

Role of Asian Development Bank in Development of Some Sectors of Bhutan**Alka Rathore***Research Scholar, JJTU ,Rajasthan & Sr. Lecturer in Management, Gedu College of Business Studies, Bhutan***Dr. Harsh Vardhan Jhamb***Professor in Accounting, Gedu College of Business Studies, Bhutan***Abstract**

Asian Development Bank is playing key role in development of some sectors of Bhutan and its projects and assistance helped Bhutan's economy and improved lives of people of Bhutan. This paper is based on secondary Data gathered from ADB reports, project reports and Bhutan Government reports available online. We focused on four sectors that is energy, transport, education and finance. From various reports we found that there are some sectors still need to be focus like Agriculture and export .We used exactly facts and figures mentioned in the published reports. While ADB contributions to Bhutan's transport and energy sectors have been beneficial, and there are number of projects in finance and education is still in process but there remains a need to create economic opportunities and diversify the country's economy.

Key Words: ADB, Bhutan, Economy, Assistance, project, energy, transport, finance

Introduction

This paper explores the role of ADB in development of some sectors of Bhutan. In this paper we focused on sectors mainly Energy hydropower and Transportation especially road network, Education, and Finance .Bhutan is a landlocked country surrounded by India and People's Republic of China in the north. It has an estimated population of 757,042 in 2015, based on population projections by the National Statistics Bureau (NSB). In 2013, the agriculture sector contributed 16.77% to the country's gross domestic product and employed 56.2% of Bhutan's workers. Poverty incidence in rural areas in which agriculture is the primary source of livelihood was at 16.7% in 2012, which was significantly higher than in urban areas

(1.8%). To address this critical disparity, the government's 11th Five-Year Plan (2013-2018) aimed to accelerate and sustain growth in the agriculture sector and improve the rural livelihood of farming households. To achieve this objective, the plan included the implementation of policies that can foster higher growth in the agriculture sector. Since joining ADB in 1982, Bhutan had received \$337.46 million through 29 loans, \$135.39 million for 9 grants, and \$54.89 million for 129 technical assistance projects, as of the end of 2013. Five ADB-financed rural electrification projects in the country have collectively electrified more than 37,000 households, or 43% of the rural households in Bhutan, contributing significantly to the government's 100% electrification target. To be in line with the

government's development agenda, energy, finance, transport, and urban development became the key sectors of ADB operations in Bhutan under the previous country strategy and program 2006–2010, and they have remained so since then. Venturing into newer areas of support, ADB has also provided assistance in civil aviation, information and communication technology, and trade facilitation since 2007. ADB has been accelerating its regional cooperation and integration program in Bhutan to enhance cross-border connectivity and trade under the South Asia Sub regional Economic Cooperation Program and other related initiatives.

Energy: Hydropower Project

Power generation in Bhutan relies almost exclusively on hydropower. The total installed capacity of existing hydropower plants is 1,488 megawatts (MW). Since all of the existing plants are run-of-the-river types. Bhutan is considering several financing mechanisms for hydropower development through public-private partnerships (PPP), particularly for medium-sized and small projects. In 2008, the Asian Development Bank (ADB) provided financing for the Dagachhu hydropower project (126 MW), which was the first PPP infrastructure project in Bhutan

ADB Role in Energy Sector

ADB's current assistance programs for Bhutan's energy are following.

- (i) In policies, institutional, and legal reforms to improve the commercial orientation and financial performance of power sector entities

- (ii) Providing financial assistance to expand the electricity distribution network to rural communities
- (iii) Mobilizing investments for hydropower development through PPPs.

Policies and reforms

ADB has supported preparation of the government's energy sector policies and strategies. This support has emphasized sector restructuring, regulatory reforms, and commercial management and cost-recovery in public sector utilities through institutional strengthening and capacity building programs. ADB's technical assistance (TA) has been highly effective in transforming the power sector from a government department into profitable utilities and an independent regulator, as well as in supporting the use of state-of-the-art utility management practices.

Electrification of Rural Area

ADB has consistently supported rural electrification programs through a series of financing operations. ADB has financed the electrification of a significant proportion of the households in Bhutan since 1995. This assistance was properly sequenced and maintained continuity in the government's electrification effort but also took into account lessons learned from previous operations along the way. The four completed ADB-financed rural electrification projects, together with one than remains ongoing, will collectively have electrified more than 37,000 households, or 43% of the rural households in Bhutan. This has been a significant contribution to the government's goal of electricity for all.

Hydropower export development

Since 2006, ADB has increased its support for hydropower and other renewable energy development. This has been aimed at catalyzing economic growth and mitigating climate change by increasing hydropower exports. It has also helped reduce air pollution on a regional basis, since clean Bhutan power exports have reduced the amount of electricity India needs to generate using fossil fuels. ADB has supported the formulation of policies intended to attract investments to the hydropower sector in environmentally sustainable energy development. In 2008, ADB's Green Power Development Project supported a PPP transaction through an innovative financing mechanism for the Dagachhu hydropower development, ADB will continue to support subsequent support subsequent PPP transactions, region-wide power trading and technical and knowledge transfer.

Renewable energy development

ADB has also been supporting the development of renewable sources like solar, wind, biogas, and small and mini hydropower renewable energy as well as deploying cost-effective technologies and development business models. In 2010, ADB's Rural Renewable Energy Development Project helped initiate pilot projects for wind and biogas schemes and sustainable institutional arrangements for off-grid home solar systems

Future prospect

ADB intends to focus on three main sector development priorities: (i) hydropower generation and trading, (ii) transmission, and (iii) renewable energy and energy efficiency.

Bhutan's hydropower generation and transmission network is strategically positioned for power trading with neighboring countries that will enhance regional cooperation and integration. In addition, such renewable energy as that produced by grid-connected solar, wind, and biomass generation plants developed in the future can also be used either domestically or exported through networks. To help reduce poverty domestically, the use of biogas energy by rural farmers can be scaled up after an ongoing pilot biogas program is shown to be successful.

Transport

The country's population is dispersed through mountainous terrain and weather conditions are formidable. This makes it difficult to achieve economy of scale in service delivery and costly to build and maintain vital infrastructure, particularly the road network. Bhutan is heavily reliant on its much larger neighbor for international trade. India is the destination of 84% of Bhutan's exports, including electricity, and the source of 73% of its imports. However, poor border crossing infrastructure has hampered trade and logistic flows. Consequently, the country's economic and social development has been constrained by high transport costs and poor accessibility.

ADB Role in Transport

1. Land transport: ADB started to help Bhutan since 1993 and till now three ADB-assisted road projects have been completed in Bhutan. The Road Network Project II approved in 2009 is ongoing. These projects helped to improve highways, expand feeder

roads. Ten ADB technical assistance projects have helped Bhutan develop road sector strategy, road asset management, and road safety. ADB will continue to help the government improve the main road network. To support the government's goal of more international trade, ADB will provide support to improve road connectivity with neighboring countries. This will include support for enhanced transit facilities and logistics in and around Phuentsholing and the Pasakha industrial estate. Such support will help promote economic diversification and private sector development, which will help generate employment opportunities.

ADB will continue to facilitate consultations between Bhutan and neighboring countries through regular regional transport forums. It will also support (i) the strengthening of the road asset management system and of the resources needed to ensure that the system is sustainable; and (ii) the improvement of road safety conditions, mainly through institutionalizing road safety audits.

2. Air transport. ADB's first technical assistance to the Department of Civil Aviation started in 2012. The project aims to help improve institutional capacity, updating the existing Civil Aviation Act and related regulations to reflect current needs and providing technical training in the critical areas of regulatory oversight and airport operations. ADB's Air Transport Connectivity Enhancement Project approved in 2012 will assist the government in improving safety, capacity, and security at the three domestic airports it has selected for rapid development. ADB will monitor the

progress of the project and provide an additional financing as necessary.

3. Urban transport: ADB will initiate its support in the urban transport subsector by providing capacity development for Thimphu municipality, which will enable it to develop an integrated strategy for development of safe, efficient, and climate-friendly urban transport systems, along with sustainable operations and maintenance mechanisms.

ADB: Role in Education

The Asian Development Bank (ADB) has remained continuously engaged with the broad education, social development sector. Since 2000, four ADB-assisted education projects have been completed and/or nearing completion.

The Basic Skills Development Project (\$7 million) was to

- (i) Establish an efficient, flexible, cost-effective, and sustainable basic skills training program and to support the restructuring of the National Technical Training Authority to MOLHR
- (ii) Construct new vocational training institutes (now called TTIs). These additional training facilities allowed an increase in enrollment from 400 persons in 2001 to 1,193 persons in 2008.
- (iii) . As Bhutan continues to improve on key economic and social indicators. ADB sees value in continuing to engage with the government especially to help meet the challenge of rising youth unemployment. This would require stronger focus on the higher-secondary,

TVET and higher education sub-sectors of education over the next 5 years.

A capacity development technical assistance: Institutional Strengthening for Skills Development is proposed for 2014–2016 to build the institutional capacity of MOLHR so that it can lead the expansion of a better-quality skills development system that is more equitable and responsive. This technical assistance is crucial to provide a platform for any future investment. Improving quality and relevance of higher secondary and skills development in Bhutan would require well-devised, catalytic investment to leverage current successes in access and private sector activity into a broad based system better able to meet the needs of the future. Dialogue with the government will continue to identify possible areas for continued ADB support.

Finance: ADB Role in Finance

ADB is playing major role in development of financial sector of Bhutan .It has been providing comprehensive assistance for financial sector development in Bhutan since 1988, when it approved a loan to support government efforts toward industrialization and private sector development via the only development finance institution Bhutan Development Finance Corporation. In 1997, ADB started supporting financial policy reforms with a sector development program, the Financial Sector Intermediation Facility. ADB operations also covered different aspects of finance sector development, although it continued to support a series of its earlier initiatives. For instance, ADB helped

convert the Unit Trust of Bhutan into Bhutan National Bank, a new commercial bank. It also helped to restructure the government employees' provident fund, establish and upgrade a payment and settlement system, and strengthen institutional capacity in the Department of Aid and Debt Management of the Ministry of Finance and in the Royal Monetary Authority Ongoing assistance includes

(i) The Strengthening Economic Management Program to strengthen the public sector's capacity in macroeconomic and fiscal management, which includes the development of a capital markets master plan and the establishment of a credit rating agency to further financial sector development

(ii) Technical assistance (TA) for capital market development to deepen Bhutan's equity and debt markets and pension and insurance sectors, and build the associated regulatory capacities

(iii) A regional TA project that will enhance the Royal Monetary Authority's capacity for financial sector regulation and supervision to ensure financial stability (iv) Two TA projects to strengthen Bhutan's public financial management and public sector performance, including the improvement of audit and regulatory impact assessment capacities

(v) ADB's ongoing Trade Finance Program, which works with three banks in Bhutan. These ongoing projects contribute to financial and private sector development by improving financial transparency, accountability, and legislative effectiveness.

ADB approved the Strengthening Economic Management Program on 21 March 2013 to enhance the overall economic management of the country by improving

- (i) Management system of Debt and Budget.
- (ii) Revenue management system,
- (iii) Macro prudential management framework
- (iv) External and internal audit operations.

The program aims to improve fiscal management to help the government allocate scarce resources more effectively and efficiently. Moreover, better debt management and treasury operations will improve cash management, which will make flow of funds more predictable and avoid destabilizing spikes in debt repayments. The program will also improve monetary management to ensure that interest rate policy better matches the demand and supply of loanable funds, thereby improving liquidity management. This will help create a stable economic environment that will build investor confidence and encourage the private investment needed to sustain growth. This approach will be reinforced by strengthening internal and external audit systems, including those at the subnational level of government, to improve the monitoring of public resources and strengthen administrative and financial efficiency and accountability

ADB provides direct financial assistance to public sector and private sector transactions in the form of direct loans, equity investments, guarantees, B loans, and trade finance

ADB's Trade Finance Program (TFP):

ADB is providing guarantees and loans through partner banks in support of trade. The TFP has supported over \$23 billion in trade and over 7,700 small and medium-sized enterprises since 2004. In 2015, the TFP supported \$2.5 billion in trade through over 1,900 transactions. In Bhutan, objective is to mobilize private sector capital and involvement in developing Asia. In Bhutan, 59% of the trade supported through the TFP was co financed by the private sector.

Concluding Remarks and the Role of Development Partners

A strategy to achieve inclusive growth in Bhutan cannot ignore the problems caused by regional inequalities and rural poverty. Despite its impressive economic performance, Bhutan continues to face development challenges. The country has a narrow economic base and its growth has been propelled mainly by an externally funded, capital-intensive hydropower sector that generates limited employment opportunities. As a result, youth unemployment has become a critical issue in Bhutan. Inequality also remains high even through Bhutan managed to reduce poverty incidence to 12%. In addition, the recent Indian rupee liquidity issue has underlined the need to strengthen fiscal, debt, and liquidity management of the country. ADB's recently completed *Bhutan: Critical Development Constraints* report emphasizes the need for the Bhutanese economy to become broad based with more diverse growth drivers

ADB's President assured Bhutan of ADB's continued support. ADB's 2014-2018 Country Partnership Strategy for Bhutan approved in July 2014 will focus on transport, energy, urban development, and finance. It will also provide technical assistance for skills development and water

resource management. Bhutan is eligible for loans and grants from ADB's concessional lending window and is expected to receive about \$180 million between 2014 and 2017. The newly established ADB office in Bhutan is expected to deepen the partnership with the country.

Abbreviations:

ADB-Asian Development Bank

NSB- National Statistics Bureau

MOLHR-Ministry of Labor and Human Resources

TFP-Trade Finance Program

PPP-Public Private Partnership

References:

1. ADB. 1995. *Technical Assistance to the Kingdom of Bhutan for the Conversion of the Unit Trust of Bhutan to a Commercial Bank*. Manila; and ADB. 1996. *Technical Assistance to the Kingdom of Bhutan for Restructuring of the Unit Trust of Bhutan to a Commercial Bank*. Manila
2. ADB. 2003. *Technical Assistance to the Kingdom of Bhutan for Strengthening the Capacity of the Royal Monetary Authority and Royal Securities Exchange of Bhutan*. Manila; and ADB. 1999. *Technical Assistance to the Kingdom of Bhutan for Strengthening the Banking Supervision Function of the Royal Monetary Authority of Bhutan*. Manila
3. ADB. 2004. *Technical Assistance to the Kingdom of Bhutan for Strengthening of the Payment and Settlement System*. Manila
4. ADB. 2004. *Technical Assistance to the Kingdom of Bhutan for Strengthening the Debt Management Capacity of the Department of Aid and Debt Management*. Manila; and ADB. 2002. *Technical Assistance to the Kingdom of Bhutan for Strengthening the Debt Management Capacity of the Department of Aid and Debt Management*. Manila
5. ADB. 2006. *Technical Assistance to the Kingdom of Bhutan for Institutionalizing Skills and Capacity Development* Manila
6. ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to the Kingdom of Bhutan for Financial Sector Development Program*. Manila
7. ADB. 2010. *Technical Assistance to the Kingdom of Bhutan for Strengthening Public Management*. Manila; and ADB. 2010. *Technical Assistance to the Kingdom of Bhutan for Strengthening Audit Resource Management*. Manila
8. ADB. 2012. *Technical Assistance to the Kingdom of Bhutan for Capital Market Development*. Manila

9. ADB. 2012. *Technical Assistance to the Kingdom of Bhutan for Supporting Financial Stability in Bhutan and the Maldives*. Manila
10. ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Grant to the Kingdom of Bhutan for Strengthening Economic Management Program*. Manila..
11. <http://www.nsb.gov.bt/nsbweb/publication/files/pub3cb4010sp.pdf>
12. <http://www.adb.org/sites/default/files/publication/27755/bhu-2015.pdf>
13. <http://www.adb.org/news/bhutan-prime-minister-visits-adb-celebrate-three-decade-partnership>
14. <http://www.kuenselonline.com/adb-exhorts-bhutan-to-prioritise-agriculture/>
15. www.adb.org
16. www.adb.org/publications/series/asianddevelopment-outlook
17. www.adb.org/documents/series/adb-annualreports
18. www.adb.org/publications/depositories