan has 20 *dzongkhags* (districts). Thimphu accounts for 19.1% of the total population, Chukha for 9.5%, and Samtse for 8.6%.<sup>34</sup> About half of Bhutan's poor live in the southern and eastern *dzongkhags* of Chukha, Mongar, Samtse, Samdrup Jongkhar, Trashigang, and Zhemgang. The quality and coverage of roads, schools, and health facilities in these areas remain below par. Close to 85% of the tourist inflows are to Paro, Punakha, and Thimphu. Migration of people from rural, poor, and underserved *dzongkhags* to cities in search of employment opportunities has been increasing. Infrastructure investment should target Bhutan's underserved *dzongkhags* to ensure growth is broad-based.

21. **Challenges and opportunities to sustainability and resilience.** Bhutan's geologically fragile and steep topography make it highly susceptible to geophysical risks. Climate change, rising global temperatures, and irregular precipitation patterns increase the frequency and intensity of extreme weather events, with impacts that include flooding, glacial lake outburst floods, landslides, and forest fires. Current trends are projected to persist, posing increasing threats to communities, agricultural land, infrastructure, and Bhutan's biodiversity. The hydropower sector, which is critical for Bhutan's economy, can be adversely affected by climate change in the years ahead. ADB's shift toward climate change and disaster risk management under its new operating model presents an opportunity to provide greater support to the Government of Bhutan's climate commitments and programs, and ensure alignment with government's priorities by providing TA and knowledge solutions for climate adaptation, investment planning, and conducting multi-hazard risk assessments to inform ADB operations.

<sup>32</sup> Government of Bhutan. 2023. [Labor Force Survey, National Statistics Bureau](#).

<sup>33</sup> Government of Bhutan, National Statistics Bureau. 2022. [Bhutan Living Standards Survey 2022](#).

<sup>34</sup> Annex table in Inclusive and Sustainable Growth Assessment (Annex 1).

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from Previous Strategy

22. ADB's CPS for Bhutan, 2019–2023 aimed to foster economic diversification and reduce spatial and social disparities. It focused on (i) dynamic economic reforms to foster a resilient and diversified economy, (ii) improved connectivity to provide access to information and markets, and (iii) greater inclusiveness through more equitable socioeconomic development. The CPS final review assessed ADB's operations in Bhutan during 2019–2023 *successful* based on relevance, effectiveness, efficiency, sustainability, and development impact (footnote 4). As a result of the pandemic, which affected nearly half of the CPS period, ADB had to provide urgent support to the government for addressing COVID-19-related challenges. ADB approved \$247.11 million in concessional ordinary capital resources lending (COL) and \$32 million in Asian Development Fund 13 thematic grants during 2020–2023. Of this, \$30 million in COL was for COVID-19 relief.

23. The Independent Evaluation Department's validation report of the CPS final review supports the review's findings and recommendations. It rates the overall program *relevant, effective, efficient, and likely sustainable*, with *less than satisfactory* development impact. It recommends that the new CPS focus on (i) fostering reforms that would enable PSD to support increased economic growth, (ii) supporting policy reforms and investments for skills development and job creation, (iii) providing tailored support to strengthen institutional capacity for improved due diligence and project management, and (iv) strengthening donor partnerships to source grant and concessional cofinancing for Bhutan. These recommendations are in line with those of the CPS final review and have been incorporated into the strategic priorities of CPS, 2024–2028 (section III D).

#### B. National Development Strategy

24. The government has set out ambitious growth targets under its Thirteenth Five Year Plan (for 2024–2029) and its long-term growth strategy for 2024–2034 (para. 4).<sup>35</sup> By 2027, the government aims to create full employment by generating an adequate number of quality jobs, and by 2030, to quadruple the income of the bottom 40% of Bhutan's population. The 13<sup>th</sup> Plan allocates \$829 million for infrastructure development; \$878 million for local government projects; \$731 million for human resource development to expand health, educational, vocational, and technical training institutes; and \$122 million for development of information and communication technology. The current government, which assumed office on 28 January 2024, has announced an economic stimulus plan (valued at about \$180 million) to boost investment, scale up investment in hydropower, improve road connectivity, promote tourism and trade, enable the private sector, and attract FDI.

#### C. Role of Development Partners

25. The main development partners (excluding the Government of India) currently active in Bhutan include ADB, the European Union, the Japan International Cooperation Agency, the IMF, the World Bank, the United Nations and its agencies, and the South Asian Association for Regional Cooperation Development Fund. Since Bhutan is small, development partners coordinate closely to ensure aid effectiveness.<sup>36</sup> They meet during country programming

<sup>35</sup> Spending for the *Thirteenth Five Year Plan* (\$6.4 billion) is about 64% higher than that for the *Twelfth Five Year Plan* (\$3.9 billion). The Government of India will provide \$1.25 billion, or about 20% of the outlay.

<sup>36</sup> Details of the programs and pipelines of donor partners are in the Development Coordination Matrix (Annex 2).



discussions, project design and implementation missions, and visits of their senior management to Bhutan. ADB, the IMF, and the World Bank staff coordinate on all policy-based loans. ADB, the Japan International Cooperation Agency, and the World Bank have joint meetings to identify and tap synergies across proposed support for RCI and hydropower. ADB and the United Nations agencies keep each other informed about the support for agriculture, health, and TVET reform.

#### **D. ADB's Strategic Objectives and Operational Priorities**

26. The CPS, 2024–2028 will support inclusive, sustainable, resilient, and job-creating growth in Bhutan through the following strategic priorities:

##### **1. Strategic Priority 1: Strengthen Public Sector Management and Enable Private Sector Development**

27. Strategic priority 1 will be supported through a mix of policy-based loans, TA for institutional strengthening, and knowledge work to support reforms in PSM, economic policies, and financial markets to unlock systemic obstacles and enable PSD. The reforms and institutional strengthening will reinforce the support under strategic priorities 2 and 3 to selectively address infrastructure bottlenecks and promote human capital development.

28. **Strengthen public sector management and domestic resource mobilization.** The Thirteenth Five Year Plan emphasizes the need to strengthen PSM, reduce the fiscal deficit, and mobilize more tax and nontax revenue. ADB will provide technical support in coordination with the IMF and the World Bank to guide the rollout of the goods and services tax, build the capacity of the Department of Revenue and Customs, and digitize tax administration. It will help the government to implement the medium-term PFM strategy and prepare the road map for an integrated financial management information system to enhance efficiency and transparency. ADB and the World Bank are helping the government to reform the procurement system to ensure value for money, reduce implementation delays, and guide evidence-based adjustments in procurement policies and procedures. ADB will continue to build the analytical capacity of the MOF, the National Statistics Bureau, and the Royal Monetary Authority for evidence-based policy making and implementation. ADB supported the government in preparing a reform strategy for the 10 SOEs that are under the MOF. It will support the reform of selected SOEs to reduce the crowding out of the private sector and the burden on the budget.

29. **Enable private sector development and build public–private partnership capacity.** ADB's sovereign and nonsovereign operations teams will work together to undertake sector feasibility studies and provide transaction advisory services to promote PPPs in health diagnostics, solar power, and urban waste management as requested by the government. This will help catalyze private sector investment from within and outside Bhutan, and improve the design and delivery of public services. Consulting support will be provided to build the government's capacity to identify and structure PPPs and raise the awareness of policy makers. ADB will assist the government in drafting a competition bill to ensure equal opportunity for all businesses. It will update Bhutan's Bankruptcy Law to align insolvency procedures with the needs of small and medium enterprises. ADB is helping the government to review the FDI policy and improve the investment climate.

30. **Facilitate trade and promote financial market development.** For a landlocked country such as Bhutan, RCI is critical for generating business and jobs. ADB will support reforms to strengthen policies, institutions, and infrastructure for open trade, including simplification and harmonization of cross-border protocols. It will target improvements in Bhutan's trade

digitalization, competitiveness, and governance so that the full benefits from improved road and digital connectivity along Bhutan's southern border with India can be tapped to boost trade, business, and employment opportunities. ADB will build on past support for financial market development by helping Bhutan to undertake additional reforms in banking, nonbanking, insurance, and capital markets, and build the capacity of banks to transition to non-collateral-based lending for businesses.

31. **Support reforms for climate adaptation and green financing.** ADB has supported Bhutan in designing national adaptation plans for agriculture and livestock, energy, and water. It will help the government in implementing these plans and identifying sources of climate financing for priority adaptation investment projects. The scope for mobilizing additional green financing and tapping carbon credits will be explored. ADB will assist Bhutan in accessing carbon finance to incentivize investments in mitigation actions. Resources will be mobilized from ADB's Article 6 Support Facility to help Bhutan increase its engagement under the Paris Agreement and access carbon finance through the sale of carbon credits in international carbon markets including through ADB's Climate Action Catalyst Fund.

## 2. **Strategic Priority 2: Build Climate Adaptive and Resilient Infrastructure and Systems**

32. **Build quality infrastructure in underserved areas.** Considering Bhutan's infrastructure gaps and the growing threat of climate change and disasters, ADB will increase support for sustainable, resilient, and ecologically friendly infrastructure investments. For example, it will (i) help Bhutan to expand its solar power capacity to reduce its winter power deficit and scale up its hydropower capacity;<sup>37</sup> (ii) build a 92-kilometer ecologically friendly highway connecting Lhamoizingkha to Sarpang along Bhutan's southern border with India to reduce travel time by nearly 2 hours and promote cross-border trade; and (iii) support sustainable river basin management and resilient urban development.

33. **Strengthen climate adaptation and disaster resilience.** Under the new CPS, ADB's support will go beyond project-by-project mainstreaming of climate change adaptation. It will take a catchment-level approach to analyze multi-hazard risks, inform the design of ADB and government projects, and adopt appropriate risk management measures, including nature-based solutions, to enhance adaptation and resilience. The TA for Building Adaptation and Resilience in the Hindu Kush Himalayas (Bhutan and Nepal) will build the capacity of government agencies to assess multi-hazard risks and strengthen early warning systems.<sup>38</sup> International best practices, including nature-based solutions for stabilizing slopes and managing landslide and flood risks, will be tailored to Bhutan's needs. ADB will use its project readiness financing facility to help Bhutan develop a pipeline of well-designed energy, transport, and urban projects. Project teams will draw on multisector expertise and explore PPP solutions, where feasible, to ensure that integrated and nature-positive solutions are offered to Bhutan.

<sup>37</sup> All hydropower projects of Bhutan are run-of-the-river. The peak generation capacity of 2,342 MW during summer and monsoon months falls to about 415 MW of firm power during winter. In the winters of 2022 and 2023 Bhutan had to import power from India's Energy Exchange at higher unit rates than those at which it sells power to India.

<sup>38</sup> ADB. [Regional: Building Adaptation and Resilience in the Hindu Kush Himalayas—Bhutan and Nepal](#).



### 3. **Strategic Priority 3: Support Human Capital Development and Enhance Employability of the Youth**

34. **Support reforms in technical and vocational education and training.** Human capital development (including social protection) is a priority of Bhutan's Thirteenth Five Year Plan. ADB will continue to help Bhutan maintain progress on SDGs pertaining to education and health quality and access, especially for the poor and disadvantaged, including unemployed youth, women, persons with disabilities, and rural inhabitants. This support is especially critical given high levels of outmigration (para. 15). ADB will strengthen skills pathways through vocational secondary schools and market-driven, mid- to advanced-level skilling programs. It will continue to support TVET and life skills with a focus on females and youth with disabilities, and upgrade the facilities of special needs schools.

35. **Strengthen health systems.** ADB will continue to strengthen Bhutan's health system by providing medical equipment at primary, secondary, and tertiary levels; develop human resources for health; and support digitalization of health services to enhance equitable access to quality health care. It will provide advisory support to explore private sector engagement in health diagnostics and telemedicine.

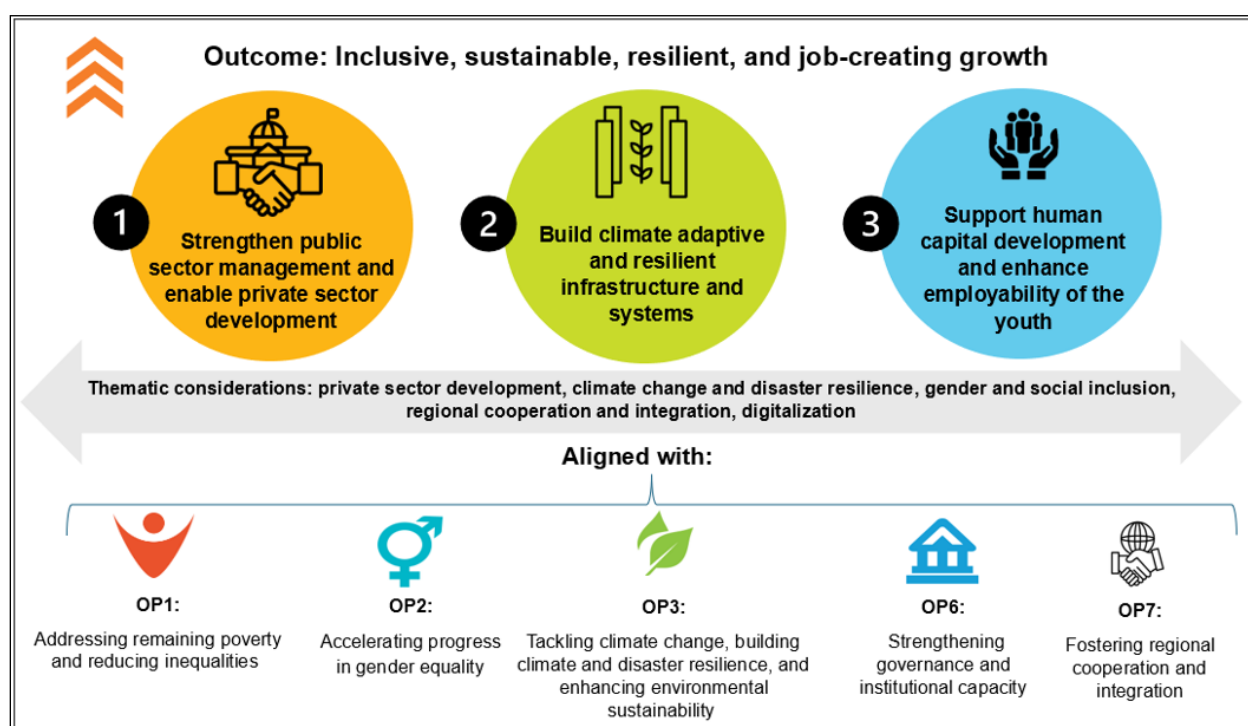
### 4. **Thematic Considerations Across Priorities**

36. **Private sector development.** As part of the CPS, a detailed PSD plan has been prepared to anchor PSD and operations in country programming and align various sovereign, nonsovereign, advisory, and knowledge operations. It draws on nearly 2 years of policy dialogue with the MOF, relevant ministries, and private sector representatives. The plan will enable PSD by (i) improving the business environment, (ii) creating an enabling environment for PPPs, and (iii) facilitating SOE reforms. These initiatives largely fall under strategic priority 1 of the CPS. Several upstream, midstream, and downstream strategies have been identified to leverage ADB's sovereign and nonsovereign operations to support PSD.

37. **Climate change, disaster resilience, and environment.** ADB's engagement in Bhutan includes infrastructure support for renewable energy, transport, integrated water resources management, and resilient urban development; policy and technical advice for designing and operationalizing the national adaptation plans; and assistance for banks to integrate green financing norms in their lending. ADB has prepared a country climate change and disaster risk management plan that aligns planned interventions with the government's climate commitments and priorities. It identifies potential synergies across various sectors to promote climate, nature, and social benefits. ADB will boost support for solar energy and hydropower, river basin management, and urban resilience. Nature-based solutions will be incorporated to strengthen the overall sustainability of projects.

38. **Regional cooperation and integration.** As a landlocked country, Bhutan relies heavily on India and Bangladesh for access to ports, trade, and transit routes. About 90% of Bhutan's exports by value (mainly hydropower) are to India and 80% of its imports are from India. Close to 68% of the imports from India and 47% of the exports to India go through the Phuentsholing region, including through the dry port that was constructed with ADB financing. ADB's support to operationalize the e-customs management system by providing laptop and desktop computers has helped reduce the time taken for clearing customs consignments. The CPS final review and the Independent Evaluation Department's validation (footnote 4) underscore the importance of identifying additional opportunities in RCI under the new CPS, 2024–2028. ADB will continue to build on its past support as outlined in the RCI assessment prepared for the CPS. The proposed

Lhamoizingkha to Sarpang highway will improve connectivity with India and the Asian Highway. ADB's support for expanding Bhutan's hydropower and solar power capacity will increase the share of clean and renewable energy in the subregion's power market. These RCI-focused infrastructure investments will be complemented by ADB's support to improve Bhutan's trade competitiveness and governance, including in customs modernization; and assisting it in aligning with the World Trade Organization's Trade Facilitation Agreement, and sanitary and phytosanitary standards for food safety, animal, and plant health regulations, and addressing technical barriers to trade. ADB will ensure convergence with Bhutan's bilateral economic and trade cooperation initiatives with the governments of Bangladesh and India, and the World Bank's Accelerating Transport and Trade Connectivity in Eastern South Asia Program so that Bhutan benefits from access to improved trade logistics and wider export markets.<sup>39</sup> These initiatives fall under strategic priorities 1 and 2 of the CPS, which are aligned with the South Asia Subregional Economic Cooperation program's newly launched initiatives since 2023 such as tourism, food regulations for trade, and business linkages with the private sector. ADB will continue to provide TA to the programs of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, and the South Asian Association for Regional Cooperation.



OP= operational priority

Source: Asian Development Bank. 2018. Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific

39. **Gender equality and social inclusion.** ADB's support to Bhutan is aimed at reducing gender gaps by adopting a gender mainstreaming approach and creating more opportunities for women and girls. Gender equality and social inclusion considerations will be integrated through public sector reforms in institutional frameworks and practices. ADB will continue its gender-inclusive focus to strengthening TVET and health systems. It will introduce innovative approaches

<sup>39</sup> Bhutan and Bangladesh signed a memorandum of understanding in March 2024 whereby Bhutan will establish a special economic zone in the Kurigram district in north Bangladesh to help with its exports. D. Dolkar. 2024. [Bhutan and Bangladesh to strengthen co-operation across various sectors](#). *Kuensel*. 26 March.

to support disadvantaged groups in Bhutan and ensure their access to inclusive services. Further, ADB will build the capacity of the government and other stakeholders to advance the gender equality and social inclusion agenda, focusing on enhancing knowledge and practices of gender mainstreaming, and exploring the intersection of gender and new and emerging areas

## **E. Priorities for Knowledge Support**

40. The country knowledge plan elaborates how strategic knowledge products and services will be offered to the government to strengthen the analytical foundation of loans and TA projects under the new CPS. For example, under strategic priority 1, ADB will help the government to prepare feasibility studies for at least two PPP projects, support reforms of selected SOEs, update the insolvency law, and draft Bhutan's first national competition bill to enable more private sector participation and attract FDI. National adaptation plans will be prepared for agrifood, energy, and water, and these will be operationalized through downstream lending and nonlending activities as relevant. ADB will support the Department of Revenue and Customs in preparing a digitalization road map to modernize tax administration and train its staff for the rollout of the goods and services tax. ADB will work with the MOF, the National Statistics Bureau, and the Royal Monetary Authority to strengthen their statistics and analytical capacity so that policy formulation and implementation become more data and evidence-driven.

## **IV. STRATEGY IMPLEMENTATION**

### **A. Cost-Sharing Arrangements**

41. Bhutan is a group A (concessional assistance-only) developing member country and eligible for COL and Asian Development Fund resources for theme-based components.<sup>40</sup> Project commitments will depend on several factors, including Bhutan's needs and priorities, portfolio and sector performance, project readiness, and absorptive capacity. TA will be provided for capacity building, and project preparation and implementation. Country cost-sharing arrangements with ADB financing up to 99% of the costs for projects and TA, on an overall project portfolio-wide basis, will continue during the CPS period. Actual cost-sharing will be determined for each project.

### **B. Implementation Priorities**

42. **Improving portfolio performance and project-enhancing readiness.** As a result of regular project review missions, two semi-annual tripartite portfolio review meetings, and periodic training workshops focusing on project implementation, ADB's safeguards, procurement, gender, and financial management policies and procedures, the performance of Bhutan's portfolio has improved in recent years.<sup>41</sup> The portfolio reviews focus on contract administration, analyze reasons for implementation delays, suggest measures for course correction, and emphasize project readiness. A project readiness checklist emphasizing strategic procurement planning, advance action in terms of designing and bidding out initial procurement packages, and timely establishment of project management units will guide programming and pipeline discussions. The Government of Bhutan availed of a project readiness financing loan in 2023 to undertake detailed engineering design, procurement, and safeguards due diligence for two hydropower projects in

<sup>40</sup> ADB. 2020. [Concessional Assistance Policy for the ADF 13 Period](#). Bhutan is currently not eligible for ADF grant country allocations because the International Development Association (IDA) assessed it as a gap country with a gross national income per capita that exceeds the IDA's operational cutoff. However, Bhutan may become eligible for an ADF grant country allocation from 2025 because of a change in IDA policies that came into effect in July 2024.

<sup>41</sup> In 2023, contract awards were 117.3% of target and disbursements and 162% of targets, excluding the Asia Pacific Vaccine Access Facility (APVAX) loan. The disbursement ratio was 24%.

the pipeline. More resources will be devoted during project design to assess the challenges posed by Bhutan's fragile ecology and high risk of flooding and landslides. Appropriate mitigation and asset management measures will be included to make the design and implementation of ADB projects more climate-adaptive and resilient.

43. **Capacity building.** The high turnover of experienced government counterpart staff (para. 15), poses challenges for design and implementation of ADB projects. Hence, the frequency of capacity-building and training workshops organized by ADB will be increased. Bhutanese counterparts will also be encouraged to participate in the training workshops organized by the Capacity Development and Resource Center of ADB's India Resident Mission as recommended in the Independent Evaluation Department's validation report. The project administration unit of ADB's Bhutan Resident Mission will be strengthened by the appointment of a country operations head and fielding of procurement, safeguards, and implementation consultants.

44. **Safeguards.** The Government of Bhutan has initiated discussions with ADB on the use of country safeguards systems. Following the anticipated approval of ADB's environmental safeguards framework in 2024, ADB will work with Bhutan in undertaking an assessment to determine whether and to what extent Bhutan's safeguards system can be used to address the environmental and social risks and impacts of a project, and achieve objectives materially consistent with the framework. A decision on the use of all, or part, of a borrower's environment and safeguards system for a project will be made by the ADB Board of Directors.

45. **Civil society organizations.** The 2007 Civil Society Organization Act, amended in 2022, governs the civil society organization (CSO) sector in Bhutan.<sup>42</sup> Today, Bhutanese civil society includes traditional self-help groups, community-based organizations, informal associations, and 54 registered public and mutual benefit organizations. CSOs work with the government to define their role and develop opportunities to participate in national life, including through the recently established Bhutan Civil Society Network. CSOs are gradually assuming a broader advocacy role by engaging in public discussion on issues including gender equality and social inclusion. A 2020 study of public perceptions of CSOs found a marked increase in public awareness of CSOs' activities since 2017. Public appreciation was stronger for organizations offering services with tangible benefits, such as improvements in the lives of the needy, than for those working in areas such as knowledge generation.<sup>43</sup> In September 2023, ADB organized the first ADB-CSO Partnerships Day in Bhutan, under the theme "TriUnity: Forging Pathways of Collaboration for Sustainable Progress." Based on this, a civil society brief was prepared.

## C. Monitoring of Results

46. ADB will use the CPS results framework (Annex 3) to monitor progress in implementing the CPS. The key outcome and output indicators have been selected to measure the main results that ADB-financed operations are expected to focus on or achieve during the CPS reporting period in support of the CPS strategic objectives. ADB will report progress and adjust the results framework as needed during the CPS midterm update. Progress will be monitored through ADB project and TA review missions, country portfolio reviews, and the country programming mission. ADB will provide training and capacity-building support to bolster monitoring capacity of executing and implementing agencies.

<sup>42</sup> The act defines CSOs as "associations, societies, foundations, charitable trusts, not-for-profit organizations or other entities that are not part of the Government and do not distribute any income or profits to their members."

<sup>43</sup> Helvetas Swiss Intercooperation, Bhutan Office. 2020. [Public Perception of Civil Society Contributions to Local and National Development in Bhutan](#). pp. 39 and 62.

## D. Risks

47. **Macroeconomic management.** To ensure that Bhutan's economic recovery picks up pace and is broad-based, the government will have to take concerted measures to improve its macro-fiscal indicators. More transparency on how foreign exchange reserves are being deployed, the investment in and returns from bitcoin mining, and how the proposed Gelephu Mindfulness City—which will be developed into a special administrative region—impact government finances, and expected benefits will be required.

48. **Government's institutional capacity.** As noted, the high turnover of staff across most ministries and departments since 2021 is affecting the government's capacity to plan and implement its programs. It is hoped that the government will take significant steps to ensure that the rate of turnover declines and that core institutional expertise is maintained. Policy making and implementation should become more consultative, transparent, and evidence-based. Private sector participation, both domestic and foreign, will only improve when the proposed reforms are deemed credible and implemented effectively.

49. **Public financial management.** Bhutan's PFM system is relatively strong, but the following challenges remain: (i) lack of multiyear rolling budgets, (ii) limited external audit coverage, (iii) lack of integration of payroll and personnel records, (iv) lack of adherence to the fiscal strategy, and (v) lack of timeliness and transparency in reporting public corporations' financial reports. PFM-related risks also exist with respect to the government's engagements or transactions in the cryptocurrency sector. In particular, the lack of information across the government pertaining to its digital asset mining and cryptocurrency transactions impacts its ability to accurately determine its financial standing and the level of fiscal risk that it is exposed to by virtue of such operations. This is compounded by the absence of any regulatory framework in the country to govern cryptocurrencies, and the lack of clear supervisory and reporting requirements.