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FIRST COUNTRY COOPERATION FRAMEWORK FOR BHUTAN (1997-2001)

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INTRODUCTION

1. The first country cooperation framework (CCF) for Bhutan covers the period 1997-2001, coinciding with the period covered by the Royal Government of Bhutan's Eighth Five-Year Plan. The first CCF draws upon the UNDP advisory note, which was based upon consultations with the Royal Government, the private sector and bilateral and multilateral development partners. It also takes into account recommendations of the 1995 round-table meeting between Bhutan and its development partners, as well as the June 1995 mid-term review of the fifth country programme for the period 1992-1996.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

A. Development performance

2. Bhutan's approach to development is rooted in Mahayana Buddhism, which embodies sanctity of life, respect for nature, compassion for others and the importance of compromise. This heritage cushions the nation against the disruptive impacts of indiscriminate modernization. Since abandoning its self-imposed isolation in 1961, Bhutan has seen rapid social and economic development. In the past decade, almost all human development indicators have shown remarkable improvements.

3. The Eighth Five-Year Plan reconfirms Bhutan's commitment to sustainable human development (SHD) and is guided by seven priorities: (a) sustainability of development; (b) preservation and promotion of traditional values; (c) balanced and equitable development; (d) further improvements in the quality of life; (e) institution-strengthening and human resources development; (f) decentralization and participation; and (g) privatization and promotion of the private sector. The Plan foresees a growth rate in gross domestic product of 6.5 per cent per year, compared to 5.8 per cent per year for the period of the Seventh Five-Year Plan. It is expected that the population growth rate will fall from its present 3.1 per cent per year to 2.56 per cent per year by 2002. The main source of economic growth will continue to be hydropower and natural resource-based industries.

4. Bhutanese men and women enjoy the same legal status, although in most rural areas, society is matrilineal, with women inheriting wealth and men moving to live with their in-laws. Men and women receive equal wages. At the local level, women are particularly active, accounting for some 70 per cent of participants in such fora as zomdus (community meetings).

B. Development challenges

5. While Bhutan can face the future with confidence, it must confront numerous challenges, most notably in the area of sustainable livelihoods, governance and the environment.

Sustainable livelihoods

6. Eighty-five per cent of the population live in rural areas. Thus, in the promotion of sustainable livelihoods, the stress is on sustainable increases in agricultural productivity and the development of potential in such areas as horticulture, where Bhutan has a comparative advantage. However, since most arable land is already in use, population pressures and a free inheritance act could result in a reduction in the average size of land holdings, rendering some land unviable, even for subsistence agriculture. Some households possess insufficient land to meet subsistence needs and resort to share-cropping and wage employment. This situation fuels rural-urban migration, with the

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population of Thimphu, the nation's capital, growing at 10 per cent per annum in recent years.

Governance

7. Bhutan's civil service is relatively small and is still to some extent dependent upon expatriates. Recently, Bhutan redefined its policies for the civil service, aiming at the establishment of a compact, efficient and professional organization to facilitate development.

8. In 1981, District Development Committees were set up in all districts of Bhutan, with a total of 560 elected members, all of whom have important planning and programming responsibilities. In 1991, Block Development Committees were set up, with responsibilities for the planning, management and implementation of development activities at the lowest administrative level.

9. Bhutan is building development capacity at national and subnational levels. At the national level it is redefining the role of government from that of provider to that of enabler. At the subnational level, it needs to reconcile administrative efficiency with broad-based participation. Cutting across these governance issues are critical human resource and financial constraints. Human resources development policies have not been able to match labour supply with the demands of the economy, as reflected in the inability of school leavers in recent years to find wage employment.

Environment

10. Bhutan is recognized internationally for the diversity of its plant and animal life. The country actively safeguards its extensive forests, which cover more than 72 per cent of its land. Bhutan has subordinated short-term economic gain to conservation, by deciding to maintain a minimum of 60 per cent forest cover. Most sectoral policies are guided by environmental considerations.

11. Although Bhutan's environment remains mostly intact, population increases are placing pressures on the environment. Some forest areas are being exploited for fuelwood and other forest products, with extraction rates approaching unsustainable levels in some cases. As land holdings become smaller, farming is moving to steeper slopes, with a risk of soil erosion and land degradation. New environmental problems are also emerging in urban areas, such as an inadequate sewage and solid waste disposal infrastructure.

C. Commitments to international compacts

12. The Eighth Five-Year Plan incorporates many of the recommendations of recent international compacts, including those of the World Summit for Social Development, the Alma Ata Conference on Primary Health Care, the World Conference on Education for All, the International Conference on Nutrition, the World Summit for Children, the Fourth World Conference on Women and the Second United Nations Conference on Human Settlements (Habitat II). Bhutan has adopted the goals of Health for All and Education for All by the Year 2000. A draft National Environment Strategy incorporates many of the recommendations of the United Nations Conference on Environment and Development. In order to reduce population growth, Bhutan has adopted many of the recommendations of the International Conference on Population and Development.

II. RESULTS AND LESSONS OF PAST COOPERATION

13. One feature of the fifth country programme has been its involvement in the preparation of master plans and programme frameworks. In addition to advancing

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programme formulation, these frameworks have generated significant resources from other development partners, thus far amounting to \$657 million. Since the preparation of the frameworks cost approximately \$5.4 million, the additional resources derived from UNDP-supported activities were on the order of \$122 for every \$1 invested. UNDP support for capacity-building and human resources development were also important contributions.

14. Experience has shown the importance of capacity assessments, both of implementing agencies and of those targeted for capacity-building. It has also confirmed the need to involve stakeholders from the formulation stage. In some cases, capacities of executing and implementing agencies were overestimated, in others, monitoring and evaluation procedures lacked the required clarity, owing to the lack of well-developed performance indicators and success criteria.

15. Despite efforts to link UNDP and United Nations Capital Development Fund (UNCDF) programmes, they have tended to be formulated and implemented separately. The programme of UNCDF is significant, amounting to \$13 million. Future UNDP/UNCDF collaboration in the areas of decentralization and sustainable livelihoods through local governance should ensure full complementarity between technical and capital assistance.

III. PROPOSED STRATEGY AND THEMATIC AREAS

A. Overall strategy

16. UNDP aims to contribute to the attainment of sustainable human development through programmes in direct support of Royal Government policies and priorities. The main elements of the strategy are:

(a) Concentration of resources in high-priority areas. During the fifth country programme, programme focus was increased by reducing the number of projects substantially. The mid-term review of the fifth country programme agreed that the programme should be further concentrated in the first CCF;

(b) Focus on capacity-building. Capacity-building in support of SHD will be stressed. Given the relevance of Bhutan's decentralization programme to SHD, future capacity development activities should be extended to cover subnational entities;

(c) Application of the programme approach. The programme approach will be adopted, to the maximum extent possible, in order to establish feasible and operational strategic frameworks for action by the Royal Government and its development partners;

(d) Support for global compacts. Assistance will be provided in the translation of United Nations-sponsored global compacts and international agreements into country-specific strategies and programmes;

(e) Strengthening complementarities with UNCDF. Complementarities between technical and capital assistance will be strengthened through a strategic alliance between UNDP and UNCDF, in support of national policies and programmes in SHD-related fields, notably, decentralization, local governance and micro-credit;

(f) Promoting United Nations system cooperation. Cooperation will be fostered between the agencies of the United Nations development system, especially those of the Joint Consultative Group on Policy (JCGP);

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(g) Full mobilization of assistance modalities. Greater use will be made of the technical cooperation among developing countries modality during the CCF. The United Nations Volunteer programme will be made even more effective by reinforcing the focus on capacity-building for SHD.

B. Thematic areas

17. Three critical SHD-related areas have been identified for future UNDP assistance, namely sustainable livelihoods, governance and environment. Given that UNDP resources for the period of the first CCF are modest, it has been decided that core resources will be concentrated in the areas of sustainable livelihoods and governance, while non-core resources will be mobilized to support Bhutan's priorities in the environment sector. In all these areas, UNDP will support national capacity-building.

Sustainable livelihoods

18. Under this theme, the aim will be to promote sustainable livelihoods and improve the living standards of the population, especially poor households, through the creation of productive employment in rural and urban areas and an enabling environment for the promotion of the private sector. Increasing the sustainability of rural livelihoods by promoting agricultural diversification and increasing agricultural production will be stressed. The objective supports the priorities of the Eighth Five-Year Plan related to improvements in the quality of life, privatization and the promotion of the private sector, and balanced and equitable development.

19. Two main programmes will be implemented: (a) the promotion of the private sector, entrepreneurship and cottage and small- and medium-scale industries; and (b) integrated horticulture development, as outlined below.

Promotion of the private sector, entrepreneurship and cottage and small- and medium-scale industries

20. This programme will promote private sector development and the development of cottage and small- and medium-scale industries, so as to create productive employment and increase incomes.

21. UNDP has supported the preparation of a programme framework for the promotion of cottage and small- and medium-scale industries, which will be continued under the CCF. Small enterprises will be supported through measures such as improved access to credit, technology, business skills, marketing, viable business opportunities, and industrial extension services. This will result in greater viability of local small-scale economic activity, a precondition for employment creation. UNCDF will support the credit component of the programme.

22. UNDP will also support the formulation of a National Private Sector Development Strategy and Programme Framework, to cover, inter-alia, the requirements for the establishment of an enabling environment and human resources development within the private sector. The preparation of the strategy and framework will involve important stakeholders; and key institutions will be identified for future capacity development activities.

Integrated horticulture development

23. This programme aims to increase the incomes and nutritional standards of the rural population, through sustainable exploitation of horticulture development potentials. Horticulture development has greater potential than the development of food grains for raising incomes, improving the welfare and

quality of life of rural households and promoting rural industrialization. UNDP has supported the preparation of an Integrated Horticultural Development Master Plan, which has been translated into a National Action Plan and Programme Document, with eight components. Six of the components, covering coordination, marketing, post-harvest storage and quality control, technology development, extension and cultivation and processing of aromatic and medicinal plants, will be supported by UNDP. To maximize impact, the further development of physical infrastructure is required, in order to overcome critical marketing constraints. The infrastructure programmes would be financed by other development partners.

Expected impacts

24. Interventions under the theme of sustainable livelihoods will support an enabling environment for private sector promotion, with positive effects on employment creation. The programmes will also contribute directly to increasing the incomes, improving the quality of life and enlarging the potential for the sustainability of the livelihoods of rural and urban populations, while contributing to an improvement in the nutrition of the rural population in particular, and to an expansion of opportunities for the creation of off-farm employment and rural industrialization. These developments can be expected to slow the pace of rural-urban migration.

Governance

25. Programmes under this theme will support more effective formulation, management, monitoring and evaluation of SHD programmes at national and subnational levels, linked to the Eighth Five-Year Plan priorities of balanced and equitable development, decentralization and community participation, and institutional-strengthening and human resources development. Programmes will be developed in the following areas: (a) strengthening capacities for development management and decentralization; and (b) capacity-building for human resources development and management, as outlined below.

Strengthening of capacities for development management and decentralization

26. This programme will strengthen the capacity of the public sector to plan, manage and coordinate development activities, by developing an integrated system of decentralized planning and programme/project management to reconcile administrative efficiency with participation in decision-making.

27. Focusing on three different tiers of government - the central, district (dzongkhag) and block (gewog) levels - the programme will be elaborated using the programme approach. Five components are envisaged, covering: (a) the review of existing planning, management and coordination arrangements at and between different levels of government; (b) the development of capacities for the more effective discharge of the Government's role as "enabler" and coordinator of development, including improved monitoring and evaluation systems; (c) the strengthening of the capacities of district-level administrations to adopt more integrated approaches to development and manage increased financial responsibilities; (d) further financial decentralization, based on enhanced capacities at district and block levels, following introduction of Local Development Funds (LDFs), a UNCDF funding mechanism for the financing of small projects identified by communities; and (e) capacity-building at the gewog level for participatory planning and management of development activities and LDFs. UNCDF will also support the programme, through support for LDFs and associated infrastructure development.

28. The programme is expected to result in significant improvements in government efficiency, and to establish a strategic framework to bring greater coherence to the programmes of donors currently involved in capacity-building at

the dzongkhag and gewog levels. It establishes a potentially powerful framework for increasing the impacts of the programmes of other development partners, especially the agencies of the United Nations development system.

Capacity-building for human resources development and management

29. This programme will support the development of critical skills and capacities of institutions with responsibilities for the management and development of human resources.

30. UNDP has long been active in human resources development in Bhutan. The most significant activities to date have been the preparation of three human resources development master plans, most recently for the Eighth Five-Year Plan. UNDP has supported the implementation of the plans, and will continue to support capacity-building efforts, especially in the area of management, as identified in the Human Resources Development Master Plan for the Eighth Five-Year Plan. UNDP will support in-country capacity-building for human resources development and management training, with emphasis on: (a) the Royal Civil Service Commission, which is responsible for implementation of the Human Resources Development Master Plan and all manpower planning and human resources development and management activities; and (b) the Royal Institute of Management, for conducting in-country management training programmes. At the same time, a nationwide career guidance and counselling system will be developed, to expand the employment horizons of Bhutanese youth.

Expected impacts

31. UNDP will help to improve capacities for managing development and human resources at the national and subnational levels. It will support Bhutan's decentralization programme in ways that combine administrative efficiency with opportunities for local communities to influence decisions that impact on their lives. Impacts will include a national decentralized planning and programme/project monitoring and evaluation system that is well-coordinated, standardized and institutionalized in the Ministry of Planning, Ministry of Home Affairs, Ministry of Finance and relevant sectoral ministries. UNDP will also contribute to skills formation and an improved system of manpower-planning, to reconcile the social demands for education with the requirements of the economy.

C. Strategic programme reserve

32. While core resources will be concentrated in the four main programmes of the two thematic areas outlined above, a programme reserve of approximately \$1 million will be retained to finance other high-priority SHD-related activities. This will allow UNDP to play a catalytic role in resource mobilization, especially in the renewable natural resources/environment sector. The programme reserve may also be used for follow-up activities to global compacts.

D. Non-core resources

33. UNDP has been involved in the renewable natural resources/environment sector, which is of central importance to Bhutan's efforts to promote SHD. The focus of future support in this area, to be funded out of non-core and programme reserve resources, will continue to be on capacity-building and the preparation of programme frameworks.

34. UNDP has mobilized Global Environment Facility (GEF), Capacity 21 and other resources for the following activities: (a) strengthening of environmental management and education; (b) forest resources management and institutional capacity development; (c) preparation of a National Biodiversity Strategy and

Action Plan; (d) integrated management of Jigme Dorji National Park, including the preparation of Community Natural Resource Management Plans; and (e) capacity-building to ensure that Bhutan meets its obligations under the United Nations Framework Convention on Climate Change.

35. UNDP success in mobilizing non-core resources should ensure its continued involvement in the environment sector. UNDP will also continue to participate in the \$20 million Bhutan Trust Fund for Environmental Conservation, which has so far been used mainly for strengthening conservation measures throughout the country.

E. Programme linkages

36. The programmes to be implemented are mutually reinforcing in scope and orientation. The programme for the strengthening of capacities for development management and decentralization will enlarge opportunities for participation at subnational levels, which will have a positive impact on sustainable livelihoods programmes, especially at the grass-roots level. Similarly, programmes under the theme of governance will ensure that the Royal Government is better equipped to redefine its role as an "enabler" of development, while the programme on private sector development will contribute to the creation of an "enabling" environment for the transformation of the private sector into the nation's future engine of growth. Human resources development provides another linkage between the two themes, with support for the development of career guidance and counselling services, correlating with activities in support of private sector development.

F. Concluding observations

37. UNDP has a long history of involvement in Bhutan's development, being the third donor, after India and the Colombo Plan, with a programme of development with the Government. Although UNDP resources have declined and the importance of bilateral assistance has increased, a strategy of cooperation based on the above will ensure that UNDP continues to make a distinctive and valuable contribution to Bhutan's social and economic development.

38. The fifth country programme had 15 programmes and projects. The first CCF has two areas of concentration and four main programmes. Further concentration of UNDP resources in a smaller number of SHD priority areas suggests that the impact of UNDP assistance will be greater than in the past.

V. MANAGEMENT ARRANGEMENTS

A. Execution arrangements

39. The Royal Government of Bhutan has endorsed national execution as a means to develop project implementation and management capabilities and increase programme efficiency and cost-effectiveness. Difficulties encountered with the modality are being addressed in a coordinated and systematic way. Further training will be conducted to enhance the capacities for national execution. All programmes under the first CCF will be nationally executed, with due attention to the implementation, monitoring and reporting capabilities of implementing agencies. Bhutan values the technical assistance provided by United Nations specialized agencies and its continuation through technical support arrangements.

B. Programme monitoring and review

40. Four main instruments will be used for programme monitoring:

(a) A three-year rolling resource planning framework will be used to monitor the use of core resources, and, additionally, progress in the mobilization of non-core resources;

(b) A biennial progress report will be submitted to the UNDP Programme Management Oversight Committee. This report will assess the status of implementation and continued relevance of the CCF;

(c) More extensive use will be made of the Local Programme Appraisal Committee as an important tool for programme appraisal, monitoring and evaluation;

(d) In the design of programme frameworks, greater attention will be paid to the formulation of performance indicators and success criteria to facilitate the monitoring and review of programmes.

C. Resource mobilization

41. The resource mobilization strategy for the first CCF has four components. UNDP will continue to: (a) provide coordination support in the organization of periodic round-table meetings and their follow-up; (b) directly mobilize additional resources; (c) mobilize non-core resources, focusing on Capacity 21, GEF, UNCDF and various trust funds; and (d) formulate an overall resource mobilization strategy for the CCF period, which will identify targets and funding sources within and outside UNDP and the measures to be adopted for achieving them.

42. The total resource mobilization target, excluding resources from target for resource assignment from the core (TRAC) line 1.1.2, which will be assigned at a later date, is provisionally set at \$30.8 million. The target for TRAC line 1.1.1, support for policy and programme development/support for technical services (SPPD/STS) and the balance of fifth-cycle indicative planning figure resources has been set at \$10.6 million, and the target for non-core resources has been set at \$22.7 million. TRAC line 1.1.2 resources of up to \$6.4 million can be accessed, subject to availability of funds and well-conceived SHD-focused programmes. Of the total programmable resources, \$2.8 million are committed to ongoing programmes/projects.

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Annex

RESOURCE MOBILIZATION TARGET TABLE FOR BHUTAN (1997-2001)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated IPF carry-over	201	
TRAC 1.1.1	9 585	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
SPPD/STS	849	
Subtotal	10 635 <u>a/</u>	
NON-CORE FUNDS		
Government cost-sharing	200	
Sustainable development funds	5 000	GEF and others to be determined.
Third-party cost-sharing	5 000	
Funds, trust funds and other	12 500	\$12.0 million from UNCDF; funds from UNIFEM and UNV to be determined.
Subtotal	22 700	
GRAND TOTAL	33 335 <u>a/</u>	

a/ Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: GEF = Global Environment Facility; IPF = indicative planning figure; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignment from the core; UNCDF = United Nations Capital Development Fund; UNIFEM = United Nations Development Fund for Women; and UNV = United Nations Volunteer programme.
