

## **JBIC Provides First ODA Loan to Bhutan** **--Supporting Poverty Reduction through Rural Electrification--**

---

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today an ODA loan agreement totaling up to 3,576 million yen with the Government of the Kingdom of Bhutan to finance the Rural Electrification Project. This is the first ODA loan that JBIC provides to Kingdom of Bhutan. Including Bhutan, the total number of countries receiving ODA loans has reached 100[1].
2. The Project aims at supplying electric power to approximately 15,000 households in the rural area of Bhutan (some 17% of the total households in the rural area) by constructing power transmission line networks stretching approximately 2,400km and linking up 80 locations across the country. This is the largest electrification project ever undertaken in Bhutan. The proceeds of the loan will be applied to the procurement of power distribution facilities and construction supervision etc.
3. In Bhutan, steep mountains dominate the terrain, and rural farming villages where many poor people live are scattered about in these mountainous areas. As a result, it is difficult to develop electric power and other public services in such areas. In fact, while nearly all households in the urban areas have access to electric power in 2005, the electrification rate in rural households remains as low as 39% (as of 2005). The government of Bhutan thus gives priority to bridging the urban-rural gap and achieving equitable and sustainable growth through the development of basic infrastructure. The project is expected to contribute to economic development and poverty reduction in the rural areas.
4. Advocating the unique development philosophy called "Gross National Happiness (GNH)," the government of Bhutan has been pursuing, without placing too much emphasis on economic growth, the establishment of a fair and happy society. Specifically, it offers a generous welfare system including free medical service, and has a mandate to secure at least 60% of its land area as woodland. Upholding such a distinct development policy that has become the focus of world attention, the country is also dubbed as "Bhutan, the happiest country in the world." Under this ODA loan-financed project, a variety of considerations are put in place, including minimizing impacts of the distribution network development on the country's natural environment, as well as reducing the burden of electricity charges on the poor. In providing assistance, JBIC will continue to honor Bhutan's national development policy[2].

(Click here for details.)

---

[1] Based on accumulated ODA loan commitments by country/region in the Overseas Economic Cooperation Operations.

[2] Long-term experts have been deployed by JICA to the electric power sector in Bhutan. While making close partnership with this JICA's technical cooperation program, JBIC will strive to improve the effectiveness of the project by upgrading the capacity of operation and maintenance (O&M).

### 1. Loan Amount and Terms

Project Name	Amount (mil. yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period (years)	Procurement
Rural Electrification Project	3,576	0.01%*	40/10	General Untied

\* Lending term under the MIRAI Initiative

### 2. Project Executing Agency

Department of Energy, Ministry of Trade & Industry[1]  
 Address: P.O. Box 106, Thimphu, Bhutan  
 Tel: +975-2-328279, Fax: +975-2-328278

### 3. Political and Economic Conditions in Bhutan

Located on the eastern tip of the Himalayas, between northeastern India and the region of Tibet in China, Bhutan is a mountainous, land-locked country with a land area extending some 46,500km<sup>2</sup>. The country has a population of approximately 750,000 (2004), and its per capita GDP stands at US\$870 (2005).

Ever since the basis of the current kingdom was established in 1907, the country has been ruled by absolute monarchy. King Jigme Singye WANGCHUCK, the fourth king who ascended the throne in 1972[2], inherited the policy of modernization and democratization that the preceding king had adopted, and has been taking constructive measures toward national development. Special reference should be made to this king's unique country development philosophy called "Gross National Happiness (GNH)." Under this policy, the country has been striving to realize a fair and happy society that does not place disproportionate weight on economic growth. Bhutan has also been moving ahead with democratization and decentralization of power since 1998. As part of efforts to transit to parliamentary democracy based on limited monarchy, the country will hold the first general election and enact the constitution in 2008.

In foreign affairs, Bhutan basically adopted a non-aligned, neutrality policy and neighboring friendship policy, and thus used to restrict its bilateral relations to those with India up to the 1950s. In the 1960s and afterward, however, the country opened up its doors to the global community, and joined the United Nations in 1971. Currently Bhutan has diplomatic relations with 21 countries including Japan, as well as with the EU. What's more, Bhutan acceded to the South Asian Association for Regional Cooperation (SAARC) as it pursues increased economic liberalization through greater integration into the regional and world economy. Japan has been providing grant aid and technical assistance since 1964, and the year of 2006 marked the 20th anniversary of the establishment of Japan-Bhutan diplomatic relations.

The major industries of Bhutan include agriculture, forestry, electric power generation and tourism. The country's largest export item is electric power to India, which is generated by hydraulic power drawing on its precipitous terrain and abundant water resources. The Bhutanese economy has been growing steadily, registering a 6.2% real GDP growth rate in FY2005. On the other hand, social development indicators remain at low levels compared with those of other developing countries, despite a sign of improvements in recent years: life expectancy at birth: 63.4 years (2004); adult literacy: 47% (2004); and maternal mortality: 420/100,000 (2000). In addition, the incidence of poverty is still high at 31.7% (2003), with the majority of the poor residing in rural areas.