



Australian Government
AusAID



Bhutan Program Strategy 2013-2017

June 2013



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Contents

Contents	3
1. Summary	4
2. Development Partnership Principles	5
2.1 Principles and commitments	5
3. Context and rationale for Australian aid in Bhutan	6
3.1 Poverty and need	6
3.2 Australia's national interests	7
3.3 Capacity to make a difference	8
3.4 Scale and effectiveness	8
4. Strategic priorities for Australian aid	10
4.1 Proposed focus areas, expected outcomes and Australia's contribution	10
4.2 Program approaches and ways of working	10
5. Program performance and risk management	12
5.1 What success will look like at the end of the program strategy	12
5.2 Performance assessment framework	12
5.3 Risk management	13
6. Annexes	14
6.1 Progress against Millennium Development Goals	14
6.2 Key data table	15

1. Summary

Bhutan has made significant development progress, particularly in the past decade, and is on track to achieve its targets under the Millennium Development Goals. Bhutan has experienced sustained economic growth and average incomes are rising, driven by significantly higher revenues from hydropower. The country has also reformed its political system and taken measured steps to open its economy.

But challenges remain. Bhutan is heavily reliant on India for investment, trade and budgetary support, and is vulnerable to economic shocks, climate change and natural disasters. A large proportion of people in rural areas still live below the poverty line without access to basic services. Gender inequality in tertiary education remains. A lack of skilled labour restricts private sector growth and youth unemployment is rising.

A stable, prosperous and outward-looking Bhutan is in Australia's interests. Our bilateral relationship dates back to the Colombo Plan in the 1960s.¹ Thousands of Bhutanese have since studied in Australia, many returning to take up senior positions in the government and often reaching out to us as a familiar partner. Many institutions in Australia have established links with partners in Bhutan, facilitating the exchange of knowledge and skills. Our niche support in areas such as electoral reform and agricultural development has been influential.

The main objective of Australia's assistance program is to support the enabling environment for continued reform in Bhutan, by helping to build the capacity of individuals and institutions. We will achieve this by focusing our assistance to Bhutan on:

- providing tertiary education through scholarships (Australia Awards and Endeavour Awards)
- building institutional capacity through linkages with Australian institutions (public sector and civil society), including in sectors such as tertiary education and electoral reform
- supporting skills development, particularly in technical and vocational areas, through scholarships and building the capacity of TVET institutions
- expanding Australia's volunteers program into new sectors as agreed with the government.

In delivering this program Australia will work closely with the Royal Government of Bhutan and effective partners. We will prioritise areas where we can make the most difference and where results can be measured. Given we do not have a diplomatic post in Bhutan, programming decisions will reflect the need to minimise transaction costs and manage risk.

Over the period of this program strategy our assistance will improve the capacity of individuals and organisations in government, private sector and civil society to participate in Bhutan's development. Our assistance will also lead to a more highly skilled workforce, including women and youth, which meet the needs of government and the private sector.

¹ The Colombo Plan is an international economic organization created to strengthen the economic and social development of the nations of Southeast Asia and the Pacific.

2. Development Partnership Principles

2.1 Principles and commitments

The fundamental purpose of Australian aid is to help people overcome poverty.

Our aid program is guided by five strategic goals: to save lives, promote opportunities for all, build sustainable economic development, build and support effective governance, and to respond effectively to humanitarian crises and natural disasters. We focus our efforts in areas where Australia can make a difference and where our resources can most effectively and efficiently be deployed. The Australia – Bhutan Program gives effect to this through a focus on human resource development.

Aid programs are more sustainable when owned and driven by partner governments. Australia is committed to aligning with the priorities and policies of our development partners. We use approaches that are tailored to country-specific situations and needs. Australia is also committed to providing assistance through the systems and processes of our partner governments where we assess these as robust. Where they are not, we will work with partner governments to strengthen them and with non-government organisations or civil society to ensure a robust country partnership. This is particularly important in fragile states, or conflict-affected countries. In delivering an aid program risks have to be taken to achieve results. We take a sensible approach to risk management to guard against risk and fraud while delivering programs and assistance to those poor people who need it.

We work through partnerships to deliver our aid program. Our development partnerships are built on mutual accountability and accountability to our respective citizens, organisations and constituents. Our partnerships are inclusive of women and men. Critical to accountability is Australia's commitment to be more transparent about financial and operational information, results and performance. We support greater transparency of all development partners to better measure and report on the impact of development efforts, foster accountability and promote greater coordination.

Australia will work with Bhutan in a relationship of mutual trust, recognition and accountability for results to achieve improvements in human resource development.

In doing so, this program strategy is guided by the Australian Government's aid policy, 'An Effective Aid Program for Australia: Making a real difference – Delivering real results', which sets the strategic direction of our aid program through to 2015–16. We are committed to the performance and results of Australian aid to Bhutan, as part of the overall effectiveness and impact of our aid program.

3. Context and rationale for Australian aid in Bhutan

3.1 Poverty and need

Bhutan is the only country in South Asia on track to achieve its targets under the Millennium Development Goals. The number of people living below the national poverty line fell from around 32 per cent of the population in 2003 to 23 per cent in 2007² and the government's 10th Five Year Plan (2008–2013) aims to reduce this percentage to less than 15 per cent by mid-2013.³ Bhutan has already achieved many of its targets under the Millennium Development Goals although challenges remain on gender equality for women, including access to tertiary education and low levels of participation in political and high public office.⁴ The Bhutanese Government is driving the effort to reduce poverty and has established its own philosophy of 'gross national happiness' to measure development progress.

Development progress has been supported by sustained economic growth, although support from India has also been critical. As a small landlocked country, Bhutan faces challenges in accessing markets and sea ports for trade. However, strong investment in hydropower—supported by India—has driven high rates of economic growth, which averaged 9 per cent a year from 2007 to 2011.⁵ Gross national income per capita increased by around 40 per cent over the same period although it was centred narrowly on hydropower.⁶ Bhutan's future is closely tied to India's economic fortunes and woes. India accounts for around 65 per cent of grants provided each year to Bhutan, which have made up almost 40 per cent of Bhutan's aggregate revenues over its 10th Five Year Plan.⁷ India also accounts for more than 80 per cent of Bhutan's total trade.⁸

Bhutan has also been peacefully transitioning to an open, outward-looking, democratic country. Before the 1960s, Bhutan was an absolute monarchy, isolated from the international community. A series of political reforms led to the enactment of the Constitution of Bhutan and the first democratic elections in 2008. Consistent with its aim of being regarded as a respected and active member of the international community, Bhutan has established diplomatic links with nearly 50 countries.⁹ It has also taken measured steps to open its economy, particularly in tourism and through foreign investment in its hydropower industry. The civil service has undergone significant reforms and continues to build its capacity to deliver services.

Poverty still exists, particularly in rural areas where basic services are lacking. Around 68 per cent of Bhutan's 713 000 citizens live in rural areas.¹⁰ Of these, 31 per cent (150 000) live below the poverty line, compared to just 2 per cent in urban areas (3000). The country's mountainous terrain and poor road networks contribute to higher poverty in rural areas, where people have limited access to services such as

² Approximately \$18 USD per month, World Bank 2012, World Development Indicators, <http://data.worldbank.org/country/bhutan>

³ Government of Bhutan, Gross National Happiness Commission, 10th Five Year Plan (2008–2013), p. 51.

⁴ BO Focus, 'Millennium Development Goals', vol. III, issue IX, September 2010, p. 8.

⁵ World Bank 2012.

⁶ Ibid.

⁷ World Bank, Bhutan Economic Update, September 2011, p. 9.

⁸ Ibid.

⁹ Government of Bhutan, Gross National Happiness Commission, 10th Five Year Plan (2008–2013), p. 19.

¹⁰ Government of Bhutan, Ministry of Labour and Human Resources, Labour Force Survey Report, 2011, p. 12.

health and education and to markets for trade. Many are subsistence farmers who lack productive land, modern technology and training, which would enable them to increase productivity. Income inequality is high, not just among individuals but between communities, demonstrating that the benefits from hydropower have not been evenly distributed. Rural – urban migration is increasing, leading to stress on urban infrastructure and changing the social fabric of traditional communities in rural areas.

Equipping the labour force with better skills is needed to support private sector development and broad-based economic growth. The private sector is identified in the 10th Five Year Plan as a potential ‘engine of growth’ for Bhutan.¹¹ A number of constraints to growth of the private sector exist, however, including access to finance, labour regulations and transportation, which mean the private sector is not fulfilling this potential. Importantly, a large proportion of the private sector identifies a shortage of skilled labour as a key constraint¹², particularly in the construction, tourism and hospitality industries. As such, up to 80 000 foreign workers are employed in Bhutan (many are construction workers on new hydropower plants).

The quality of higher education and technical training in Bhutan is affected by a shortage of quality teachers and instructors. The government has committed to developing a knowledge-based society, a core pillar of its long-term strategy for poverty reduction.¹³ It has achieved strong results improving access to primary and secondary education, but the quality of education needs to be improved if the government is to achieve its aim over the longer term. Teachers are generally not held in high regard in Bhutan, which means many university graduates do not choose to pursue a career in education. And only a small number study in technical and vocational education and training (TVET), partly due to the poor quality of the training and also the aspirations of Bhutanese for white collar jobs.

Youth unemployment is relatively high, particularly in urban areas. The unemployment rate for 15 to 24 year olds was around 9 per cent in 2011, three times higher than the national average.¹⁴ Unemployment is concentrated in urban areas and is considerably higher for women.¹⁵ This could be an emerging long-term challenge given that around 50 per cent of the population is less than 24 years of age.¹⁶ An increasing rate of youth unemployment could become a source of social and political instability.

Bhutan is vulnerable to external shocks and pressures. Climate change poses a serious risk to sustainable development in Bhutan, particularly over the longer term if the country’s glaciers retreat. This could lead to water shortages and a significant decline in hydropower revenue. Natural disasters, such as earthquakes, floods and glacial outbursts, could also undermine development gains, particularly given Bhutan’s small economy and the remoteness of many parts of the country. For example, eastern Bhutan is still recovering from damage caused by an earthquake in September 2009. Bhutan’s reliance on India for trade and other support means it is vulnerable to any slowdown in economic growth in India.

3.2 Australia’s national interests

While Australia has limited national interests directly in Bhutan, we have a significant stake in a stable and prosperous South Asia. Trade between Australia and South Asia is growing, with enormous opportunities for the future. As a neighbour to two of the world’s powers—India and China—Bhutan provides valuable insight into regional dynamics. It is also an asset in regional and multilateral forums. Bhutan is an excellent example of a country in South Asia that has transitioned to

11 Government of Bhutan, Gross National Happiness Commission, 10th Five Year Plan (2008–2013), p. 50.

12 World Bank, Bhutan Investment Climate Assessment Report, September 2010, p. 13.

13 Government of Bhutan, Gross National Happiness Commission, 10th Five Year Plan (2008–2013) p. 38.

14 Government of Bhutan, Ministry of Labour and Human Resources, Labour Force Survey Report, 2011, p. 22.

15 Ibid., p. 4.

16 I Ortiz and M Cummins (2012), ‘When the Global Crisis and Youth Bulge Collide’, United Nations Children’s Fund, p. 9; Government of Bhutan, Ministry of Labour and Human Resources, Labour Force Survey Report, 2011, p. 4.

democracy and achieved sustained development gains. Therefore, from Australia's perspective it is important that Bhutan remains stable and continues the process of economic and political reform smoothly.

3.3 Capacity to make a difference

Australia has a proven track record of achieving results in Bhutan. Our previous assistance through providing scholarships and building institutional capacity is highly regarded by the Bhutanese Government. Many scholars have returned to Bhutan and now hold senior positions in the government and civil service. Assistance from Australia has enabled Bhutanese institutions to establish long-term relationships with institutions here, such as the relationship between the Royal Institute of Management in Thimphu, Bhutan, and the University of Canberra in Australia. This allows for the exchange of knowledge and experience and builds the capacity of institutions both in Bhutan and in Australia. In addition, the Australian Electoral Commission provided training and support in the lead up to Bhutan's first democratic elections in 2008 which contributed to a successful outcome. Furthermore, the Australian Centre for International Agricultural Research has been involved in various initiatives in Bhutan for more than 20 years, including with the development of the citrus industry. Our assistance in all of these areas and more has been effective and should continue.

Australia has strong partnerships with the Bhutanese Government and with delivery partners who are effective. Australia enjoys a strong and uncomplicated bilateral relationship with Bhutan, stretching back to the establishment of the Colombo Plan in the 1960s. In January 2012, the two countries signed a Memorandum of Understanding on Development Cooperation and held inaugural whole-of-government talks. Unlike in much of South Asia, there is a strong degree of predictability and confidence in working with partner government institutions in Bhutan. We build on existing strong relationships, including at the highest levels of government ministries and with stakeholders such as the Royal Institute of Management and the multilateral development banks.

Given Australia's limited resources and the work being handled by other donors, we will target Australian assistance in areas that will maximise our development impact. Australia's assistance to Bhutan is one of our smallest bilateral programs and we do not have a diplomatic Mission in-country. Our previous investments in Bhutan have shown that 'low-risk, broad impact' activities with minimal transaction costs represent good value for money. Furthermore, focusing our assistance in areas where we have a comparative advantage to other donors, such as in tertiary education and TVET systems, maximise our program's effectiveness. We assess that other donors to Bhutan, such as the Asian Development Bank and Japan, are best placed to fund initiatives such as infrastructure development and finance sector development, noting that these initiatives also contribute to Bhutan's long-term development objectives.

3.4 Scale and effectiveness

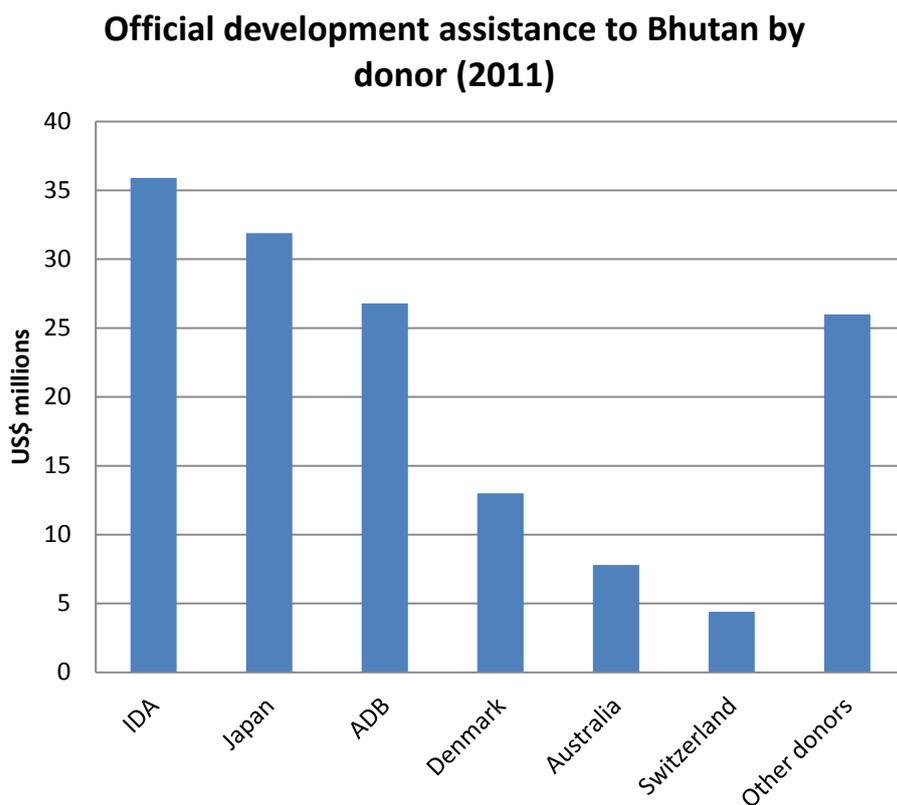
Australian development assistance to Bhutan will remain modest. Australia's total official development assistance (ODA) to Bhutan was an estimated \$14 million in 2012–13, and is forecast to increase marginally to around \$14.2 million in 2013–14.

Australia is currently the fifth largest donor in Bhutan. We contribute around 6 per cent of total ODA to Bhutan each year, although considerable assistance from India is excluded from these figures.¹⁷

¹⁷ India is the largest provider of assistance to Bhutan, with much of this assistance linked to investments in hydropower. However, the assistance is generally referred to as 'economic cooperation' rather than official development assistance. It is estimated that India accounted for around 65 per cent of total grants to Bhutan in 2012–13, equal to around US\$65 million.

(See Figure 1) Aside from India, Denmark and Japan are two of the largest bilateral donors to Bhutan. However, support from Denmark is due to be phased out from the start of the 11th Five Year Plan (mid-2013). Continued and well-targeted assistance from Australia will therefore be of even greater significant value to Bhutan.

Figure 1



Note: Abbreviations used for International Development Association (IDA) and Asian Development Bank (ADB)

4. Strategic priorities for Australian aid

4.1 Proposed focus areas, expected outcomes and Australia's contribution

The main objective of Australia's aid program to Bhutan is to support the enabling environment for continued reform in-country, by helping to build the capacity of individuals and institutions. Bhutan has made significant development progress in recent decades and the next few years will be critical to consolidate those gains. Fostering an environment where individuals and organisations in the private sector and civil society have increased opportunities to participate in Bhutan's development will be critical. This is consistent with the Bhutanese Government's vision for the country to be regarded as a respected and active member of the international community.¹⁸

As our resources are limited and to ensure we maximise the impact of our assistance we will focus our investments in these key areas:

- providing tertiary education through scholarships (Australia Awards and Endeavour Awards)
- building institutional capacity through linkages with Australian institutions (public sector and civil society), including in sectors such as tertiary education and electoral reform
- supporting skills development, particularly in technical and vocational areas, through scholarships and building the capacity of TVET institutions
- expanding Australia's volunteers program into new sectors as agreed with the government.

These key areas will support three of the Australian aid program's five strategic goals: promoting opportunities for all; sustainable economic development; and effective governance. In particular, we expect that our investments in these areas will contribute to:

- improved capacity of individuals and organisations in government, private sector and civil society to participate in Bhutan's development.
- a more highly skilled workforce, including women and youth, which meets the needs of government and the private sector.

4.2 Program approaches and ways of working

We will use existing funding mechanisms to minimise our management workload. This includes the Australia Awards and Endeavour Awards programs for scholarships, which will form the majority of our assistance. We will also partner with Australian institutions (including tertiary and technical) and facilitate linkages between those institutions and their counterparts in Bhutan. We will also build on existing partnerships and initiatives, such as with Bhutan's Royal Institute of Management, the multilateral development banks and with other government departments in Australia.

¹⁸ Government of Bhutan, Gross National Happiness Commission, 10th Five Year Plan (2008–2013), p. 17.

We will use proven partners and government systems to deliver our program, consistent with the principles of Effective Aid. This ensures our development assistance is aligned with the Bhutanese Government's priorities and enables us to leverage the technical expertise of organisations already working in-country. It will also reduce the risk associated with our program.

Australia's program will have a consistent focus on gender equality. The Australian aid program prioritises equal opportunities for women and men. With ongoing challenges on gender equality in Bhutan, Australia will work with partners to ensure a gender is incorporated into all programming, such as equity in scholarships and TVET courses relevant to young women.

Australia's approach to ODA will be integrated. This will include a direct link to AusAID's South Asia Regional Program through the Sustainable Development and Regional Connectivity Investment Strategies, being implemented to address trans-boundary issues in South Asia that cannot solely be addressed at country level. It also includes linking our new volunteers program, which started in April 2013, to Bhutan's key strategic priorities. And it means establishing an alumni network so students maintain contact with each other and with institutions in Australia once they return home.

5. Program performance and risk management

5.1 What success will look like at the end of the program strategy

This program strategy will contribute to this **quantitative headline result**:

- Number of people awarded tertiary scholarships.

By the end of the program strategy, we expect our development assistance program to Bhutan to have contributed to these **qualitative** results:

- improved capacity of individuals and organisations in government, private sector and civil society to participate in Bhutan's development
- a more highly skilled workforce, including women and youth, which meets the needs of government and the private sector.

The Australian Agency for International Development (AusAID) will also implement a regional program in South Asia over the period of this program strategy, which will focus on trans-boundary issues including increasing climate change resilience and increasing intra-regional trade and connectivity. For Bhutan this is expected to lead to outcomes such as improved adaptation to climate change, including on trans-boundary water management and agriculture, and improved economic integration with its direct neighbours including in trade, energy and infrastructure.

5.2 Performance assessment framework

An analysis of Australia's contribution to Bhutan's long-term development objectives will be undertaken as part of AusAID's annual program performance report process. However, for such a low-risk program and with limited management resources, reporting will generally be restricted to activity level (or groups of activities where relevant). Annual consultations between the governments of Australia and Bhutan will be an opportunity to review and discuss the performance of our assistance program at a strategic level.

Because of the small size of the activities funded under our assistance program to Bhutan, the activities are not subject to mandatory AusAID quality reporting. The questions to be answered annually for the purposes of establishing continued relevance of our assistance program to Bhutan are:

- Have there been changes in Bhutan which would lead us to question the rationale for our program choices?
- Have there been changes which affect the risk assessment for our activities?
- Are there new emerging needs which are significant enough for us to consider responding to them?

Depending on the development outcomes achieved by Bhutan at the end of this program strategy period, consideration will be given to modifying Australia's support post 2016.

5.3 Risk management

The most significant risks for Australia's aid to Bhutan over the next four years include:

Our program becomes proliferated and aspects of it may be difficult to measure. In a small country like Bhutan, small-scale initiatives can have significant impact. Our program strategy inherently runs the risk of proliferation due to the multi-sectoral nature of our strategic objective on 'supporting political economic and social reform'. There will also be numerous opportunities and requests in the TVET sector. Given the modest amount of funding available we will need to ensure that new activities are closely aligned with the main objective of our program strategy and in areas where we can make a difference.

Our program is not considered to be sufficiently pro-poor. The characteristics of our program mean it is difficult for us to target isolated rural communities, even though the level of poverty is highest in these areas. Our support for the World Food Programme to run a school-feeding program in some rural parts of Bhutan is our only direct investment in this area to date. Our program strategy to tackle poverty indirectly, such as through supporting long-term reform and skills development and through mechanisms such as scholarships to civil servants, may be exposed to criticism, especially if average incomes continue to rise in Bhutan. However, we assess that in the long run, our assistance will be most effective if it is targeted toward strengthening Bhutan's enabling environment by building the capacity of its individuals and institutions.

The absence of AusAID staff in-country may impact on the Agency's ability to identify program risks. However, AusAID has successfully managed this risk in the past in Bhutan and expects to continue to be able to do so. Program-staff based in New Delhi continue to liaise closely with the Department of Foreign Affairs and Trade and will undertake regular visits to Bhutan, as appropriate, to ensure we have a sound understanding of the context within which the program strategy is being delivered and to maintain relationships with local partners.

6. Annexes

6.1 Progress against Millennium Development Goals

BHUTAN MILLENNIUM DEVELOPMENT GOALS		
		On track: Eradicate extreme poverty and hunger
		On track: Achieve universal primary education
		On track: Promote gender equality and empower women
		On track: Reduce child mortality
		On track: Improve maternal health
		On track: Combat HIV/AIDs, malaria and other diseases
		On track: Ensure environmental sustainability

6.2 Key data table

Economic indicators	Data
Population (2011) (<i>Ministry of Labour and Human Resources, Labour Force Survey Report, 2011</i>)	713,300
Gross domestic product growth (5-year average to 2011) (<i>World Bank 2012</i>)	9.04%
Gross domestic product per capita, purchasing power parity, current international \$ (2011) (<i>World Bank 2012</i>)	\$5,809
Australia's share of total ODA (2010) (<i>Organisation for Economic Co-operation and Development 2012</i>)	5.99%
Proportion of people living on less than \$1.25 per day (2007) (<i>World Bank 2012</i>)	10.22%
Proportion people living on less than \$2.00 per day (2007) (<i>World Bank 2012</i>)	29.76%
Poverty headcount ratio at national poverty line (% of population, 2007) (<i>World Bank 2012</i>)	23.2%
Social indicators	
Human development ranking (<i>United Nations Development Programme, Human Development Indicators Report, 2011</i>)	141/187
Primary education completion rate (% of relevant age group, 2011) (<i>World Bank 2012</i>)	95%
< 5 years mortality (per 1000, 2011) (<i>World Bank 2012</i>)	53
Proportion of seats held by women in national parliament (% , 2011) (<i>World Bank 2012</i>)	9%
Female:Male ratio of enrolments in tertiary education (<i>Gross National Happiness Commission, National Plan of Action for Gender 2008–2013, Bhutanese Government</i>)	48:100
Mobile telephone subscriptions (per 100 people, 2011) (<i>World Bank 2012</i>)	65