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1. PROGRAMME ENVIRONMENT – CONTEXTS, TRENDS, CONSEQUENCES

1.1 Political Development and Governance

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

His Majesty the Fifth King is now the Monarch and Head of State since December 2006 after taking over the responsibilities from the Fifth King. In order to prepare the voters, the Election Commission of Bhutan conducted Mock Elections to educate the people at large so that the voters are ready for the ultimate election process in early 2008. The final draft of the Constitution is ready after incorporating the comments received from all over the country. However, the final draft will not be consulted with the public but it will be endorsed by the parliament formed in 2008 who will also have the authority to make any further changes. Among the challenges within the recent political developments currently facing Bhutan, the smooth transition to Parliamentary Democracy is most significant. In addition to establishing constitutional institutions that are pre-requisite to the functioning of parliamentary democracy, the need to strengthen the civil society, which has so far existed in the form of small and informal groups and associations, is imperative to enhance people's participation and capacity to bring about effective decentralization. While several political parties have declared their intent to contest in the upcoming elections in 2008, by August 2007, Bhutan witnessed the emergence of only two parties led by the former Ministers (Druk Phuensum Tshogpa and Peoples Democratic Party). Fostering good governance is also a core value of the 10th FYP (2008-2013). This implies that both national as well as local governance structures need to be strengthened, together with emphasis on social mobilization and civic participation.

1.2 Socio-Economic Development

Poverty Reduction is articulated as the main objective and theme of the 10th FYP thus aiming at reducing the poverty rate 23.2 % from the baseline year in 2007 to below 15% in 2013.

Social developments:

- Net primary enrollment ratio increased from 62% to 79.4%
- Infant mortality ratio decreased from 60.1% to 40.1% per 1000
- Access to safe drinking water increased to 85%
- Access to basic sanitation facilities 90%

The India-Bhutan friendship treaty of 1949 was reviewed and updated to reflect the contemporary nature of the relationship between the two countries and provide a strong foundation for the continued growth of the relationship in the 21st century. The revised treaty was signed on 8 February 2007 by His Majesty the Fifth King of Bhutan.

Despite the socio-economic progresses Bhutan continues to see, several assessments carried out over the years to create a poverty profile has proven that 31.7% of the population in the country is poor. Poverty in the country is largely a rural phenomenon, although increases in incidences of urban poverty exacerbated by rising trends in rural-urban migration could emerge as a serious challenge in the near future. A majority of the rural poor are dependent on agriculture, including livestock and forestry, for their livelihood. Challenges to improved

and sustainable rural livelihood include small sized land holding, limited arable land, labor shortages and access to market opportunities.¹ Regional imbalances in development and the disproportionately high rate of youth among the unemployed are notable social challenges for the country.

Over the last two decades, Bhutan witnessed an average GDP growth rate of 6% per year mainly propelled by the hydropower and other associated industries. Depending on single sector in the long term could raise risks and therefore it is important to diversify the economy from medium to long term. While the current industries has highly capital intensive it offers little The risks associated with high dependence on a single sector, which is additionally highly capital intensive but offers little employment opportunities (0.5% of total employment).

The export volume has significantly increased (13.5% increase in monetary value). However, continued emphasis on private sector development, production and marketing of niche products where Bhutan has an advantage further requires strengthening.

The 9th FYP has been postponed to end in June 2008 in order to complete all the Nineth Plan activities so that the 10th FYP could start with the launching of the Constitution and the installation of the first democratically elected Government in 2008. The total development outlay for the Tenth Plan is estimated at Nu. 141.692 billion. Of the total capital outlay of Nu. 79.6 billion, external resources of around Nu. 66.4 billion is expected to be mobilized through grant and loans leaving a resource gap of 13.2 billion. With the recent indications of Bhutan's development partners intention to scale down or phase out their support to the development programmes in Bhutan, will surely cause a major impact on the resource constraints for the 10th FYP thus affecting also the achievement of the MDGs. The RTM will take place sometime in early 2008 to discuss the support from the development partners who could bridge in this resource constraints.

In pursuant to the Royal Charter of 11 November 2007, the Druk Holding and Investments Limited (DHI) has been formed. Bhutan's surroundings and the resulting opportunities and challenges have been greatly altered by the process of globalization and the dramatic rise of India as an economic power. In order for Bhutan to continue its successful socio-economic development, it must be prepared to overcome these challenges and utilize the opportunities. The DHI will contribute immensely towards building "a strong economy as the foundation for a vibrant democracy."

1.3 Development Policies and Donor Coordination

Within the South Asian region, the SAARC (South Asian Association for Regional Cooperation) Development Goals (SDGs) provide an important development policy framework. The SDG mandate covers several important development goals with the four broad areas of livelihood, health, education and environment between 2007-2012. Progress towards achieving these specific SDGs will also effectively determine the success the countries will have in combating poverty in the region. The Thirteenth SAARC Summit that took place in 2005 declared 2006-2015 as the SAARC Decade of Poverty Alleviation thus complimenting efforts at meeting the Millennium Development Goals (MDGs). The

¹ Facts and Figures of the RNR Sector, Ministry of Agriculture
10th FYP Draft by GNH Commission

frameworks provided by this regional commitment and the international commitment to the MDGs will be the guiding factor for the 10th FYP.

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

The Department of Aid and Debt Management was abolished in August 2007 and transferred to the Planning Commission which continued to coordinate donor aid in the country in various thematic areas (good governance and decentralization, poverty, health, HIV/AIDS, health, education, HRD, rural infrastructure and private sector development). In view of the preparation for the 10th FYP, no formal donor coordination took place, however, informal donor discussion meetings continue to be held amongst the donor communities during the donor luncheons.

2. CONSEQUENCES FOR THE PROGRAMME

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

Swiss future support will need to re-look at ongoing support areas and capitalize on past experiences in rural development and find synergies between projects. As poverty is multi-dimensional, support for income-generating initiatives (economic) alone cannot be sustained without developments in community self-help and decision-making. The future outlook would need an integrated approach in rural development, to combine income generating support with the sustainable and equitable use of natural resources on which rural livelihood largely depends, strengthened ability of service providers and institutions to meet need-based requirements of rural farmers, and formation and enhanced capacity of farmers' groups/associations/cooperatives to initiate and manage rural development initiatives. The concern will have to be incorporated in the Country Programme of Helvetas 2008-2013 to match the RGoB's 10th Plan period.

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

3. REVIEW 2007 – PROGRAMME/PROJECTS

Swiss assistance to Bhutan has three priority sectors: Education, Youth and Culture; Rural Infrastructure; and Renewable Natural Resources. Starting from January 2008, the joint

Helvetas-SDC Office in Bhutan will become a Helvetas Office only and the bilateral Bhutan programme will no longer be either a priority country or a special programme.

3.1 Education, Youth and Culture

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

- *STEP has sent the initiation of the development of professional teaching standards. The standardization will serve as a basis in assessing the teacher graduates from the two Colleges of Education. The Expansion for Colleges of Education Paro/Samtse project directly impacts on national strategies outlined to meet these challenges –enhancing the quality of teacher education for both pre-service and in-service teachers; improved teaching/learning methodologies, including continual assessments; curriculum reforms; use of ICT in education; infrastructure expansion; guidance and counseling. The continuous collaboration between STEP, CERD, the Colleges, Royal University of Bhutan and the Ministry of Education to assess the quality of both pre as well as in-service teachers in the country plays an active role in formulating national strategies as well as enhancing the continuous assessment skills of future teachers..*
- *Based on the justifications submitted the project was extended by another six months.*
- *A delay of 11 months in the completion of the Expansion for Colleges of Education Paro/Samtse project has been forecasted, and communicated for approval for an extension with additional budget.*

3.2 Rural Infrastructure

Based on the recommendations of the review/backstopping and planning mission that took place in fall 2006, the project has been extended for a final consolidation phase VI from 1 July 2007 to 31 December 2010. .

In view of the decentralization and the political developments that is taking place in the country, it is envisaged that more and more responsibilities will have to be taken up by the Dzongkhags (districts) and Geogs (blocks). Within this context (and recognizing the national priority for increased rural accessibility as a strategy for balanced development and poverty alleviation). In order to equip the engineers at the district in building trail bridges, priority is given towards building capacity at the district level as well as introduction of construction of Short Span Trail Bridges that can be designed and built by the bridges engineers at the district with minimum support from the SBP in Thimphu and within a short period. A first on-the-job training took place in Genekha under Thimphu Dzongkhag where more than 53 district engineers, carpenters, masons built the first SSTB of 70 meter span with the assistance of the beneficiaries. It is anticipated that the final consolidation phase will assist in planning and maintaining the bridges as well as construction of 20 SSTB bridges. This has also been possible due to the south to south cooperation between SBP Bhutan and TBSSP Nepal.

3.3 Renewable Natural Resources (RNR)

The support to the RNR-Research Systems Project has also been extended as a final consolidation Phase IV from January 2007 to December 2008). One of the major objectives of this final phase is to enhance Research Management thus making the system highly efficient and competent, and the CoRRB becomes a strong management body that develops visions, steers the research process, manages HRD, links research with extension and other actors and enhances the international network.

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

The revision of the Forest and Nature Conservation Rules (1996) has created an even more favorable policy environment for community forestry, and the support for participatory forest management (PFM) activities has been extended to 16 Dzongkhags. The PFMP has also been extended as a final Phase II from July 2007 to June 2012 with the objective to contribute towards improving the rural livelihoods and their natural environment by empowering local communities and strengthen their capacity to manage forest resources on a sustainable basis.”

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

The final phase July 2006 to June 2008 for the support to the College of Natural Resources (previously NRTI) focuses on, among others, the new mandate to offer a degree programme under the Royal University of Bhutan and taking on of a credit-based continuing education programme for the RNR sector

- *Sustaining and strengthening linkages between programmes offered at the CNR and the needs of rural communities (through projects like the ECR-ADP, RDTP) through an integrated RNR approach “should remain a special concern at the diploma and the Natural Resources Sciences’ degree level”.² This concern would continue to be highlighted and emphasized upon during the consolidation phase as well as for potential future collaboration.*

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

Enhancing rural cash income through the RNR's strategic tool of packaging production, accessibility and marketing is a vital objective of the sector. Closely interlinked with this objective is the need to counter the rising unemployment situation (which disproportionately affects youth) mainly caused by rural-urban migration and the paradoxical shortage of farm help in rural areas (10% of total respondents cited labor shortage as a constraint).³ The Rural Development Training Project has been extended as a final phase from November 2007 to December 2008 with the objective to establish itself as a key-institution for training needs in rural areas

- *The components of farm business trainings and community and association leaders' trainings under the RDTP have progressed well. However, the apprenticeship training program, which mainly targets youth and aims at encouraging young people to seek agriculture as an option for income-generation, continues to receive very poor responses. The construction of the infrastructures at the Training Institute has all been completed including the farm buildings. Currently, the farm has few cows, pigs and about 100 layers as a trial. The officials including the lecturers have all moved to their duty station at RDT since February.*

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

- *The consolidation phase of the ECR-ADP started well since July and it will end in June 2011.. The steering committee meetings of the project have re-emphasized the recommendation of the mid-term review of the project to ensure that the poorer sections of the east central region benefited the most from the project.*

3.4 Cross-cutting issues

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

3.4.1 Good Governance/Decentralization

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

The PFM project went into a smooth transition from the 1st to the 2nd phase being the final support from SDC. Although the project documents and the agreements were prepared way ahead it could only be signed towards the end of the year. Nevertheless, the project continues to make significant contributions towards the overall project goal. Strong policy support is being given to community forestry thereby contributing to the national priority of poverty reduction. This year saw 9 case studies which looked at issues like gender and

³ Facts and Figures of the RNR Sector (2003) – Ministry of Agriculture

equity as well as decentralization and good governance. Capacity building at the local level is being also supported which will have a positive impact on local governance. The conclusions and recommendations will be used to define the next steps.

3.4.2 Private Sector/Civil Society

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

Support to Tarayana Foundation has led to the revival of traditional crafts for local income generation in selected vulnerable communities (traditional paper making, nettle dyeing and weaving, cane and bamboo crafts) and the introduction of new skills (soap, candle making). A strategy for these income-generating activities has been mobilizing local community groups and building their skills. The mid-term evaluation that took place in November confirms that the Foundation has established a good reputation and gained trust in both rural and urban areas. In addition, at the community level, it has helped to maintain the livelihoods of the poor and preserve traditional skills and knowledge in arts and crafts, while at the same time providing sources of income for economically disadvantaged groups. Skills development has been accorded high priority in enhancing livelihood opportunities of the local community members in 2007. Micro credit activities has also been initiated in few communities on a pilot scale.

With the booming of construction industry in the country which also creates a lot of job opportunities, the government attaches importance of this sector. Therefore, our projects where we have infrastructure development such as Colleges of Paro and Samtse, RDT Project and RNR RC Yusipang, we have maintained our support to employ the services of local consultancy firms in the structural drawings. We continue to provide on-the-job training to the contractors and their staff in the management of a construction industry as well as to maintain standard and quality control.

Despite the difficulties and challenges faced by Bio Bhutan in maintaining standard quality that is acceptable to the outside world as well as to ensure the availability of quantities produced by the producer groups, it continues to trade the organic products where they have been able to expand their linkages. Efforts are being made to meet these challenges which is considered as a high priority for the year.

3.4.3 Information and Communication Technology

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

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

4. PROGRAMME MANAGEMENT

The overall Swiss contribution in 2007 was CHF 1.450 million (Helvetas programme) and CHF 4.800 million (SDC programme).

Staff Movement:

- Dr. Pema Gyamtsho who joined CoOf as the Deputy Resident Coordinator in November 2006, resigned end of December to join politics.
- Mr. Chencho Wangdi (joined 1990) and Mrs. Lemo (joined 1992) were retired in end of April.
- The Coordination Office appointed Mr. Karma Dorji as Gardener cum Night Guard while Ms. Tirtha Kumar Giri was appointed as the office helper in May.
- The Coordination Office moved to a new office complex at Dungkar Lam, Lower Motithang in May after being at the old office in Hejo for over 17 years.

5. PROJECT REPORTS

Credit/Budget

- Credit refers to the amount for the ongoing phase
- Budget refers to budget for 2007
- Balance refers to the remaining credit after 31.12.2007
(Balance of 2007 not available before March 2008)

- EYC: Education Youth and Culture
- RI: Rural Infrastructure
- RNR: Renewable Natural Resources

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