

BHUTAN

Country Strategy Paper 2007-2013

Mid-Term Review Document IP 2011-2013

April 2010

LIST OF ACRONYMS

AAP	Annual Action Programme
ADB	Asian Development Bank
BCCI	Bhutan Chamber of Commerce and Industry
BEPC	Bhutan Export Promotion Centre
BIMSTEC Cooperation	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic
CEP	Country Environmental Profile
CSP	Country Strategy Paper
DCI	Development Cooperation Instrument
EOM	Elections Observer Mission
EU	European Union
DYT	Dzongkhag Yargay Tshogdu (District Development Committee)
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FYP	Five Year Plan
GDP	Gross Domestic Product
GLOF	Glacier Lake Outburst Floods
GHG	Green House Gas
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission
GoI	Government of India
GYT	Geog Yargay Tshogdu (County/Block Development Committee)
HAB	Handicrafts Association of Bhutan
HDI	Human Development Index
ITC	International Trade Centre
ITMS	Institute for Traditional Medicine Services
MIP	Multi-annual Indicative Programme
JICA	Japan International Cooperation Agency
MDG	Millennium Development Goals
MOU	Memorandum of Understanding
MTR	Mid-Term Review
NGO	Non-Governmental Organisation
PLaMS	Planning and Monitoring System
RGoB	Royal Government of Bhutan
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
TCB	Tourism Council of Bhutan
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
WB	World Bank

Part 1: Executive Summary

During the timeframe of the MIP 2007-2010, Bhutan has undergone major political changes by moving from an absolute monarchy to a constitutional monarchy and by introducing a democratic Government. The first National Assembly Elections took place in March 2008. The new Bhutanese political system and its young democratic institutions are aiming to move towards good governance, decentralised decision making and development.

The 10th Five Year Plan for the years 2008-2013 is the main document guiding Bhutan's current development policy. Its main objectives are: reducing poverty levels from 23% to 15%, diversifying Bhutan's industrial base, tackling growing unemployment and meeting the growing cost of social service delivery and the political transition in the country. The plan focuses on stimulating faster growth in the productive sectors (agriculture and industry) together with continuing to invest in the hydro-power sector. The 10th FYP reiterates the emphasis on protection and conservation of the environment and states that, given the accelerated pace of economic and development activities, accompanied by the expansion of infrastructure development, urbanisation, industrialisation, population growth and consumption patterns, the environment sector will require even more attention than in former FYPs.

Despite rapid economic growth and significant development efforts in the past, around one quarter of the country's people still live below the poverty line. In addition to income poverty, notwithstanding the fact that the general quality of life in Bhutan has greatly improved, substantial qualitative and quantitative rural/urban differences still remain in terms of access to social services, basic amenities and economic opportunities. There are large gaps between rural and urban areas measured by various socio-economic indicators, including income levels.

The first three years of EU-Bhutan cooperation under the 2007-2013 Country Strategy Paper have been characterised by delays in the programming of the two main focal sectors for EU support, i.e. the Renewable Natural Resource Sector (indicative amount of € 5.6 million) and the Support to the Good Governance Sector (indicative amount of € 2.4 million). These delays are mainly due to the discussions between the European Commission and the Royal Government of Bhutan on the scope for the EU to provide sector budget support to Bhutan. A number of studies assessing Bhutan's eligibility for budget support are currently ongoing and are expected to be finalised in January 2010. Consequently, during the current MIP (2007-2010) no new commitments have yet been made, although the programming exercise for both the RNR and Good Governance sector is on-going and the entire financial allocation of the first MIP is expected to be committed early in 2010.

The mid-term review of the Bhutan Country Strategy Paper involved consultations with RGoB, Civil Society Organisations and the donor community, and was carried out in March and December 2009. The consultation process confirmed that the EU's response strategy for 2007-13, which was developed in line with the 10th FYP, is still valid and that the chosen sectors of intervention are still relevant. Moreover, projects and programmes financed under the Asia Regional Strategy, including the South Asia Civil Aviation Programme and the Infectious Diseases Project (including avian influenza) are also relevant for Bhutan.

It can be concluded, therefore, that only minor adjustments are required to the Bhutan Country Strategy Paper (CSP) 2007-2013 and that the Multi-annual Indicative Programme (MIP) 2011-13 will concentrate its development commitments on the following two focal areas: Renewable Natural Resources and Trade and Economic Capacity Building, with indicative financial allocations of € 2.2 to € 3.4 million respectively.

It is proposed to merge the indicative allocation of € 0.4 million for Good Governance, originally earmarked under the second MIP 2011-2013, with the € 2.4 million allocation to Good Governance identified under the first MIP (2007-1010) in order to ensure the efficiency of the programming exercise.

Part 2: Mid-Term Review of the Country Strategy 2007-2013

2.1 Main political, economic, social and environmental developments

Located in the southern slopes of the eastern Himalayas, Bhutan is landlocked between India and China, with Tibet in the north and the Indian States of Assam, Arunachal Pradesh, Sikkim & West Bengal to the East, West, & South respectively. Bhutan covers an area of 38,394 square kilometres and, with a population of only 634,982 (in 2005/2006), has a very small population density (16 persons/square km). 79% of the population live in rural areas. The physical geography of Bhutan consists mostly of steep and high mountains crisscrossed by a network of fast-flowing rivers, which form deep valleys before draining into the Indian plains. The land rises from 200 metres in the southern foothills to heights of 7000 metres in the northern mountains. This latitudinal range is home to a biodiversity that is rich enough to be considered as one of ten global environmental 'hotspots'. About 72.5 per cent of the area is under forest, and the law requires the country to maintain 60 per cent forest cover permanently.

Political situation

In recent years, Bhutan has undergone major political changes by moving from an absolute monarchy to a constitutional monarchy and by introducing democratic Government. The carefully thought-out process has culminated in the drafting of a Constitution which, for the first time, allows political parties, recognises individual rights, and provides checks and balances between the different branches of the government. Bhutan's transition to democracy began in December 2007 when an election was held for the upper house of the new bicameral parliament. The first general Elections, i.e. the National Assembly elections, took place on 24 March 2008. The enthusiastic voter participation, with a 79.4% turnout and a commitment by state institutions to support the democratic process, provides a solid foundation for a credible democracy. Following an invitation from the Royal Government of Bhutan, the European Union established an Election Observation Mission (EOM) to observe the elections. Its mandate was to conduct a comprehensive assessment of the

electoral process in accordance with international standards for democratic elections. The report of the EU Election Observation Mission indicated that the election process met international standards and that the commitment of state institutions to support the democratic process provided a solid foundation for a credible democracy. Bhutan has made major strides towards further promoting a system of governance that is responsive and accountable to the people. However, since both the Bhutanese political system and its democratic institutions are very young, support is needed in the fields of good governance, decentralised decision making and development.

Following these first general Elections, the winning party - Bhutan Peace and Prosperity Party DPT (*Druk Phuensum Tshogpa*), led by the former Prime Minister Jigme Y. Thinley - formed the first Democratic Government of Bhutan. The RGoB established the Gross National Happiness Commission (GNHC), which combines the former Planning Commission and the Committee of Secretaries. The government also established the Bhutan Development Index to help to measure changes in Gross National Happiness (GNH). The GNH, which emphasises socio-economic development, preservation of culture and the environment, and good governance, is a key goal of the 10th FYP covering the period 2008-2013.

Bhutan is divided administratively into 20 dzongkhags (districts) and 205 geogs (blocks). A geog is the smallest administrative unit within a district and is administered by the elected representative (*gup*). It consists of a group of villages. Following the formation of the DYT (Dzongkhag Yargay Tshogdus) and GYT (Geog Yargay Tshogdu) in Dzongkhags and Geogs in 1981 and 1991, the Geog-based planning approach launched in the 9th FYP was another critical milestone in the strengthening of decentralised governance in Bhutan. More recently, the National Assembly passed the Local Government Act (2007), which translates into law the important constitutional principle of decentralised governance and mandates the formation of local governments for the development, management and administration of areas under their jurisdiction. Making further progress towards decentralisation the 10th FYP includes the provision of annual grants for all local governments based on a formula that takes into consideration factors of population, geographic area and poverty. Under the priority area Good Governance of EU-Bhutan cooperation, the EU will support the newly established Geog Annual Capital Grants Facility by becoming a partner to the multi-donor funded RGoB's lead Local Governance Support Programme, the aim of which is to strengthen the process of decentralisation in the country.

At regional level, Bhutan is a member of regional organisations such as SAARC, SAFTA and BIMSTEC. Although it is one of SAARC's smallest members, Bhutan is a proactive member. While its closest relations are with neighbouring India, membership of SAARC, SAFTA and BIMSTEC has allowed the country to pursue its regional agenda and in particular to forge economic relations with fellow SAARC member, Bangladesh. It is home to the SAARC Forestry Centre and will host the next SAARC Summit on 28 and 29 April 2010 in Thimphu.

Economic situation

The 10th Five Year Plan for the period 2008-2013 is the main document guiding Bhutan's current development policy and its aim is to bring poverty levels down from 23% to 15%, diversifying Bhutan's industrial base, tackling growing unemployment and meeting the growing cost of social service delivery and the political transition in the country. The plan focuses on stimulating faster growth in the productive sectors (agriculture and industry) in conjunction with continued investments in the hydro-power sector. The agriculture, livestock and forestry sector is projected to

grow at about 3.4 percent per annum. The 10th FYP will be implemented through a Medium Term Fiscal Framework, which involves a Multi Year Rolling Budget, Effective Debt Management and Fiscal Decentralisation. The Five Year Plans will be operationalised through the three-year Rolling Budget.

According to the central bank, real GDP growth was 8.5% in fiscal year 2006/2007. The contribution of the industry sector was 43%, while the service sector's contribution stood at 36% of GDP. Agriculture contributed around 21% to the GDP in 2007, but its share has been declining during the last 20 years, from a high of 37% in 1987. However, the growth rate of the agriculture sector in 2007 was 1.8% (source: World Bank: Bhutan at a Glance, 2008). About 70% of the population depend on agriculture for their livelihood.

Bhutan is the EU's 188th trading partner, and its total trade with the EU amounted to € 13 million in 2009. As an LDC, Bhutan benefits from the Everything but Arms (EBA) scheme under the EU's Generalised System of Preferences (GSP). EBA is the most favourable preferential trade arrangement, offering unhindered access to European markets for all exports other than arms to 49 Least Developed Countries, including Bhutan. This involves a duty free-quota free regime for Bhutanese exports to EU. However, it is important to note that Bhutan has been unable to reap the significant benefits offered under the EBA. This may be due to supply-side constraints, rules of origin and other requirements, non-tariff barriers - such as complying with product standards, sanitary measures and problems of integrating into the multilateral trading system.

Bhutan's process of accession to the WTO started under the previous government in 1999, after which a working party was established to conduct negotiations. Bilateral market access negotiations have been ongoing on the basis of revised offers in goods and services. The most recent rounds of negotiations were held in January 2008. However, negotiations were stalled when the new government took over and felt the need to conduct a more thorough examination of the case, in keeping with the development philosophy of Bhutan, especially the "Gross National Happiness" Commission. The government asked the Ministry of Economic Affairs to hold more consultations to examine the matter. The government is now weighing the pros and cons of becoming a member of WTO. The Trade Capacity Development Project, which was funded in the previous MIP, has helped to strengthen the capacity of Bhutanese officials to conduct negotiations on WTO accession, despite delays caused by changes in the political landscape in Bhutan, changing Government priorities and bureaucratic formalities.

Strong growth in merchandise export pushed the current account into surplus in 2006/2007. Although India remains Bhutan's largest trading partner, its importance as an export market has declined slightly. India continues to be the main trading partner, followed by Bangladesh. The main export items are electricity, chemical products, metal, wood and processed food, mineral products, textiles, stones, cement and asbestos products. Sale of electricity accounts for 43.7% of the total exports. Bhutan's import items are fuel, cereals, motor vehicles, machinery and mechanical appliances, metal products, plastic and rubber products. The major countries importing from Bhutan are India (75%), Japan (4%), EU (4.1%), Singapore (3%) and Thailand (3%), with other countries accounting for 11%.

Bhutan is experiencing a rapid population growth, which is putting increasing pressure on its natural resources. This includes loss of agricultural land to other uses, which has exacerbated the problem of the limited arable land base. There is a general preference for large herds of (less productive) cattle, which - in combination with open grazing systems - leads to environmental degradation and conflicts over land use. Most areas of Bhutan are characterised by inadequate infrastructure and market access.

There are numerous constraints in adopting new technology and appropriate land management and other production options. In addition, the mountainous terrain and the scattered settlements make delivery of services difficult. Incidences of natural disasters and effects from the impacts of climate change pose another challenge to development. Although Bhutan contributes very little to climate change and global warming, it has to deal with the devastating impacts of the process. While the country is vulnerable to a wide range of natural hazards, its main efforts in respect of disaster risk management have to be directed towards glacier lake outburst floods caused by climate change, in the form of melting glaciers and the formation of moraine-dammed glacier lakes. Melting glacier lakes through Glacier Lake Outburst Floods (GLOF) can not only affect the country's economic backbone – hydropower generation – by lowering the productive capacity of plants and decreasing their productive life span, but can also devastate agriculture, on which more than two thirds of the population depend.

Although the recent global financial crisis has had an impact on Bhutan, the extent of the impact appears to have remained very limited. At a UN workshop on Bhutan's defences against future global financial crises, held in December 2009, the Managing Director of the Royal Monetary Authority of Bhutan stated that the economy of the country had continued to grow at a similar rate to the previous year, despite some loss of revenue from tourism and falls in output in some manufacturing industries. However, the economy has shown some signs of strain, with significant increases in the budget deficit, the current account deficit and the amount of money in circulation during 2009. The Tourism Council of Bhutan (TCB) stated that the global financial crisis has had a negligible effect on tourism in the country, with the arrival of tourists during the 2009 season down by only 7 percent. The main problem is reported as inflation of food prices, although Bhutan is expected to recover very quickly from this. As mentioned above, Bhutan is a member of SAFTA, whose aim is to reduce customs duties to 0-5% by 2015. However, this reduction is unlikely to have a major impact on Bhutan, as India is the country's biggest trading partner and already grants preferential treatment. The main barriers to Bhutan's opportunities in the trading of goods are its small size, lack of trade-facilitating amenities, and (apart from hydropower) the almost total lack of natural resources which can be used as raw materials to manufacture goods.

Social situation

Despite rapid economic growth and significant development efforts in the past, around one quarter of the country's population continue to live below the poverty line. In addition to income poverty, notwithstanding the fact that the general quality of life in Bhutan has greatly improved, there are still substantial qualitative and quantitative rural/urban differences in terms of access to social services, basic amenities and economic opportunities. Various socio-economic indicators, including income levels, point to extensive gaps between rural and urban areas. Poverty reduction has been established as the overall objective of the 10th FYP.

The percentage of the rural population with access to sanitation and safe drinking water stands at 92.6% and 84% respectively (2003), which means that Bhutan has already achieved the MDG 7 (Target 10) of halving the proportion of people without access to safe drinking water and sanitation. Around 90% of the population has access to proper health facilities. As of 2005 there are 29 hospitals, 176 basic health units and 485 dispensaries and outreach clinics scattered across the kingdom. The country also has one indigenous hospital and 21 indigenous dispensaries. RGoB's set objective with regard to traditional medicine is to provide all people of Bhutan with both allopathic and indigenous traditional health care, consisting of medicine as well as allopathic and traditional

doctors. Through its support to the Medicinal Plants Project, the EU has contributed substantially to increase the quantity and quality, as well as the variety and availability, of traditional medicine in the country.

Around 52.3% of women are attended by trained personnel during child birth. Maternal mortality and infant mortality rates fell from 560 and 90 in 1990 to 255 and 60.5 in 2000 respectively. Life expectancy at birth has increased from 45.8 for males and 49.1 for females in 1985 to 65.9 and 66.1 respectively in 2003. Bhutan has so far had few reported cases of HIV/AIDS. But no nation is immune, and Bhutan is at serious risk, given the prevalence of sexually transmitted diseases in the country and the alarming HIV/AIDS situation in neighbouring countries. The Government has set up Multi-Sector Task Forces (MSTFs) in all 20 districts to stem the spread of HIV/AIDS.

Education coverage in the country has been expanding rapidly at all levels and is still provided free of charge. Progress has been remarkable, with the gross primary enrolment rate reaching 84 percent in 2004. While the Government's efforts in the past had largely been directed at attaining universal primary education and ensuring basic education for all, more recent efforts have focused on expanding the quality and capacity of secondary and tertiary levels and on strengthening technical education and vocational training.

Women are treated equally to men and the law protects the rights of women in many ways. In rural areas the ownership pattern shows a female - male ratio of 60-40. Bhutan has affirmed its commitment to the principles of gender equality by ratifying the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1981 and by adopting numerous follow-up measures to reduce gender inequalities. Over the years, there has been a tremendous increase in female school enrolment rates. Currently, this rate is increasing even faster than enrolment of boys. In 2004, the ratio of girls to boys in primary, secondary, and tertiary education increased to 95%, 96% and 53% respectively. The number of women in the civil service has increased over the years, and women currently constitute around 23% of the total civil service employees.

In 2007 the Civil Society Organisations Act of Bhutan was passed. The aim of the Act is to facilitate the establishment and growth of Public Benefit Organisations and Mutual Benefit Organisations in order to strengthen Civil Society, promote social welfare, and improve the conditions and quality of life for the people of Bhutan. It also aims at ensuring a system of public accountability by providing a framework for responsible and effective self-regulation of Civil Society Organisations. With the establishment of the Civil Society Act, civil society organisations and non-governmental organisations are slowly emerging and developing in the country. Under the Call for Proposals "Investing in People - Access to local culture, protection and promotion of cultural diversity" (EuropeAid/127875/C/ACT/Multi) for the first time a proposal has been submitted by Helvetas/Bhutan, together with the largest Bhutanese NGO "Tarayana Foundation".

Bhutan underwent the Universal Periodic Review (UPR) in the UN Human Rights Council during the 6th cycle of the UPR from 30 November to 11 December 2009. A constructive follow-up on the implementation of the recommendations made by EU Member States during the UPR is of particular importance to the EU and provides real opportunities for Bhutan.

Environmental trends

Bhutan is endowed with a relatively pristine and unique environment, boasting a high percentage of forest cover and very high levels of biological diversity at the ecosystem, species and genus levels. To

conserve the country's forests and biodiversity, the Royal Government of Bhutan has designated over 26 percent of the land area as protected, making it the highest percentage of protected area in the world. The country is governed by stringent environmental standards and a strong conservation ethic. Since the 1970s, the Government has put in place a comprehensive environmental policy and regulatory framework. The country has adopted a "middle way" approach, balancing conservation and economic development and ensuring that the spiritual, cultural and social needs of the society are carefully considered.

Despite the country's unique environmental status, a number of factors threaten Bhutan's environment, including the accelerating pace of Bhutan's own development, the high rate of population growth, and the recent rise in rural-urban migration, which has led to challenges with regard to urban waste management, air and water pollution, and urban planning. The main impacts of these threats include increasing loss of biological diversity, reduction of forest area, degradation of ecosystem services and reductions in air and water quality. Climate change and associated natural disasters compound these threats and present additional challenges for Bhutan's environment. Bhutan is affected by the rapid melting of glaciers as a result of global warming and is subject to glacier floods. With many lakes in Bhutan filling up very quickly due to rapid melting of glaciers, scientists fear that Bhutan will face massive ecological disasters unless the effects of climate change are brought under control immediately. Some 24 out of more than 2,600 glacier lakes in Bhutan have meanwhile been identified as potentially dangerous and are expected to burst their banks, spilling millions of litres of water into the valleys below.¹ In the past, Bhutan has also regularly been affected by the destructive effects of cyclones. Most recently, in May 2009, cyclone 'Alia' destroyed public infrastructure buildings, such as roads, irrigation and drinking water facilities, as well as houses and farmlands. To address the risks and effects of climate change and natural disaster, Bhutan has developed key policies and regulatory frameworks for the protection and management of the environment. The National Plan of Action for Global Environmental Management has enhanced the capacities of the national institutes for ensuring sustainable livelihoods through environmental stewardship. Preparation of national plans, such as the National Green House Gas Inventory and the National Adaptation Strategy and Action Plan for Climate Change, has generated awareness and facilitated Bhutan's participation in Multilateral Environment Agreements (MEA) including the United Nations Framework Convention for Climate Change, the Convention on Biological Diversity and the Convention on Combating Desertification. Bhutan is currently mainly assisted by the UN under the common Country Programme Action Plan (2008-2013) and ICIMOD in its efforts to mitigate the risks and effects of natural disasters and climate change. Bhutan, supported by UNDP and Denmark, is currently developing the Joint Support Programme on Environment, Climate-Change and Poverty (ECP) aimed at mainstreaming these elements into the country's development process.

Bhutan's development planning is critical to the protection of its resources. The 10th FYP reiterates the emphasis on protection and conservation of the environment and states which - that given the accelerated pace of economic and development activities accompanied by increased expansion of infrastructure development, urbanisation, industrialisation, population expansion and consumption

¹ The largest glacier lake in Bhutan is Lake Thorthormi, with a size of 3.42 sq. km. Geologists say that the massive amount of ice surrounding Lake Thorthormi is melting quickly at 30-35 metres a year, and is rapidly filling up the lake. The lake is currently three times the size of Lake Lugge, which burst in 1994.

patterns the environment sector - will require even more attention than in former FYPs. The development of an appropriate policy and legal framework, the decentralisation of environmental governance and networking, public education and awareness in environmental issues are just a few of the objectives outlined in the 10th FYP for the environmental sector.

2.2 Cooperation strategy

In terms of global commitments, one of the most relevant EU/EC policy objectives for Bhutan is to mitigate climate change. The EU has identified Climate Change as a key priority, with the objective of limiting the temperature rise to no more than 2° C in comparison to the pre-industrial era. In this context, the EU has made a firm unilateral commitment to achieve at least a 20 % reduction by 2020 and has proposed to arrive at 30% if a satisfactory agreement is reached in Copenhagen. Developing countries, on the other hand, are looking for a minimum reduction of 40% from developed countries and halting the temperature increase at 1.5° instead of the EU's limit of 2°. As stated above, Bhutan - despite its negligible contribution to greenhouse gas (GHG) emissions - is expected to be severely affected by climate change. Therefore, mitigating or other strategies to deal with this problem will be mainstreamed in all EU projects and programmes, including those financed under the Asia Regional Strategy Paper.

In terms of development cooperation strategy, a number of initiatives have also been undertaken by the EU and they need to be taken further into account during the 2011-2013 programming period. They include: the EU Consensus for Development and the EU Code of Conduct on Division of Labour, the DCI regulation, the new ICI+ Regulation, and the Backbone Strategy. In practical terms, donor coordination on the spot is sometimes hampered by the fact that neither the Commission nor all donors have representation offices in Bhutan (this is the case of the EC). However, the UN regularly organises donor meetings. With regard to the EU Code of Conduct and the Division of Labour, in particular, EU-Bhutan cooperation is expected to play a trail-blazing role with regard to cooperation on the ground with other EU Member States, and especially Denmark. In order to adhere to the objectives of the Paris Declaration, the Agenda on Aid Effectiveness, the European Consensus and the Backbone Strategy, the EU is strongly considering changing the form of EC support to Bhutan from a traditional project approach to a sector programme approach, which strongly recommends a sector policy support programme with sector budget support as a funding mechanism.

As **human rights** are concerned, between 30 November and 11 December 2009 Bhutan underwent the Universal Periodic Review (UPR) in the UN Human Rights Council during the 6th cycle of the UPR. A constructive follow-up to the implementation of the recommendations made by EU Member States during the UPR is particularly important to the EU and should provide genuine opportunities for Bhutan.

Furthermore, the link between **relief, rehabilitation and development (LRRD)** is of particular importance in Bhutan, given the recent effects of a cyclone and an earthquake on Bhutan, as well as the prevailing risk of glacier lake outbursts. The past and on-going cooperation with Bhutan has shown that it is possible to establish sustainable livelihoods and that people are able to establish coping mechanisms to respond to natural disasters at present and in the future.

Finally, elements of the Asia Regional Strategy, including the South Asia Civil Aviation Programme and the Infectious Diseases Programme (and especially the component related to avian influenza), are also relevant for Bhutan.

2.3 Results, Performance and Lessons Learned

Bhutan's current development priorities are set out in the 10th Five Year Plan (FYP) and involve addressing good governance, renewable natural resources and trade. The assistance priorities set out by the Commission in the CSP 2007-13 were developed in line with the 10th FYP and are still considered to be relevant, and EC interventions have been maintained in all focal areas.

The 2007-13 Country Strategy Paper for Bhutan was prepared at the time when landmark developments were taking place in the country's political system, including democratisation, decentralisation, promulgation of its new Constitution and the adoption of parliamentary democracy. The CSP is therefore devoting specific attention to the issues of democratisation and good governance. Moreover, EU assistance and activities under the CSP are in line with Bhutan's priorities and policies contained in the 9th Five-Year-Plan (July 2002 to June 2008) and also with those for the 10th Plan covering July 2008 – June 2013. In order to help Bhutan meet its development challenges, EU-funded cooperation is focussed on three main areas: Renewable Natural Resources (RNR), Good Governance and Trade Facilitation and Economic Capacity Building.

Performance in each of these sectors can be summarised as follows:

- **Renewable Natural Resources (RNR):** this sector has always been the backbone of EU-Bhutan cooperation, aimed mainly at poverty reduction by increasing agricultural production, income generation and creation of market opportunities. Within this priority sector, the Commission's support has been aimed at integrated rural development for which support was provided in the field of agricultural and livestock development. These included integrative and cross-cutting approaches, such as support to the RNR extension services and watershed management. Furthermore, the institutionalisation of Farmer Field schools and several community based handbooks on forestry and the uptake of new technologies have had a noticeable impact on the income generation of rural households. As part of the RNR sector, the EU also funded support for the revival of the traditional medicine sector by developing the cultivation and collection of medicinal plants, improving the production centre at the Institute for Traditional Medicine Services (ITMS) in Thimphu, and increasing the supply of traditional medicines and doctors throughout the country.
- **Good Governance:** This is a new sector that the EU has identified for its cooperation with Bhutan, in response to the country's wide-ranging constitutional reforms linked to decentralisation and democratisation, especially at the level of the sub-districts (*Geogs*). In close cooperation with other donors, and with Denmark in particular, the EU will support the newly established Geog Annual Capital Grants Facility by becoming a partner in the multi-donor funded RGoB-led Local Governance Support Programme, which aims to strengthen the decentralisation process in the country. While the Commission has therefore no evaluation material from its own programme yet and no formal evaluation studies exist, the experience of other donors shows that this is a promising approach, which will hopefully be confirmed by the assessment studies due to be finalised in early 2010.
- **Trade and Economic Capacity Building:** Support to Trade Development and Trade Capacity Building was already provided to Bhutan under the first CSP (2002-2006) and is one of the sectors where the EU, as a development partner, has a comparative advantage. In terms of socio-economic development, the increasing demand for diversified and quality

products is indicative of the change in the consumption patterns and standards of Bhutanese society. Bhutan is already a member of SAARC, SAFTA and BIMSTEC and is in the process of acceding to WTO. This presents particular challenges to Bhutan in terms of smallholders having to contend with global competition, standards and prices. Bearing in mind the vast economic challenges faced by the country, including the need to create employment and to diversify its economy, an important priority consists in strengthening the productive capacities of the poor and enhancing the development of the private sector. These priorities were already addressed in the previous CSP under the Trade Development Project, which addressed **Export Promotion and WTO Accession**. As part of the export promotion component, implemented by ITC, two sectors - namely hand-woven textiles and spices (cardamom, ginger and chillies) - were identified as export sectors with a high potential. The capacities of the Bhutanese private sector enterprises and spice producers were strengthened, together with the Bhutan Export Promotion Centre (BEPC), the Bhutan Chamber of Commerce and Industry (BCCI) and other institutions, such as the Handicrafts Association of Bhutan (HAB). The target group benefitted from the various study tours and market orientation visits to prospective export countries, including India, Bangladesh, Thailand and Singapore. The focus on study tours and market orientation missions has been greatly appreciated by the participants and the Department of Trade, who consider that exposure to international trade fairs is extremely useful in making initial contacts not only with prospective buyers, but also with other international producers, helping them to understand new methods, trends and product standards. Under the WTO Accession component, implemented by UNESCAP, Bhutanese trade officials were trained to develop their international trade policy framework in line with their WTO accession process and overall developmental objectives. UNESCAP also provided technical and advisory assistance to the Department of Trade in drawing up the Bhutan Trade Act. While many of these issues will also be addressed in the Renewable Natural Resources Programme, it is proposed that these activities should be further strengthened, with an enhanced focus on economic capacity building in the second MIP (2011-13).

The main lessons learnt from the MTR missions can be summarised as follows:

The overall relationship between the EU and Bhutan is positive. During the last 27 years of cooperation, the Royal Government of Bhutan has increasingly taken ownership of the development process and has shown growing commitment and dedication to achieving its development objectives. There has been a considerable progress in Human Resource Development, both at the Central Government level and at the local level, with substantial technical training and capacity building being supported through EU funds across the agricultural sector. The impact of the extensive training programme among farmers and extension agents has been clearly recognised by Mid-Term Review exercises on the two on-going projects conducted in the second half of 2009 (Agriculture Sector Support Project and Support to Livestock Project). Extension agents have incorporated the training messages into their work to a large extent; farmers are using new techniques and have started to form groups and cooperatives to make progress in processing and marketing. Agricultural production and service delivery have clearly increased around newly built farm and access roads funded with EU support.

The Memorandum of Understanding for the Multi-Annual Indicative Programme (MIP) for 2007-2010 was signed in February 2008. However, during the current MIP (2007-2010) no new commitments have yet been made. After the first General Elections in Bhutan in March 2008, the new Government had to take its first tentative steps in the course of 2008, and the first Parliamentary

Session was not held until January 2009. The delays encountered in the programming exercise under the first MIP are to a large extent due to the preoccupation of the new Government and efforts of the new administration to establish itself during 2008 and 2009. These two years were also characterised by increasing frustration on the part of the RGoB over the difficulties encountered with the implementing methods used in Bhutan for the on-going projects (CSP 2002-2006). The chosen approach of 'partial decentralisation' – which designates the beneficiary country as the Contracting Authority, but requires the use of EU procedures and regulations – led to repeated requests by the RGoB for increased ownership by changing over to sectoral approaches and sector budget support. Consequently, the Commission engaged in consultations on sector budget support with the Government and other development partners. Most of the other donors supporting Bhutan, and in particular EU Member States such as Denmark, the Netherlands and Austria, are providing budget support. The assessment of the EU eligibility criteria for sector budget support was conducted in January 2010. It was based to large extent on the 2009 IMF Article IV consultations (report finalised and shared with the Commission in December 2009) as well as the PEFA-based PFM assessment carried out jointly by RGoB and the World Bank throughout 2009 (draft report available and shared with the Commission in early January 2010). With the on-going projects in support of the RNR sector ending in December 2011, the shift to sector support envisaged in the RNR priority area under the AAP 2010 will ensure continuity of support for the RNR sector.

2.4 Quality improvements

Since the Country Strategy Paper was drawn up, Bhutan has moved from a monarchy to a constitutional monarchy. The smooth transition to a democratic Government is very promising, and EC cooperation with Bhutan has moved towards supporting this young Government in its efforts to strengthen democracy and decentralisation. In this context, the MIP 2011-2013 will continue to support both the Renewable Natural Resource Sector and also the Trade Sector. As mentioned above, the latter has been supported under the CSP 2002-2006 as part of a Trade Capacity Development Project, which ends in December 2009.

The MIP 2011-13 will emphasise the following quality improvements:

- Alignment of EU cooperation, wherever possible, with the country's policies and systems for promoting ownership. This will be done by adopting a sector wide approach in RNR, financed to the extent possible through sector budget support, depending on the outcome of the assessment studies;
- Close coordination and harmonisation with other donors and especially with Member States, preparing the ground for greater complementarity and division of labour through the adoption of multi-donor arrangements, such as the existing Good Governance Support Programme.
- Increased concentration of EU intervention by focusing on a limited number of sectors where the EU can bring a clear added value;
- Promote further ownership of the RGoB by ensuring that a demand-driven approach is adopted during the programming and identification of areas of intervention, in close collaboration with RGoB and sufficient resources, and that there is sufficient capacity for the implementation of projects/programmes;

- Mainstream the cross-cutting issues in all areas of intervention as appropriate, with a particular focus on poverty alleviation, promotion of good governance, democracy and decentralisation, environmental sustainability, climate change, gender equality and human rights.

The main quality improvement is the envisaged shift to a sector-wide approach. Increased ownership by beneficiaries and improved alignment and harmonisation are expected to impact positively on the implementation of, and results from, EU-funded cooperation programmes.

Given the limited impact of the global financial crisis on Bhutan, the IMF macroeconomic assessment is expected to formulate positive recommendations with regard to sector budget support. Indications from the World Bank have also shown that Bhutan achieved a medium or even a high score for most indicators used in the PEFA-based PFM assessment, which suggests that there is a low level of risk for budgetary support. Although other development partners, including Denmark, Austria and the Netherlands, have moved to sector budget support or even general budget support (in the case of the Netherlands), it is not expected that the Commission's assessment will conclude otherwise. The forthcoming studies will also include an assessment of good governance and the RNR sector concerning budget support with regard to sector policy, sector budget, donor coordination, performance measurement and capacity development. Although the RNR sector has a very well developed policy, support will be needed in order to improve budgeting and planning capacities. Performance measurement is very likely to improve through the forthcoming implementation of the new Planning and Monitoring System (PlaMS) developed by GNHC. While donor coordination is weak in RNR and needs strengthening, the Good Governance sector is the first and only multi-donor supported programme in Bhutan, and coordination is at a maximum in terms of Bhutan's capacity. For both programmes, a crucial feature for the success of a sector approach will be the development of clear results frameworks for performance measurement and the development of suitable indicators for disbursements.

In conclusion, given the latest developments in the country's political, economic, social and environmental situation, it is considered that the EU response strategy 2007-2013 responds adequately to Bhutan's current development challenges.

Part 3: Indicative Programme for 2011-2013

In line with the CSP 2007-2013 and as confirmed during its Mid-Term Review process, the MIP for the period 2011-13 will focus on a two-pronged approach:

- A second phase of the RNR Programme (€ 2.8 million).
- The Trade and Economic Capacity Building Programme (€ 2.8 million).

The second MIP will thus have an indicative total appropriation of € 5.6 million. The amount of € 0.4 million originally earmarked for the follow-up of the Good Governance programme is currently being programmed under the first MIP, taking into account the recommendations by EU Member

States during Bhutan's Universal Periodic Review in the UN Human Rights Council in 2009, as well as the recommendations made by the EU Election Observation Mission in March 2008.

Financial Instruments and Indicative Budget Allocation

The Bhutan CSP 2007-2013 is financed under the **Development Cooperation Instrument (DCI)** of the European Union. The primary and overarching objective of this Instrument is to eradicate poverty in partner countries and regions in the context of sustainable development, including the pursuit of the Millennium Development Goals (MDGs), to promote democracy, good governance and respect for human rights and for the rule of law and to support the sustainable economic and social development of partner countries. Under the DCI instrument, the financial allocation for the 2011-2013 period is € 5.6 million and will indicatively be allocated among priority sectors of intervention as follows:

Sector of Intervention	Indicative allocation
	(as a % of total IP)
Priority 1 – Support for the Renewable Natural Resource Sector	€ 2.2 - 3.4 million (40 - 60%)
Priority 2 – Support for Trade and Economic Capacity Building, including support for Bhutan's WTO Accession	€ 2.2 - 3.4 million (40 - 60%)

In addition, Bhutan will also be eligible for financing of cooperation projects and actions under the following complementary financial instruments:

- 1) The **European thematic programmes** set up to achieve policy objectives that are not geographically limited through support to non-State actors (i.e. global call for proposals in Environment and Sustainable Management of Natural Resources including Energy; Investing in People; European Instrument for Democracy and Human Rights; Migration and Asylum; and local calls for proposals for Non-State Actors and Local Authorities in Development);
- 2) The **Regional Country Strategy Paper for Asia** providing support for regional integration in South Asia in various sectors. The Royal University of Bhutan participates in the Erasmus Mundus External Cooperation Window-Asia, under which support is provided for partnerships with universities and scholarships. The RGoB, Bhutanese SMEs and intermediary organisations will also be eligible for activities under the SWITCH Asia programme – whose main objective is to contribute to the economic prosperity and poverty reduction in Asia and to the mitigation of climate change through promoting sustainable growth.

Priorities and Actions

Priority 1 – Support to the Renewable Natural Resource Sector

Rationale

The holistic development of the RNR sector stands out as an extremely high priority area for the 10th FYP in view of its special relevance to the rural and environment sectors and the associated implications for attaining the 10th FYP primary objective of poverty reduction. EU support for the RNR sector in Bhutan is based on its long-standing involvement in and support to the development of RGoB's RNR sector and particularly its forthcoming support to the RNR sector under MIP 2007-2010. Support to the RNR sector would contribute directly to Millennium Development Goal 1: Eradicate Extreme Poverty & Hunger.

Objectives

The purpose of EU support for the RNR sector is to achieve the objectives set out for the RNR sector in the 10th FYP (2008-2013). The overall objective of the RGoB's RNR sector programme reflects the aim of poverty reduction as outlined in the 10th FYP of RGoB: 'The mean rural household cash income is above BTN 35,000 (540 Euro) by the end of 2013'. The policy objectives of the RNR sector set out in the 10thFYP are: (1) enhance sustainable rural livelihoods through improved agricultural and livestock productivity and expansion of commercial prospects of agriculture and other natural resource endowments; (2) conserve and promote sustainable utilisation of arable agriculture and pasture land resources; (3) enhance food security through sustainable and enhanced food production and availability, improved access to food and enabling of the effective distribution, marketing and import of food, and (4) transform subsistence agriculture to small scale commercial agriculture without compromising food security. Furthermore, the EU support will address the need to mainstream adaptation to climate change in the 10th FYP, and strengthen adaptation to the impacts of climate change in the RNR sector, with particular emphasis on sustainable rural livelihoods.

Expected Results/Outcomes

EU support for the RNR sector as part of the MIP 2011-2013 will be closely related to the RNR support under MIP 2007-2010, which is currently being formulated. The EU will continue to support the Ministry of Agriculture and Forestry in implementing the RNR sector programme of the 10th FYP. The main focus of EU support in this area will be directed at institutional strengthening of the relevant Ministry, particularly with regard to its extension strategy in the light of the decentralisation process and human resource management and development. The Commission will also enter into a policy dialogue to improve sector coordination and ensure successful rollout of the computerised national Planning and Monitoring system (PlaMS) to ensure adequate monitoring of and feedback on achievements, service delivery and expenditure. EU support also expects results in the form of increased production, access and marketing for selected products (citrus, rice, dairy products) by helping the Government to develop and implement respective master plans. This will result in increased rural income, increased food self-sufficiency and higher agricultural export volumes. Indicators for all 29 programmes are valid as outlined in the RNR 10th FYP, providing baseline year and value, as well as target date and value. The capacity of the Ministry of Agriculture and Forestry to address climate change adaptation needs will be strengthened.

Indicative Activities

Activities to be supported under the sector are those developed within the 29 programmes that are under the responsibility of MoAF in the 10th FYP. Activities supported by the EU will mainly relate to the development and implementation of master plans for production and marketing, as well as institutional strengthening of the Ministry. Details are still to be developed in light of the forthcoming support to the RNR sector as part of MIP 2007-2010. Particular attention will be given to the needs for adapting to the impacts of climate change in the RNR sector.

Implementation

The principal partner will be the Ministry of Agriculture and Forestry. The support to the RNR sector will be provided as support to the programmes under the responsibility of the MoAF. The eligibility of Bhutan and the sector for budget support was positively assessed in January 2010, and therefore the intention is that this priority area will be supported in form of a sector policy support programme under MIP I and thereafter under MIP II. With its contribution of € 8 million to the RNR sector under the current CSP, the EC contributes more than 6% to the total cost of the RNR sector and more than 14% to the capital cost of the RNR sector under the 10th FYP, the higher recurrent cost being entirely covered by the Government. The amount as such is considered large enough to provide substantial support to the sector budget until 2013 and will contribute substantially to sector objectives. A sector approach is envisaged as a way of increasing ownership and donor harmonisation, and of drawing lessons from on-going projects which split an integrated approach to the renewable natural resources sector into separate agricultural and livestock components.

Cross-cutting issues

Given the clear link between rural development and an environmental approach to development, the support to the RNR sector in Bhutan strongly incorporates environmental sustainability as a cross-cutting issue. The RNR priority area mainstreams environmental protection and conservation in order to ensure sustainable development. Bhutan's 10th FYP promulgates gender equality as a crosscutting issue. The RNR programme area targets all groups of rural communities. As such it addresses both women and men, and aims at gender equality in line with the national policy. Good Governance is clearly addressed by the focus on institutional strengthening at central and local government level and adaptation to the requirements of the Government's decentralisation policy.

Risks & assumptions

The RNR sector is supported on the assumption that RGoB will remain committed to strengthening the sector and will focus on rural development and decentralisation and ensure ownership. Another important assumption is that RGoB will continue to develop relevant capacities in the sector and prioritise the work of extension staff at local level. Risks to the RNR sector and its impact on the country's economy and its contribution to poverty reduction are mainly related to the possible effects of climate change, as well as minor and also major natural disasters such as landslides, flooding and earthquakes.

Estimated EU contribution: € 2.2 - 3.4 million

Co-ordination with Member States and other donors

There are only a few other donors supporting the RNR sector. The largest contributors to the sector are GoI, UNDP, IFAD and JICA. Member States such as the Netherlands, Austria and Denmark are indirectly supporting the RNR sector, i.e. via the Sustainable Environment Programme funded by DANIDA. Donor coordination for the RNR sector has been initiated by RGoB only to a limited extent, although RGoB and concerned development partners have established informal coordination mechanisms. However, European Commission involvement in the RNR sector, will aim at increasing donor consultation and ensuring that RGoB engages in a formal donor coordination process.

Priority 2 - Support to the Trade and Economic Capacity Building, including support for Bhutan's WTO Accession²

Rationale

Within the strategic framework of the 10th FYP, the trade, manufacturing and services sectors represent core areas to vitalise economic development and reduce poverty. Bhutan has evolved from a closed economy to a nation that exhibits a degree of dependence on trade and services. Bhutan is currently a member of SAFTA and negotiations on the BIMSTEC Free Trade Agreement and accession to the WTO are at an advanced stage. Bhutan is also considering membership of the Bangkok Agreement.

The aims of the EU are to strengthen the trade facilitation mechanisms (assisting RGoB in diversifying export products and export markets, including by promoting sustainable production practices), support the services sector in Bhutan (sectors such as, but not limited to, financial/banking, tourism, etc) and also to engage in the follow-up actions required to maintain public and government support for WTO accession in Bhutan, in particular since the process has entered its final stages.

Objectives

The EU will support the objectives of the Government of Bhutan as mentioned in the 10th FYP for the Trade sector. The main objectives of the Trade Sector are to: a) Alleviate poverty through trade; b) Enhance contributions from trade to the national economy; c) Create a liberal and enabling environment for the growth of the private sector; d) Pursue trade liberalization and support private sector development; e) Enhance employment and revenue generation; f) Ensure stable market access for Bhutanese products; g) Promote competition and fair trade practices; h) Promote efficient distribution of goods and services; i) Strengthen institutional and professional capacity of the sector to fulfil its mandate; and j) Enhance growth of exports, particularly convertible currency exports. Furthermore, the EU will promote sustainable consumption and production approaches when relevant.

Expected Results

The EU's contribution in this sector will support the Government of Bhutan in achieving the targets set out in the 10th FYP. In the Trade Sector, the Government of Bhutan seeks to achieve the

² To be decided based on the decision taken by the RGOB

following: a) Increase trade contribution to GDP to 8%; b) Enhance exports by 50% over the base of 2007; c) Enhance the contribution of trade to national revenues to 25%; d) Increase employment in the sector to 6% of total workforce. The indicators will include: rapid expansion of both internal and external trade, the creation of an enabling environment for private sector development; more Bhutanese engaged in entrepreneurial, trading and commerce activities with reduced transaction costs for business, trade and commerce; Bhutan's effective integration into the regional and international trading systems through bilateral and regional arrangements; and the conclusion of the WTO negotiation process (based on the decision taken by the RGoB).

Indicative activities

Building on the previous programme, referred to as the Trade Capacity Development Programme, EU support in this sector is aimed at pursuing the liberalisation of trade and supporting the development of the private sector by strengthening the institutional and professional capacity of the sector (including Government and private).

EU support may focus on (indicative) activities such as:

- Assisting the Government of Bhutan and the country's economy in diversifying export products and markets through appropriate support of the supply-side capacities of Bhutan (e.g. through enhancing managerial and technical skills – including to Bhutanese customs officials - , as well as access to technology and product development, market analysis, marketing and branding strategies, including on concepts and approaches for Sustainable Consumption and Production), while also ensuring an enabling business environment and investment climate (through relevant reforms in the policy, legal and regulatory framework);
- Strengthening the capacities of financial institutions to improve the access to appropriate financial services for entrepreneurs in Bhutan and promoting easy access to trade export finance for Bhutanese exporters, and support intermediary business organisations in order to enhance the sustainable access to business development services for local SMEs.
- Supporting the Tourism Council of Bhutan which has been created as a separate autonomous body taking over the responsibilities of the Department of Tourism under the Ministry of Economic Affairs to manage and develop tourism industry in the country with a proper focus during the Tenth Plan. Tourism has been recognised as a major service industry that provides employment and generates valuable foreign exchange, and its value chain needs to be supported to ensure its sustainable development.
- Support the WTO Accession process (based on the decision taken by the RGoB).

Implementation procedures

EU support for the Trade Sector is most likely to be implemented in partnership with the Department of Trade under the Ministry of Economic Affairs; other possible counterparts involved are the Department of Tourism, the Ministry of Finance and other relevant government bodies and agencies with a role in the strengthening of productive capacities and competitiveness of Bhutan. Options of cooperation with other development partners or UN agencies will be assessed, as has been done in the case of the Trade Capacity Development Project (ITC /UNESCAP) based on the emerging needs and evolving context.

Cross-Cutting Issues

The Tenth Plan recognizes trade as a tool for economic growth and for alleviating poverty. The creation and promotion of quality employment opportunities is an extremely high priority and a vitally important focal area for the Tenth Plan. Environmental conservation constitutes an important part of the national spatial planning strategic framework and has always enjoyed a high priority in the country's development agenda. The strong emphasis on protecting and conserving the environment will be continued throughout the Tenth Plan, including through considering environmental aspects of enterprise development in specific sub-sectors of the Bhutanese economy. The Royal Government is fully cognizant and appreciative of the grave threat posed by HIV/AIDS and views this not merely as a health issue, but as a critical development concern that could severely affect growth and productivity. A very strong advocacy programme has also been initiated to promote greater awareness among communities of HIV/AIDS, with condom use being advocated and condoms being distributed freely. Mainstreaming gender across the trade and private sector will be extremely important if the country is to fully realize the goal of a truly egalitarian and equitable society portrayed in Bhutan's Vision 2020. Attention should be given, as relevant, to women entrepreneurship and other gender aspects of enterprise development.

In addition to the activities under the Bhutan CSP, the country also benefits from the Regional SWITCH programme of the European Commission focussing on promoting sustainable production and sustainable consumption. As a result of the support to the trade and private sector Government and business will be encouraged to apply for support through the SWITCH programme in order to strengthen 'sustainable consumption and production' practices.

Risks and Assumptions

Supporting the Trade sector in Bhutan represents a significant challenge in view of the critical and chronic constraints that restrict the further development of the sector, namely high trading costs, weak economies of scale, poor productivity, a nascent private sector, inadequate infrastructure etc. At the same time, the sector holds great potential that can effectively stimulate the economy and establish it on a truly sustainable basis.

It is assumed that the trading facilities and infrastructure in Bhutan are still immature and require further strengthening to boost the country's convertible currency exports.

Estimated EU contribution: - € 2.2 - 3.4 million.

Coordination with Member States and other donors

The Commission will coordinate and cooperate closely with other donors and Member States that are active in supporting the Trade Sector in Bhutan. However, it is important to mention that EU Member States – with only a few exceptions - are not particularly active in the field of trade facilitation or private sector development. In the Trade Capacity Development Programme, the Commission has worked closely with UNDP in implementing export promotion activities for Bhutan.

Annex 1: CSP-MIP Table

EU support to Bhutan under CSP 2007-2013

Originally foreseen contributions:

<i>Sector of Intervention</i>	<i>Indicative allocation MIP I</i>	<i>Indicative allocation MIP II</i>
<i>Priority 1 – Support for the Renewable Natural Resource Sector</i>	<i>€ 5.6 million</i>	<i>€ 2.8 million</i>
<i>Priority 2 – Support for Trade and Economic Capacity Building, including support for Bhutan's WTO Accession</i>	<i>-</i>	<i>€ 2.8 million</i>
<i>Priority 3 – Support for the Good Governance Sector</i>	<i>€ 2.4 million</i>	<i>€ 0.4 million</i>
Total	€ 8.0 million	€ 6.0 million

Proposed contributions:

Sector of Intervention

**Indicative
allocation**

**Indicative
allocation**

MIP I

MIP II

Priority 1 – Support for the Renewable Natural Resource Sector	€ 5.6 million	€ 2.8 million
Priority 2 – Support for Trade and Economic Capacity Building, including support for Bhutan's WTO Accession	-	€ 2.8 million
Priority 3 – Support for Good Governance Sector	€ 2.8 million	-
Total	€ 8.4 million	€ 5.6 million