

## 1. PROGRAMME ENVIRONMENT – CONTEXTS, TRENDS, CONSEQUENCES

### 1.1 Political Development and Governance

The smooth transition to Parliamentary Democracy is the most significant political challenge currently facing Bhutan.

The Forth King handed over the responsibilities as Monarch and Head of State in December 2006 to the Fifth King. The nationwide public consultation on the Draft Constitution, which heralds the new political system from 2008, has been completed. The final draft considering responses from these consultation as well as inputs received from donors, feedback through online forums, and verbal and written communications will be adopted by the elected Parliament in 2008. Among the challenges within the recent political developments currently facing Bhutan, the smooth transition to Parliamentary Democracy is most significant. In addition to establishing constitutional institutions that are pre-requisite to the functioning of parliamentary democracy, the need to strengthen the civil society, which has so far existed in the form of small and informal groups and associations, is imperative to enhance people's participation and capacity to bring about effective decentralization. To foster good governance is a core value of the 10<sup>th</sup> five-year plan (2008-2012). This implies that both national as well as local governance structures need to be strengthened, together with emphasis on social mobilization and civic participation.

### 1.2 Socio-Economic Development

The emphasis of the 10<sup>th</sup> five-year plan is to reduce the proportion of people living below the poverty line from 31.7% to 20% by 2012.

Social developments:

- Net primary enrollment ratio increased from 62% to 79.4%
- Infant mortality ratio decreased from 60.1% to 40.1% per 1000
- Water supply coverage increased to 84%

Despite the socio-economic progresses Bhutan continues to see, several assessments carried out over the years to create a poverty profile has proven that 31.7% of the population in the country is poor. Poverty in the country is largely a rural phenomenon, although increases in incidences of urban poverty exacerbated by rising trends in rural-urban migration could emerge as a serious challenge in the near future. A majority of the rural poor are dependent on agriculture, including livestock and forestry, for their livelihood. Challenges to improved and sustainable rural livelihood include small sized land holding, limited arable land, labor shortages and access to market opportunities.<sup>1</sup> Regional imbalances in development and the disproportionately high rate of youth among the unemployed are notable social challenges for the country.

Bhutan's GDP growth has averaged 6% a year over the last two decades, mainly propelled by the hydropower industry and associated industries. The risks associated with high dependence on a single sector, which is additionally highly capital intensive but offers little employment opportunities (0.5% of total employment), has brought out the need to diversify the economy.

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<sup>1</sup> Facts and Figures of the RNR Sector, Ministry of Agriculture

The volume of export has significantly increased (13.5% increase in monetary value). However, boosting the private sector and production and marketing of niche products where Bhutan has an advantage, continues to need strengthening.

A resource gap of 14.5% of the total projection for the 10<sup>th</sup> Plan has been identified. 51.6% of the Ngultrum 127 billion projection is expected to be met through domestic revenue. The indication of intention from some of Bhutan's major donors to scale down or phase out their support will have a major impact on the financing of the 10<sup>th</sup> plan and the achievement of the MDGs.

### **1.3 Development Policies and Donor Coordination**

Within the south Asian region, the SAARC (South Asian Association for Regional Cooperation) Development Goals (SDGs) provide an important development policy framework. The SDGs look into poverty alleviation and meeting targets on education, health and the environment for the period 2007-2012, and complements efforts at meeting the Millennium Development Goals (MDGs). The frameworks provided by this regional commitment and the international commitment to the MDGs will guide the 10<sup>th</sup> Plan, which has been extended by a year to coincide with the constitution of the new elected government.

Good governance and rural development are significant themes that will continue to dominate the development policy of the country. Within these, the dimensions of strengthening local governance and developing a pluralistic civil society will need focused emphasis in keeping with the political changes in the country.

The Department of Aid and Debt Management continues to coordinate donor aid in the country, and has asked different Ministries to initiate donor coordination meetings in various thematic areas where there are more than one donor (poverty, private sector development, health, education, HIV/AIDS, decentralization, HRD and rural infrastructure). So far, three such meetings have been organized. Informal donor discussion meetings continue to be held, in addition to involving each other in major planning and review discussions (latest examples: Common Country Assessment for Bhutan 2006 by the UN System; WFP country programme; decentralization outcome evaluation etc). The PRS, 10<sup>th</sup> Plan guidelines for the country, the SDGs and the MDGs offer a common frame within which to align donor support to national priorities, which in turn are based on regional/international framework. However, as the example of the area of support for decentralization has shown, donor coordination efforts is "still largely ad hoc".<sup>2</sup>

## **2. CONSEQUENCES FOR THE PROGRAMME**

Swiss support in Bhutan has always been need-based and aligned with national priorities and country-led frameworks. The Bhutanese development policy framework is based on the four pillars of its development philosophy of Gross National Happiness: balanced and equitable socio-economic development; preservation of the natural environment; preservation and promotion of cultural heritage; and good governance. The guidelines for the 10<sup>th</sup> Plan continues to be guided by this development philosophy, while prioritizing and strategizing objectives and activities within the international frame of the MDGs. Poverty reduction will be a major overriding focus, with strengthened emphasis on rural income poverty alleviation.

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<sup>2</sup> Decentralization Outcome Evaluation (November 2005) – UNDP/UNCDF, Danida, SNV, JICA, Helvetas/SDC

Swiss future support will need to re-look at ongoing support areas and capitalize on past experiences in rural development and find synergies between projects. As poverty is multi-dimensional, support for income-generating initiatives (economic) alone cannot be sustained without developments in community self-help and decision-making. The future outlook would need an integrated approach in rural development, to combine income generating support with the sustainable and equitable use of natural resources on which rural livelihood largely depends, strengthened ability of service providers and institutions to meet need-based requirements of rural farmers, and formation and enhanced capacity of farmers' groups/associations/cooperatives to initiate and manage rural development initiatives.

The political developments in the country have opened an important avenue, and the necessity for the building up of the civil society. Rural poverty reduction through community participation offers the opportunity for renewed emphasis on social mobilization and civil society development.

### **3. REVIEW 2006 – PROGRAMME/PROJECTS**

Swiss assistance in Bhutan has three priority sectors: Education, Youth and Culture; Rural Infrastructure; and Renewable Natural Resources. For details, refer to the sector descriptions (PAGES 14-37)

#### **3.1 Education, Youth and Culture**

There were concerns expressed over the perceived deterioration of quality of education in Bhutanese schools and the urgent need to reform the education sector. The rapid rise in the student population (36% between 2002 and 2006) without a parallel increase in the number of teachers and necessary infrastructure are cited as major reasons. The quality of teachers has also been questioned as having a direct bearing on the perceived decrease in the standard of education.

- *STEP and the Expansion for Colleges of Education Paro/Samtse project directly impacts on national strategies outlined to meet these challenges –enhancing the quality of teacher education for both pre-service and in-service teachers; improved teaching/learning methodologies, including continual assessments; curriculum reforms; use of ICT in education; infrastructure expansion; guidance and counseling. Additionally, an on-going collaboration between STEP, CERD, the Colleges, and the Ministry of Education to assess the quality of both pre as well as in-service teachers in the country and is expected to provide valuable inputs into formulating national strategies.*
- *The continual monitoring of the project has confirmed the need to extend the project execution period by at least half a year. This remains to be approved.*
- *A delay of 11 months in the completion of the Expansion for Colleges of Education Paro/Samtse project has been forecasted, and communicated for approval for an extension with additional budget.*

The HRD Support for NFS has ended in December 2006. Both the mid-term as well as the external reviews of the project have highlighted the contribution of the project to the decentralization processes in the country, specifically in the field of supporting to prepare for fiscal decentralization. Preparations are underway for the submission of a final report.

### 3.2 Rural Infrastructure

The Suspension Bridge review/backstopping and planning mission was completed to review achievements and to provide the basis for the planning of a consolidation phase.

- Decentralization and recent political developments in the country have resulted in changes in the roles and responsibilities of Dzongkhags (districts) and Geogs (blocks). Within this context (and recognizing the national priority for increased rural accessibility as a strategy for balanced development and poverty alleviation), a consolidation phase for this project has been recommended. The focus recommended for this phase, besides construction and rehabilitation of bridges, is to contribute to the decentralization process through building local capacities in planning and maintenance, and the capacities at the central and Dzongkhag levels for improved management and as a source for technical/resource services.

### 3.3 Renewable Natural Resources (RNR)

Preparations were begun for the consolidation phase (Phase IV, Jan 2007 to December 2008) for support to the RNR-RS. One of the major objectives of this phase is to consolidate past inputs and for the RNR system in Bhutan to have the required management bodies, infrastructure, human resources and competencies to implement relevant, impact-oriented research.

- *Support for the RNR Research System in the country continues to be an important institution and human capacity building aspect, with the object of improving extension and research services for rural development. In this respect ,it is imperative to continue strengthening the relevance of research for rural development through sustaining linkages between research and extension (extension agents' requirements from line departments in the Ministry of Agriculture) and research and education (education/training programmes at the CNR.).*

The revision of the Forest and Nature Conservation Rules (1996) has created an even more favorable policy environment for community forestry, and the support for participatory forest management (PFM) activities has been extended to 16 Dzongkhags.

- *As majority of the poor are in rural areas (38.3% of the rural population live below the national poverty line) and largely depend on natural resources for a livelihood, the sustainable use of community forest has been acknowledged as an important strategy for poverty reduction in the 10<sup>th</sup> Plan. Based on the achievements of the project in directly impacting sustainable rural development (also confirmed by the mid-term review) and building the capacities at all levels for improved efficiency in planning, monitoring and management, a planning mission has started the process for a second phase of the project (coinciding with the 10<sup>th</sup> Plan) which is expected to go a long way in supporting rural livelihood.*

The consolidation phase for the support to the College of Natural Resources (previously NRTI) has begun and focuses on, among others, the new mandate to offer a degree programme under the Royal University of Bhutan and taking on of a credit-based continuing education programme for the RNR sector

- *Sustaining and strengthening linkages between programmes offered at the CNR and the needs of rural communities (through projects like the ECR-ADP, RDTP) through an integrated RNR approach “should remain a special concern at the diploma and the Natural Resources Sciences’ degree level”.<sup>3</sup> This concern would continue to be highlighted and emphasized upon during the consolidation phase as well as for potential future collaboration.*

Enhancing rural cash income through the RNR’s strategic tool of packaging production, accessibility and marketing is a vital objective of the sector. Closely interlinked with this objective is the need to counter the rising unemployment situation (which disproportionately affects youth) mainly caused by rural-urban migration and the paradoxical shortage of farm help in rural areas (10% of total respondents cited labor shortage as a constraint).<sup>4</sup>

- *The components of farm business trainings and community and association leaders’ trainings under the RDTP have progressed well. However, the apprenticeship training program, which mainly targets youth and aims at encouraging young people to seek agriculture as an option for income-generation, continues to receive very poor responses.*

The fact-finding mission on the assessment and projections of development cooperation in the RNR sector (2008-2012/13) has highlighted the need for continued emphasis on supporting prioritized rural development activities and local income-generating initiatives (as in the ECR-ADP). However, an important recommendation for future planning is to focus on the software components (local initiatives, farmers’ groups), while expanding the geographical scope of the project.

- *The consolidation phase of the ECR-ADP will begin from July 2007. The steering committee meetings of the project have re-emphasized the recommendation of the mid-term review of the project to ensure that the poorer sections of the east central region benefited the most from the project.*

### **3.4 Cross-cutting issues**

Swiss assistance in Bhutan has the following crosscutting themes: promoting good governance/decentralization; support for civil society/private sector; and the use of information and communication technology (ICT) as a tool for development. Additionally, gender equality and equity, and poverty alleviation are important aspects across all interventions.

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<sup>3</sup> Fact-finding mission for the development of the Helvetas Bhutan Country Programme (2006) – Prof. Menzi/Dr. Pema report

<sup>4</sup> Facts and Figures of the RNR Sector (2003) – Ministry of Agriculture

### **3.4.1 Good Governance/Decentralization**

The theme of good governance/decentralization is expected to be strongly emphasized in the coming years of Swiss assistance, in keeping with the priority in the country to make a smooth transition towards parliamentary democracy.

Enhancing financial and accounting knowledge and skills at the geog level has been an important contribution towards the decentralization processes in the country (HRD/NFS).

Eight case studies which are in the final stages of documentation was initiated (PFMP), and will provide valuable information on issues like gender and equity and CF contribution to poverty reduction as well as decentralization and good governance. The conclusions and recommendations are used to define the next steps.

### **3.4.2 Private Sector/Civil Society**

Within the newly introduced working area of “Civil Society and the State”, Swiss assistance deems it highly important to contribute towards building a vibrant civil society. A strategy under Swiss assistance towards rural development has been supporting farmers’ groups, Tshogpas (until now in the form of informal associations) and community forest groups. Focused support on social mobilization and strengthening local governance structures and civil society organizations is expected in the coming years.

Support for the Tarayana Foundation has led to the revival of traditional crafts for local income generation in selected vulnerable communities (traditional paper making, nettle dyeing and weaving, cane and bamboo crafts) and the introduction of new ones (soap, candle making). A strategy for these income-generating activities has been mobilizing local community groups and building their skills. A mid-term evaluation of support for the Foundation is planned for mid-2007 to assess progresses and provide future directions. Skills development will continue to be accorded high priority in enhancing livelihood opportunities of the local community members in 2007. Micro credit activities will be initiated in communities the Foundation is currently engaged in on a pilot scale.

The construction industry in the country is an important aspect of the private sector. Specifically projects with infrastructure development aspects (expansion of Colleges of Education Paro/Samtse project, RDTP) have employed the services of local consultancy firms and provided on-the-job trainings to contractors on construction management/quality control etc.

Bio Bhutan has traded in mainly five products in 2006 – two variety of lemon grass oil, lemon grass air spray, Sha Gogona Cheese, and Cordyceps sinensis. The enterprise has been able to expand its linkages in the region (Singapore, India) and abroad (Switzerland, US, Belgium), and has also initiated diversifying into other potential products (potatoes, red rice, pipla, ginger etc). However, it continues to face challenges of maintaining standard quality and quantity in products from producers’ groups, damages occurring from the perishable nature of products, high costs of production, and specifically for 2006, the poor lemon grass distillation season (lack of rain) coupled by high production costs related to the inefficiency of the distillation units. Strategies to meet these challenges are high priority for 2007.

### 3.4.3 Information and Communication Technology

Support for ICT as a tool for institutional development and accessibility continue to be supported through projects. Additionally, certain initiatives were supported:

- *The project “ICT aided Child Friendly Schools” was begun in June 2006, with the major objective of video documenting barriers to learning and good practices both in classrooms in schools and the Colleges of Education.*
- *Preparations for the start of the project “LAN4Schools” were begun. The project is expected to enable secondary schools in the country to access global know-how through internet connectivity and*

## 4. PROGRAMME MANAGEMENT

The overall Swiss contribution in 2006 was CHF 1.48 million (Helvetas programme) and 5.42 million (SDC programme).

Staff Movement:

- Dr. Saamdu Chetri who has been with CoOf since 1988 has resigned from the position of Deputy Resident Coordinator as of December 2006.
- Dr. Pema Gyamtsho has joined CoOf as the Deputy Resident Coordinator.
- Ms. Olivia M Hartmann-Faessler has completed her contract as Advisor to the College of Natural Resources. She has been with the CNR since June 2003.

## 5. PROJECT REPORTS

Credit/Budget
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- Credit refers to the amount for the ongoing phase
- Budget refers to budget for 2006
- Balance refers to the remaining credit after 31.12.2006
  
- EYC: Education Youth and Culture
- RI: Rural Infrastructure
- RNR: Renewable Natural Resources

The project reports consist of a project status sheet, achievements and targets.