

Table 6. Bhutan: Millennium Development Goals 1/

	1990	1995	2000	2005	2008
Eradicate extreme poverty and hunger 2/	(2015 target = halve 1990 \$1 a day poverty and malnutrition rates)				
Population below \$2 per day (in percent)	...	...	...	...	...
Poverty gap at \$2 per day (in percent)	...	...	...	...	...
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...
Prevalence of child malnutrition (in percent of children under 5)	...	...	...	...	...
Population below minimum level of dietary energy consumption (in percent)	...	...	3.8 (2003)	...	5.9 (2007)
Achieve universal primary education 3/	(2015 target = net enrollment to 100)				
Net primary enrollment ratio (in percent of relevant age group)	...	...	59.2	74.6	88.4
Percentage of cohort reaching grade 5 (in percent)	...	...	91.0	93.2	...
Youth literacy rate (in percent of ages 15–24)	...	...	...	74.4	...
Promote gender equality 4/	(2005 target = education rate to 100)				
Ratio of girls to boys in primary and secondary education (in percent)	...	...	86.0	93.9	97.8
Ratio of young literate females to males (in percent of ages 15–24)	...	...	...	84.9	...
Share of women employed in the nonagricultural sector (in percent)	...	...	...	...	...
Proportion of seats held by women in national parliament (in percent)	2.0	...	2.0	8.7	8.5
Reduce child mortality 5/	(2015 target = reduce 1990 under 5 mortality by two thirds)				
Under 5 mortality rate (per 1,000)	147.9	125.2	106.0	89.8	...
Infant mortality rate (per 1,000 live births)	90.9	78.8	68.4	59.5	...
Immunization, measles (in percent of children under 12 months)	93.0	85.0	76.0	93.0	...
Improved maternal health 6/	(2015 target = reduce 1990 maternal mortality by three fourths)				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	440.0	...
Births attended by skilled health staff (in percent of total)	...	...	23.7	...	...
Combat HIV/AIDS, malaria, and other diseases 7/	(2015 target = halt, and begin to reverse, AIDS, etc.)				
Prevalence of HIV, female (in percent of ages 15–24)	...	...	...	...	...
Contraceptive prevalence rate (in percent of women ages 15–49)	...	...	30.7	...	...
Number of children orphaned by HIV/AIDS	...	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	539.9	428.5	340.0	269.8	...
Tuberculosis cases detected under DOTS (in percent)	...	37.5	40.6	39.9	...
Ensure environmental sustainability 8/	(2015 target = various, see notes)				
Forest area (in percent of total land area)	64.6	65.7	66.8	68.0	...
Nationally protected areas (in percent of total land area)	...	...	...	...	...
GDP per unit of energy use (PPP\$ per kg. oil equivalent)	...	...	...	...	...
CO2 emissions (metric tons per capita)	0.2	0.5	0.7	0.6	...
Access to an improved water source (in percent of population)	...	...	81.0	...	...
Access to improved sanitation (in percent of population)	...	...	52.0	...	...
Access to secure tenure (in percent of population)	...	...	...	...	...
Develop a global partnership for development 9/	(2015 target = various, see notes)				
Youth unemployment rate (in percent of total labor force ages 15–24)	...	...	...	6.3	...
Fixed line and mobile telephones (per 100 people)	0.3	1.0	2.5	10.6	17.1
Personal computers (per 100 people)	...	...	0.9	2.0	...
General indicators					
Population (millions)	0.5	0.5	0.6	0.6	0.7
Gross national income (in million U.S. dollars)	297.7	291.6	418.7	756.7	1,393.5
GNI per capita (in U.S. dollars)	560.0	560.0	730.0	1,160.0	1,900.0
Adult literacy rate (in percent of people ages 15 and over)	...	...	...	52.8	...
Total fertility rate (births per woman)	5.7	4.7	3.7	3.0	...
Life expectancy at birth (in years)	53.1	57.2	61.7	64.9	66.2
Aid (in percent of GNI)	15.5	24.4	12.7	11.8	...
External debt (in percent of GNI)	29.3	39.2	45.6	79.5	...
Investment (in percent of GDP)	32.4	48.0	48.2	56.2	46.6
Trade (in percent of GDP)	61.3	85.1	81.8	94.8	145.8

Source: *World Development Indicators database, April 2007.*

1/ In some cases the data are for earlier or later years than those stated.

2/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

3/ Goal 2 targets: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

4/ Goal 3 targets: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

5/ Goal 4 targets: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

6/ Goal 5 targets: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

7/ Goal 6 targets: Halt by 2015, and begin to reverse, the spread of HIV/AIDS. Halt by 2015, and begin to reverse, the incidence of malaria and other major

8/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

9/ Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

INTERNATIONAL MONETARY FUND

BHUTAN

Staff Report for the 2009 Article IV Consultation

Informational Annex

Prepared by the Staff Representatives for the 2009 Article IV Consultation with Bhutan

December 7, 2009

	Contents	Page
I. Fund Relations		2
II. Relations with the World Bank Group.....		4
III. Relations with the Asian Development Bank		9
IV. Statistical Issues		10

I. BHUTAN—FUND RELATIONS

(As of October 31, 2009)

I.	Membership Status: Joined 9/28/1981; Article XIV		
II.	General Resources Account:	SDR Million	% Quota
	Quota	6.30	100.00
	Fund holdings of currency	5.28	83.81
	Reserve position in Fund	1.02	16.20
III.	SDR Department:	SDR Million	% Allocation
	Holdings	6.42	107.15
IV.	Outstanding Purchases and Loans:	None	
V.	Financial Arrangements:	None	
VI.	Projected Obligations to Fund:	None	
VII.	Implementation of HIPC Initiative: Not applicable.		
VIII.	Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.		
IX.	Exchange System		

Since its introduction in 1974, the ngultrum has been pegged to the Indian rupee at par. Bhutan continues to avail of transitional arrangements under provisions of Article XIV, Section 2. Bhutan also maintains an exchange restriction subject to Fund approval under Article VIII, Section 2(a).

X. Article IV Consultation

Bhutan is on a 24-month consultation cycle. The 2007 Article IV consultation was concluded by the Executive Board on October 5, 2007.

XI. Technical Assistance

Fiscal (FAD):

1982, 1983	-	Tax policy, budgeting, and accounting
1984	-	Tax legislation
1984–86, 1988–89	-	Technical experts assigned as General Fiscal Advisor to the Ministry of Finance

- 1987, 1989 - Tax system and public enterprises
- 1992, 2003 - Income taxation
- 2003 - Workshop on tax auditing and revenue forecast
- 2004 - Accounting (with MFD)
- 2009 - Indirect tax system, scope for VAT introduction

Legal (LEG):

- 1982–84 - Tax legislation
- 2004, 2005 - Central banking and financial services legislation and foreign exchange regulations (with MFD)

Monetary and Financial (CBD/MAE/MFD/MCM):

- 1983 - Set-up the Royal Monetary Authority (RMA)
- 1980–92 - Technical experts assigned as General Advisors to RMA
- 1989 - Financial system review
- 1991 - Financial sector legislation/development of supervisory capabilities
- Technical experts assigned as Advisor for Bank Supervision
- 1992 - Issuance of government securities
- 1993–96 - Implementation of issuance of government securities
- 2003 - Monetary and exchange operations / financial systems
- 2004 - Accounting
- 2004, 2005 - Central banking and financial services legislation and foreign exchange regulations
- 2005, 2007 - Risk based internal audit policies and practices
- 2006, 2007 - Implementation of accounting reforms
- Debt management and financial markets development
- 2007 - Follow-up on excess liquidity issues
- Follow-up on reserve management
- 2008 - Foreign exchange issues

Statistics (STA):

- 1988 - Trade statistics
- 1990 - Statistics database
- 2004 - Multisector statistics/GDDS mission
- 2005 - Balance of payments statistics
- 2009 - Balance of payments statistics

XII. Resident Representative/Advisor: None.

II. BHUTAN—RELATIONS WITH THE WORLD BANK GROUP¹

(As of October 9, 2009)

International Development Association (IDA)

Project	Commitments (Original) (In US\$m)	Disbursed (In percent)	Board Approval/Effectiveness
<i>Active projects:</i>			
Education Development Project	31.0	92.7	8/21/03
HIV/AIDS and STI Prevention and Control Project	5.8	79.1	6/17/04
Decentralized Rural Development Project	7.0	77.8	3/1/05
Second Rural Access Project	10.0	49.5	4/10/07
Private Sector Development	8.0	19.1	6/20/07
Institutional Capacity Building Project for Procurement	1.5	3.2	6/10/08
Development Policy Financing for Institutional Strengthening	20.2	100.0	5/26/09
Sub-total	83.5		
<i>Pipeline:</i>			
Urban Development-II	10.0 (TBC)		4/29/10 (TBC)
Development Policy Credit 1	10.0 (TBC)		9/28/10 (TBC)
<i>Nonlending (non-IDA):</i>			
Sustainable Land Management (GEF)	7.7	32.8	2/17/06
Avian Influenza Control Project (AHIF)	2.5	52.0	10/2/07
Introduction of Multi-Year Rolling Budgets (IDF Grant)	0.33	56.8	5/18/07
Improving Public Financial Management (IDF Grant)	0.29	30.3	6/1/07
Strengthening Institution Capacity for Implementation of Environmental Safeguards (IDF Grant)	0.4	13.1	6/5/08
Strengthening of Public Procurement Policy Division (IDF Grant)	0.48	9.6	5/28/09

Bhutan is an IDA-only country, and qualifies for 100 percent credits for FY10 and FY11. In FY09, Bhutan borrowed from IDA in a mix of 55 percent credits and 45 percent grants. In FY10, Bhutan exceeded the IDA Gross National Income per capita operational cutoff for the third year in a row, and has become a “gap” country. “Gap” countries receive IDA on hardened terms and are not eligible for grants, regardless of results of Debt Sustainability Analyses. Bhutan’s original IDA 15 allocation for FY10 and FY11 was about SDR8.3 million in each year. However, in FY09, Bhutan had the option of cumulatively frontloading up to 80 percent of its overall IDA15 indicative allocation for FY09-11, and chose to frontload about SDR 5.7 million, to add to its FY09 allocation of SDR8.0 million. Because of frontloading in FY09, Bhutan is left with a final IDA15 allocation of SDR8.3 million for FY10 and an indicative IDA 15 allocation of SDR2.1 million for FY11.

¹ Prepared by World Bank Group staff.

World Bank's Country Assistance Strategy

The 2005 Country Assistance Strategy (CAS) for the FY06-09 period aligned with Bhutan's distinctive vision of *Gross National Happiness* and the priorities and goals of the Ninth Five-Year Plan (9FYP) (2002/03–2007/08, extended by one year). The National Assembly finalized the Tenth Five-Year Plan (10FYP) (2008/09–2012/13) in January 2009. This is also the RGoB's Poverty Reduction Strategy Paper. The strategic priorities for the 10FYP are: (i) vitalizing industry; (ii) strengthening national spatial planning; (iii) synergizing rural-urban development; (iv) expanding strategic infrastructure; (v) investing in human capital; and (vi) fostering an enabling environment through good governance. A new Country Assistance Strategy for FY10-14, aligned with the 10FYP, is currently under preparation for presentation to the Bank's Board in the fourth quarter of FY10. The new CAS is likely to focus on fostering private sector development by improving the policy environment and facilitating employment opportunities, and social infrastructure development by expanding access to and improving the quality of infrastructure (roads, urban, and ICT) in an environmentally sustainable manner.

Lending Program

During the IDA 14 cycle, covering F06-08, more than SDR32 million in grants were committed to Bhutan. The IDA 14 allocation financed: (i) a US\$15 million **First Development Policy Grant** approved in May 2006; (ii) a US\$10 million **Second Rural Access Roads Project** approved in April 2007; (iii) a US\$12 million **Second Development Policy Grant** approved in June 2007; (iv) a US\$8 million **Private Sector Development Project** approved in June 2007; (v) a US\$1.5 million **Institutional Capacity Building Project for Procurement** approved in June 2008; and (vi) US\$1.5 million in additional financing to the **Education Development Project**.

The following operations have been approved or are under preparation during the IDA 15 cycle, covering FY09-11.

- The Board approved the US\$20.22 million **Development Policy Financing for Institutional Strengthening** in May 2009. The overarching objectives of the operation are to strengthen institutions to: (a) promote good governance through sound fiscal and public financial management and procurement, and strong accountability institutions; (b) foster dynamic labor markets, ensure skills match, and generate employment; and (c) expand access to infrastructure in an environmentally sustainable manner.
- A proposed **Second Urban Development Project** is currently scheduled for delivery to the Bank's Board in the fourth quarter of FY10. The proposed project development objectives are to: (a) support Bhutan's municipal reform program to achieve a more decentralized and accountable urban local government system, starting in Thimphu and Phuentsholing; and (b) improve infrastructure services in northern Thimphu where no formal services are currently available. The first objective supports the RGoB's municipal reform agenda and helps implement the Bhutan Municipal Act of 2007 through

technical assistance, policy support, training programs, and studies. The second objective addresses an urgent need for serviced urban land in rapidly growing Thimphu City, in view of the substantial migrant population settling there.

In addition, the **First Development Policy Credit** is under preparation, expected to be delivered to the Bank's Board in early-FY11. This is designed as the first in a new programmatic series of budgetary operations, in support of the RGoB's medium term reform agenda as articulated in the 10FYP. In addition, the RGoB continues to implement projects with IDA financing to expand the rural access road network, and to improve education and health outcomes.

Nonlending Program

The Bank provides analytical and advisory services, aiming to help the Government build capacity in the areas of macroeconomic and fiscal analysis, public expenditure management, financial management, procurement, private sector development, statistics, and education quality. During FY06-08, the Bank approved several grants supporting these efforts. A US\$7.66 million **Sustainable Land Management Project**, and a US\$2.5 million **National Influenza Preparedness and Response Project** were both financed from global trust funds. A Trust Fund for **Statistical Capacity Building** (US\$250,000) was approved in FY07. Institutional Development Fund (IDF) Grants to support **Introduction of Multi-Year Rolling Budgets** (US\$330,000), **Improving Public Financial Management** (US\$290,000), and **Strengthening Institution Capacity for Implementation of Environmental Safeguards** (US\$400,000) became effective in this period.

The Bank approved a new grant for Bhutan in FY09.

- A US\$484,000 IDF Grant for **Strengthening of the Public Procurement Policy Division** was approved in April 2009. The development objective of this Grant is to put in place the foundations for the creation of a professional and efficient center of excellence within government that can manage the public procurement function in Bhutan on a sustainable basis. The RGoB approved the creation of the Public Procurement Policy Division (PPPD) under the Department of National Properties, Ministry of Finance, in August 2008. This newly created division needs to be strengthened so that it can start fulfilling its mandates, and the Grant will provide assistance in this respect.

International Finance Corporation (IFC)

Since the Kingdom of Bhutan joined IFC as a member country in 2003, IFC has made investments in high-end tourism infrastructure and global trade finance support to local banks. IFC continues to assess investment potential for IFC in the following areas: education, telecom, hydropower, and financial markets. In addition, IFC has provided advisory services in areas to improve the investment climate, strengthen the financial sector, and help promote the role of

SMEs in private sector development. Below are summaries of IFC Investment and Advisory activities in Bhutan.

IFC Investment Services

As on August 31, 2009, IFC has US\$8.2 million of senior debt outstanding in one tourism project in Bhutan. IFC is committed to the development of the financial sector of Bhutan. To demonstrate the same, IFC has extended lines of trade guarantee under the Global Trade Finance Program (GTFP) to both the banks operating in the country presently, namely Bank of Bhutan (BoB) and Bhutan National Bank (BNB). IFC is keen to explore further opportunities including participation in equity. With respect to IFC's exposure limits for Bhutan, it has further room available allowing up to about US\$25 million of additional investment in Bhutan.

IFC Advisory Services

Since 2003, South Asia Enterprise Development Facility (SEDF), which is managed by IFC Advisory Services in South Asia in partnership with DFID and NORAD, has been delivering advisory services focused on improving existing banks' operations and the banking infrastructure and improving the investment climate by creating transparent and efficient regimes for both domestic and foreign investors to encourage job creation. In addition, IFC Infrastructure Advisory has been and will continue to explore opportunities to advise the RGoB on bankable PPP options to involve private sector in infrastructure projects being considered.

Access to Finance (A2F) Program

SEDF has provided training programs targeting senior officials of the Royal Monetary Authority (RMA) and other senior bankers from leading financial institutions such as Bank of Bhutan (BOB), Bhutan National Bank (BNB), Bhutan Development Finance Corporation Ltd. (BDFC), and Royal Insurance Corporation of Bhutan (RICB). In addition, SEDF has provided advisory services to BoB and BNB on their risk management, IT strategy, and long-term strategies; both of these banks are at various stages of implementing the recommendations from this advisory work. SEDF, in close coordination with WB, prepared the RMA's nationwide Electronic Funds Transfer Clearing System Strategy paper; it is envisaged that WB under its PSD program will use this strategy to implement the required financial infrastructure (e.g., hardware and software procurement, installation and setup). Furthermore, SEDF has explored with local financial institutions the possibility to introduce Sustainable Energy Finance (SEF) in Bhutan.

Investment Climate (IC) Program

SEDF assisted the Royal Government of Bhutan (RGoB) in reviewing the FDI Policy and welcomed improved clarity and attractiveness of the proposed regime. In addition, SEDF assisted RGoB with optimization of the company registration process, and now is working to

improve efficiency of business entry including enterprise registration and obtaining permits to start operations. SEDF and the Ministry of Economic Affairs (MoEA) are drafting the Enterprise Act, as well as work with inter-ministerial working group to compile the inventory of sectoral clearances and assess possibilities for streamlining through one-stop-shop solutions. Furthermore, SEDF will work with WB PSD to undertake an Investment Climate Assessment (ICA) survey of enterprises in order to inform private sector strategy and future IC initiatives.

Infrastructure Program

IFC Advisory Services has conducted an operational and financial diagnostic review of Drukair, the national airline, and has presented an assessment of various strategic options that the Government shareholder should consider for the airline to achieve its overarching objectives of air connectivity and sustainable commercial operations. In addition, SEDF, at RGoB's request, undertook a Preliminary Assessment of two sites located in southern Bhutan proposed for development of industrial estates or potential Special Economic Zones (SEZ).

III. BHUTAN—RELATIONS WITH THE ASIAN DEVELOPMENT BANK

Bhutan became a member in 1982 and ADB began its lending operations to the country in 1983. Bhutan is classified under group “A” with full access to ADF and 80 percent cost-sharing limit for project financing.

Consistent with the highest priorities identified in Bhutan’s National Poverty Reduction and ADB’s Country Strategy and Program (CSP) approved in September 2005, the CSP has two strategic thrusts: (i) lending assistance focused on transport, power (including rural electrification), urban development, and financial and private sector development; and (ii) nonlending assistance for capacity building for sustainable development.

The CSP is being implemented in coordination with other development partners to avoid duplication. Examples include ADB’s rural electrification loans following the Rural Electrification Master Plan developed with assistance from the Government of Japan. Similarly, development partners are using the Road Sector Master Plan developed with ADB assistance. ADB has maintained close cooperation with other multilateral and bilateral funding agencies in capacity building.

The indicative cumulative value for the period 2010–2012 is \$45 million. One grant project on rural electrification using a multitranche financing facility has been programmed for 2010 with its second subproject programmed for 2011. A rural road infrastructure project is on the pipeline for 2012. A nonlending program with a cumulative value of \$5.1 million has been programmed for 2010–2012.

Bhutan: Ongoing Loans and Grants (As of September 30, 2009)

Project	Year of Approval	Project Amount (\$ million)	Disbursements (\$ million)
LOANS			
Road Network Project	2005	27.3	11.524
Financial Sector Devt Program (Program Loan)	2006	11.0	4.143
Financial Sector Devt Program (Project Loan)	2006	2.0	0.463
Urban infrastructure development	2006	24.6	2.352
Green Power Development Project (OCR Loan)	2008	51.0	8.063
Green Power Development Project	2008	29.0	12.938
GRANTS			
Micro, Small & Medium-sized Enterprise Sector Devt Program	2007	6.0	2.000
Micro, Small & Medium-sized Enterprise Sector Devt Program	2007	9.0	1.302
SASEC Information Highway Project	2007	4.7	—
Green Power Development Project	2008	25.3	1.713

IV. BHUTAN—STATISTICAL ISSUES APPENDIX

As of November 15, 2009

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but broadly adequate for surveillance. Most affected areas are: national accounts, balance of payments, and fiscal data.

National Accounts: The accuracy and reliability of the data are affected by inadequate source data. Key shortcomings include heavy reliance on production data collected by line ministries, which often lack quality control, long lags in providing estimates, large revisions of historical data and, in certain cases, ad hoc estimation procedures. Lack of reliable data on expenditure components hampers estimation of national savings and domestic investment. The key factors contributing to the data deficiency are the shortage of qualified personnel and facilities. The National Statistical Bureau (NSB) is also constrained by the absence of a Statistics Act. The March 2004 Multisector Statistics Mission assisted the authorities in preparing metadata and plans for improving the macroeconomic statistics and sociodemographic indicators.

Price statistics: Starting in 2004, the consumer price index (CPI) is compiled on a quarterly basis, the number of commodity prices has been greatly expanded, and the geographical scope broadened.

Government finance statistics: Despite recent improvements in the quality of government finance statistics (GFS), the fiscal data are subject to frequent and substantial revisions, particularly in the expenditure area. The compilation and dissemination of budget execution data and GFS are very limited. Only annual budget execution data are compiled and disseminated, but with a long lag. No GFS are disseminated nationally. Sub-annual data on budget execution are not available. There are inconsistencies between the fiscal and monetary data with regard to bank financing, stemming from differences in the definition of government.

Monetary statistics: While monetary statistics are generally consistent with the Fund's guidelines, there is room for improvement in a number of areas, specifically: (i) the valuation of financial assets is based on purchase price while market or market-price equivalents would be preferable; (ii) to avoid misclassifications, a list of government units and nonfinancial public enterprises should be prepared and shared with the reporting financial institutions; (iii) the monetary accounts for the RMA and other deposits money banks should be published in the *Monthly Statistical Bulletin*. The authorities and STA are working to improve the timeliness of data reporting to STA to be in line with national publications.

Balance of payments: Despite recent improvements, external statistics continue to be affected by shortcomings. These include (i) limited coverage of transactions leading to estimation of key data, (ii) compilation of trade data on a calendar year basis, while other external transactions are compiled on a fiscal year basis. Consequently, errors and omissions in the balance of payments presentations are large and preclude a more accurate assessment of external flows.

Building on the technical assistance mission in January-February 2005, a mission in June 2009, in conjunction with the RMA, developed a plan for improvement in balance of payments statistics. It includes a quarterly business survey, improved estimation methods, and increased timeliness. The RMA advised that they plan to compile quarterly balance of payments data in the future. Bhutan began supplying balance of payments data for publication in *IFS* in June 2007.

II. Data Standards and Quality

Planned participation in the General Data Dissemination System (GDDS) in 2010.	No data ROSC is available.
--	----------------------------