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## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
CSOs	Civil Society Organisations
CSP	Country Strategy Paper
ECHO	European Civil Protection and Humanitarian Aid Operations
ECSC	European Coal and Steel Community
EEAS	European External Action Service
EIB	European Investment Bank
EU	European Union
FYP	Five-Year Plan
GCCA	Global Climate Change Alliance
GLOFs	Glacial Lake Outburst Floods
GNH	Gross National Happiness
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LDCs	Least Developed Countries
MIP	Multiannual Indicative Programme
MW	Megawatts
Nu.	Ngultrum (Bhutan's official currency)
ODA	Official Development Assistance
RNR	Renewable Natural Resources
Rs.	Indian Rupees (India's official currency)
SAARC	South Asian Association for Regional Cooperation

# INTRODUCTION

## 1. Introduction

The European Union (EU) is hailed for its unique regional integration, which has resulted not only in the free movement of goods and services due to creation of a customs union but also has successfully established several EU institutions and bodies that work for the interest of the EU as a collective entity. The highly successful model of EU's governmental, trade and economic cooperation among its 28 Member States has led to the EU becoming one of the formidable and important global players over the past decades. The EU has found strength in unity, and a lasting one at that although the United Kingdom's referendum leading to Brexit is a rare exception.

On the other hand, Bhutan is located in the South Asia, where, despite India's emergence as a fast-growing economy in the world, the region has not seen similar results. Bhutan is a member of South Asian Association for Regional Cooperation (SAARC),<sup>1</sup> which has become an oft-quoted example of a less successful regional organisation with the intra-SAARC trade standing at meagre 5%.<sup>2</sup> Bhutan is a Least Developed Country (LDC), which is defined as a low-income developing country that suffers from severe structural impediments to sustainable development,<sup>3</sup> for the identification which three criteria of income, human assets and economic vulnerability are used.<sup>4</sup> As a result, it depends largely on external donors such as India, which provided a grant of Nu. 45 billion towards Bhutan's 11<sup>th</sup> Five-Year Plan (2013-2018), and many other countries and international organisations. Despite its small size and challenging geo-political circumstances as a land-locked country, Bhutan has been experiencing a modest economic growth over the past years. As the country experiences an accelerated economic development and progress, it needs adequate capital and resources, along with expertise in various sectors and fields to fulfil the increasing

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<sup>1</sup> 'Multilateral Relations – Ministry of Foreign Affairs' <[http://www.mfa.gov.bt/?page\\_id=61](http://www.mfa.gov.bt/?page_id=61)> accessed 8 August 2018.

<sup>2</sup> Jawad Falak, *Implacable Failures of the SAARC* <<https://cscr.pk/explore/themes/politics-governance/implacable-failures-of-the-saarc/>> accessed 8 August 2018; Also see Ahmad Raza Khan, *Impediments to the Success of SAARC*, South Asian Studies, Vol.30, No. 1, p. 294.

<sup>3</sup> Committee for Development Policy and United Nations Department of Economic and Social Affairs, *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures, 2<sup>nd</sup> Edition, United Nations*, p. 1.

<sup>4</sup> 'LDC Identification Criteria & Indicators | Economic Analysis & Policy Division' <<https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html>> accessed 8 August 2018.

needs. Although the EU and Bhutan are thousands of miles apart geographically, they have been involved in development cooperation mainly as a result of the former's capacity and willingness to support the latter to achieve its development plans and other important socio-political objectives.

Even before the establishment of formal diplomatic relations between the EU and Bhutan in 1985,<sup>5</sup> the EU began to support Bhutan, especially in the field of renewable natural resources (RNR) sector as it is a cross-cutting area that can contribute to achievement of other development goals as envisaged by the development plans and policies of Bhutan. The EU's support to Bhutan in the form of development cooperation over the past thirty-five years have helped Bhutan immensely in pursuing its goals of development as planned under its Five-Year Plans (FYPs). Bhutan is into its 12<sup>th</sup> FYP beginning mid-2018.

As Bhutan has been recommended by the United Nations to graduate from the list of Least Developed Countries (LDCs) in 2021,<sup>6</sup> most of the donors who have been supporting Bhutan's developmental programmes have already withdrawn their assistance, and more are going to stop their support to Bhutan in the next few years. However, the EU has assured its support to Bhutan beyond 2020 i.e., after the end of the current Multiannual Indicative Programme (MIP) 2014-2020.<sup>7</sup> Considering its impending graduation from the list of LDCs by 2021, Bhutan is at a critical juncture in its development journey as a small nation in the 21<sup>st</sup> century dominated by ideals of globalisation. It faces many challenges as it has to deal with the fact that it will not be receiving huge amounts of external assistance and grants as it has been receiving as an LDC.

This thesis will primarily deal with the relations the EU and Bhutan share as a donor of development assistance and as a recipient of it respectively. It will focus on the role of EU as a major global player in Bhutan's development process over the past many years and the competencies under which it supports various sectors in Bhutan's development process. Some of

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<sup>5</sup> 'Bilateral Relations – Ministry of Foreign Affairs' <[http://www.mfa.gov.bt/?page\\_id=59](http://www.mfa.gov.bt/?page_id=59)> accessed 17 July 2018.

<sup>6</sup> 'UN Recommends Bhutan's LDC Graduation – KuenselOnline' <<http://www.kuenselonline.com/un-recommends-bhutans-ldc-graduation/>> accessed 24 July 2018.

<sup>7</sup> 'EU Assures Assistance beyond 2020 – KuenselOnline' <<http://www.kuenselonline.com/eu-assures-assistance-beyond-2020-2/>> accessed 13 July 2018.



the sectors which the EU supports and those that are consonant to the essential EU values like democracy and rule of law have taken strong roots in Bhutan.

Bhutan has undergone many positive and promising changes in the past several years, which would be satisfactory not only for the Bhutanese people but also to the development partners and donors. First and foremost, Bhutan made a smooth and successful historic transition to parliamentary democracy in 2008 after over a century of being a monarchy. With the onset of democracy and various democratic institutions, many people have become aware of the notion of the rule of law, and it is gaining more strength with time. On the economy front, Bhutan has been experiencing rapid economic growth with a GDP growth of 7.5% in 2017 and with a forecast in the region of 7.1% GDP growth in 2018.<sup>8</sup>

## **2. Scope of the Thesis**

The thesis will deal with the relations between the EU and Bhutan starting from the commencement of the EU assistance to Bhutan until today. While this master thesis will not be able to discuss every small detail of the relations and cooperation between the two, it will try to cover the major aspects of it.

For a better understanding of the EU assistance to Bhutan, the thesis will attempt to study the current situation and compare it to its situation prior to receiving external assistance in order to appreciate the impacts of the EU support and other external assistance. The EU is involved in many areas besides trade some of which include diplomacy, the promotion of human rights, development and humanitarian aid and also working with multilateral organisations.<sup>9</sup> EU's presence in different parts of the world is basically in accordance with various treaties and regulations containing the functions and foundational principles of the EU.

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<sup>8</sup> 'Bhutan: Economy | Asian Development Bank' <<https://www.adb.org/countries/bhutan/economy#tabs-0-0>> accessed 25 July 2018.

<sup>9</sup> 'The EU's International Roles - European External Action Service' <[https://eeas.europa.eu/headquarters/headquarters-Homepage/3637/eus-international-roles\\_en](https://eeas.europa.eu/headquarters/headquarters-Homepage/3637/eus-international-roles_en)> accessed 7 August 2018.

The main area the thesis will deal with is the development cooperation between the EU and Bhutan. The development cooperation, because of Bhutan being a developing country, or rather a country still in the list of LDCs, has involved development assistance and support from the EU in the form of finance and budget for various sectors and projects undertaken in Bhutan. This character of the EU, reaching out and aiding the development of a small country, located in the distant Himalayas, which is hardly significant to its trade, security or strategic interests, portrays the benevolent role it has been playing for a long time. This makes the EU a true global player not only in terms of trade and commerce but also in other areas like development assistance, climate change, poverty reduction, food security and humanitarian aid.

In short, the thesis will study in some detail about the main sectors it supports in Bhutan, while also looking at the relevant legal frameworks and provisions from which the EU derives its competence to provide development assistance to developing countries like Bhutan. It will also look at how this development cooperation has helped Bhutan to grow based on the results achieved by various projects and programmes. Bhutan has been heavily reliant on external assistance and grants from many development partners and donors to fund its developmental activities. This fact will make it challenging to study the specific impacts, as such, of the EU assistance on the growth of a particular sector in some cases. However, in sectors that are exclusively supported by the EU assistance projects, it would show a more specific observation of the changes that have taken place in that particular sector.

### **3. Structure of the Thesis**

The thesis contains an introductory part before the main body that consists of several chapters. It gives a general background to the topic of the thesis, including the area of study. Sections dealing with the scope and structure of the thesis are also part of introduction. The next part of the thesis is its main body and analysis. It comprises of different chapters. Chapter 1 will highlight the profiles of the EU and Bhutan to set the context for the chapters that follow, which will deal with the specific sectors of EU assistance to Bhutan.

Chapter 2 will deal with the diplomatic relations and development cooperation between the EU and Bhutan. Chapter 3 will be on the Country Strategy Papers (CSPs) and Multiannual Indicative

Programmes (MIP). These are the overall framework outlining the duration of various projects, different sectors and amount of assistance and budget that will be allocated in that field of development cooperation. Chapter 4 will cover the renewable natural resources sector and good governance, while Chapter 5 of this thesis will cover the issue of climate change and other thematic programmes of the EU that are undertaken in Bhutan.

Subsequently, Chapter 6 will cover the discussion on the current status of the core sectors of EU assistance to Bhutan, along with some observations about the EU security-development policy dynamics in the context of Bhutan. The next part of the thesis will contain the concluding remarks and observations of the author.

#### **4. Research Methodology**

The thesis is a combination of descriptive, analytical and doctrinal approaches. Since it is dealing mainly with the role of the EU as a global player in the context of Bhutan's socio-economic development, the thesis contains, in relevant areas, some level of analysis based on statistical data from different years. This enables one to understand practically about the socio-economic development Bhutan has experienced over the course of time.

The thesis follows a doctrinal method of research by referring to several reports and write-ups on the topic. Documents and reports on development plans and policies, journal articles and essays, and statistical documents are some of the main sources of research used for the thesis. Since there is limited literature on the development cooperation between the EU and Bhutan, the research relied largely on internet sources and official website contents of the relevant agencies and bodies.

## CHAPTER 1: PROFILES OF THE EU AND BHUTAN

### 1.1 European Union (EU) in Brief

The European Union was born out of efforts to integrate Europe in the aftermath of the World War II. After the end of the war, several western European countries worked together closely towards closer economic, social, and political ties mainly to achieve economic growth and security. The efforts were also aimed at promoting a lasting reconciliation between France and Germany.<sup>10</sup> All these efforts led to the signing of the Treaty of Paris in 1951 by Belgium, France, Italy, Luxembourg, the Netherlands, and Western Germany. The treaty came into force in 1952, thereby founding the European Coal and Steel Community (ECSC).

The main purpose of the establishment of the ECSC was to pool the resources of the founding countries in the coal and steel sectors through the creation of a common market,<sup>11</sup> and further, to create an international organisation to manage peaceful use of these resources.<sup>12</sup> Coal and steel were the key drivers of national militaries and war machines.<sup>13</sup> Other broad objectives of the ECSC included contribution to economic expansion, development of employment and improvement of the standard of living in the participating countries.<sup>14</sup> The six ECSC members signed the two Treaties of Rome, which established the European Atomic Energy Community (Euratom) and the European Economic Community (EEC). The former was aimed at facilitating cooperation in atomic energy development and research, while the latter created a common market which did away with most of the barriers to the movement of goods, services, capital and labour. EEC also resulted in the creation of a common external trade policy.

The Maastricht Treaty, which is formally called the Treaty on European Union, was signed on 7<sup>th</sup> February 1992, creating the European Union. The treaty consisted of three main pillars: the

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<sup>10</sup> 'European Union | Definition, Purpose, History, & Members | Britannica.Com'  
<<https://www.britannica.com/topic/European-Union>> accessed 9 July 2018.

<sup>11</sup> Treaty Establishing the European Coal and Steel Community 1951, art 1.

<sup>12</sup> 'European Commission - PRESS RELEASES - Press Release - Fifty Years at the Service of Peace and Prosperity: The European Coal and Steel Community (ECSC) Treaty Expires'  
<[http://europa.eu/rapid/press-release\\_IP-02-898\\_en.htm](http://europa.eu/rapid/press-release_IP-02-898_en.htm)> accessed 7 August 2018.

<sup>13</sup> *ibid.*

<sup>14</sup> Treaty Establishing the European Coal and Steel Community 1951, art 2.

European Communities, a Common Foreign and Security Policy, and Cooperation in the field of Justice and Home Affairs.<sup>15</sup> It introduced the concept of European citizenship, enhanced the powers of the European Parliament and launched the economic and monetary union (EMU), among others.<sup>16</sup> A series of international treaties and revisions of existing treaties over the decades eventually led to the signing of the Lisbon Treaty in 2007. It brought about a number of key changes aimed at increasing the consistency and coherence of the EU's external actions.<sup>17</sup> The Treaty provides for a separate position with increased powers and role of the High Representative of the Union for Foreign Affairs and Security Policy, a post that was created under the Amsterdam Treaty which was concurrently held by the Secretary General of the Council of the European Union.<sup>18</sup> The High Representative is responsible for the EU's common foreign and security policies.<sup>19</sup> Other significant institutional changes the Treaty has introduced mostly relate to EU's external policies, while also clarifying and strengthening the EU's development cooperation policy.<sup>20</sup>

The EU has 28 Member States today and is one of the major players in global trade and economy. In terms of the total value of all goods and services produced, the EU, with a GDP of €15.3 trillion in 2017, is bigger than the US economy.<sup>21</sup> It also plays a major role in terms of trade as the EU trade with the rest of the world accounts for around 15.6% of global imports and exports.<sup>22</sup> This makes it one of the three largest global players in international trade besides the US and China. It was founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities.<sup>23</sup>

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<sup>15</sup> Petr Novak, 'The Maastricht and Amsterdam Treaties'

<[http://www.europarl.europa.eu/ftu/pdf/en/FTU\\_1.1.3.pdf](http://www.europarl.europa.eu/ftu/pdf/en/FTU_1.1.3.pdf)> accessed 16 August 2018.

<sup>16</sup> 'A Brief History of the European Union' <<https://www.eu2017.mt/en/Pages/A-Brief-History-of-the-EU.aspx>> accessed 9 July 2018.

<sup>17</sup> 'The Lisbon Treaty' <<http://www.lisbon-treaty.org/wcm/the-lisbon-treaty.html>> accessed 7 August 2018.

<sup>18</sup> 'Glossary of Summaries - EUR-Lex' <[https://eur-lex.europa.eu/summary/glossary/high\\_representative\\_cfsp.html](https://eur-lex.europa.eu/summary/glossary/high_representative_cfsp.html)> accessed 14 August 2018.

<sup>19</sup> Supra note 17; See also The Treaty on European Union, art 18.

<sup>20</sup> Supra note 17.

<sup>21</sup> 'The Economy - EUROPA | European Union' <[https://europa.eu/european-union/about-eu/figures/economy\\_en](https://europa.eu/european-union/about-eu/figures/economy_en)> accessed 16 July 2018.

<sup>22</sup> *ibid.*

<sup>23</sup> European Communities, 'Treaty on the European Union (Maastricht Treaty)' (1992), art 2.

The EU does not stress these values within Europe only, but advocates it for the larger world and in a global context through its international relations with other countries and international organisations. Paragraph 2 of Article 21 of the Treaty on the European Union (TEU) provides the principal objectives of the EU external action. They include safeguarding EU's values, fundamental interests, security, independence and integrity, consolidating and supporting democracy, the rules of law, human rights and principles of international law, preserving peace and strengthening international security, fostering sustainable socio-economic and environmental development of developing countries in order to eradicate poverty, encouraging the integration of all countries into the world economy, assisting countries and regions to overcome natural or man-made disasters, and to promote an international system based on stronger multilateral cooperation and good global governance.<sup>24</sup> Towards these ends, it is continuously involved in many projects and development aid programmes outside Europe, especially in the least developed and developing countries. The EU and its Member States are the largest donors of Official Development Assistance (ODA) in the world<sup>25</sup> For example, the EU and its Member States together provided aid amounting to €56.5 billion, which was equivalent to 52% of the total ODA donated in 2013.<sup>26</sup>

The Least Developed Countries (LDCs) and those in situations of fragility and conflict are the main targets of EU development assistance since they are seen as countries where the need is greatest owing to which the development cooperation of the EU and its Member States can have its greatest impact.<sup>27</sup> Bhutan has been one of the beneficiaries of the benevolent development aid in numerous sectors from the EU for a very long time. The fact that EU has a global presence in 140 countries with wide-ranging expertise and high credibility in the field of human rights, electoral observation, governance and crisis resolution<sup>28</sup> shows that it is not only economically sound but also plays an active role in enhancing economic growth of the developing countries and improving living standards of people in other parts of the world.

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<sup>24</sup> The Treaty on European Union, art 21, para 2.

<sup>25</sup> European Commission, 'International Cooperation and Development: Fighting Poverty in a Changing World' p. 3.

<sup>26</sup> *ibid.*

<sup>27</sup> European Commission, *The New European Consensus on Development "Our World, Our Dignity, Our Future": Joint Statement by the Council, and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the European Commission*, p. 45, para 92.

<sup>28</sup> European Commission 'International Cooperation and Development: Fighting Poverty in a Changing World' (n 25).

## 1. 2 Bhutan's Profile

### 1.2.1 Geographical Location and Economy

The Kingdom of Bhutan is a small, land-locked country situated in the eastern Himalayas between two of the most populous countries and fastest growing economies – China and India. It has a total area of 38, 394 square kilometres,<sup>29</sup> around 71% of which is covered by forests.<sup>30</sup> Due to its fragile geological conditions, with an average altitude of 8000 feet above sea level,<sup>31</sup> Bhutan accords high importance to conservation of natural environment. The Constitution of the Kingdom of Bhutan provides that at least 60% of its total area must always be ensured to be under forest cover for all times.<sup>32</sup>

Despite many challenges and limited opportunities as a land-locked country, Bhutan has achieved impressive economic progress over the past decades. Bhutan started its 1<sup>st</sup> Five-Year Plan (FYP) in 1961 and begins its 12<sup>th</sup> FYP this year. The Prime Minister of Bhutan highlighted in the State of the Nation address to the Parliament that the country's GDP has grown from Nu.100 billion in 2013 to Nu.180 billion in 2018, which led several reputed international institutions such as the World Bank and Asia Development Bank (ADB) to identify Bhutan as one of the fastest growing economies in the world.<sup>33</sup> In the same address, the Prime Minister stated that Bhutan's GDP growth figure as 8% in 2016, and about 7% in 2017, while also sharing optimism that the commissioning of a new hydropower project (Mangdechhu Hydropower Project) later in 2018 would contribute substantially to the country's economic growth.<sup>34</sup>

With respect to trade, limited production of exportable products in Bhutan is one of the major challenges Bhutan faces, which results in negative balance of payment. It exports a few agricultural products, minerals and excess hydro-electricity mainly to Bangladesh and India. The EU also recognised that trade facilitation and diversification is one of the main areas that needs attention. It made a commitment of around 20% of the CSP 2002-2006 commitment to support Bhutan in

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<sup>29</sup> National Statistics Bureau, *Bhutan at a Glance 2017*, p. 2.

<sup>30</sup> 'Bhutan's 71 Percent Forest Cover Confirmed - BBS | BBS' <<http://www.bbs.bt/news/?p=67069>> accessed 17 July 2018.

<sup>31</sup> 'Bhutan: Kingdom in the Clouds | National Geographic Expeditions' <<https://www.nationalgeographic.com/expeditions/destinations/asia/land/bhutan/>> accessed 7 August 2018.

<sup>32</sup> The Constitution of the Kingdom of Bhutan, art 5(3).

<sup>33</sup> Royal Government of Bhutan, *State of the Nation 2018*, p. 16.

<sup>34</sup> *ibid.*

this area. Tourism is the main source of hard currency. Bhutan is gaining increasing popularity as a favourite tourist destination. The number of tourists visiting Bhutan is increasing every year. It grew at double-digit rates during the 1990s but slowed down as a result of the ‘global slowdown in tourist travel following the events of September 2001.’<sup>35</sup>

Economic activities in Bhutan were traditionally confined to subsistence farming and animal husbandry. The mountainous terrain of Bhutan is a big deterrent since only around 8% of the total geographical area is cultivable and usable for agricultural purposes, of which only 2.93% has been found to be cultivated so far.<sup>36</sup> Hydropower resources are the mainstay of the Bhutanese economy. Currently, there are four major hydropower plants running successfully, while several others are in the process of completion and they are expected to be commissioned in the next couple of months.

### **1.2.2 Government and External Relations**

Bhutan enthroned its first hereditary monarch on 17<sup>th</sup> December 1907, thereby becoming a monarchy. It became a democratic constitutional monarchy<sup>37</sup> in 2008 as Bhutan held its first ever parliamentary elections in its political history. Since the institution of parliamentary democracy in 2008, the King does not hold governmental powers, which is undertaken by the elected Prime Minister and the Cabinet.<sup>38</sup> However, His Majesty the King is the head of the State – a symbol of unity of Bhutan and its people.<sup>39</sup> The Constitution of Bhutan was adopted on 18<sup>th</sup> July 2008 and it provides the basic framework for the democratic governance and other institutions and guarantees fundamental rights to the citizens of Bhutan.<sup>40</sup>

Although it shares informal relations with many countries, it currently has formal diplomatic relations with 53 countries and the European Union. Oman was the latest country to establish formal diplomatic relations in 2013.<sup>41</sup> It also has a Permanent Mission to the United Nations both

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<sup>35</sup> European External Action Service, ‘Country Strategy Paper’ p. 3.

<sup>36</sup> Royal Government of Bhutan, ‘Bhutan RNR Statistics 2015’, p. 6.

<sup>37</sup> The Constitution of the Kingdom of Bhutan, art 1 (2)

<sup>38</sup> *ibid*, art 20 (2).

<sup>39</sup> *ibid*, art 2 (1)

<sup>40</sup> *ibid*, art 7.

<sup>41</sup> ‘Bilateral Relations – Ministry of Foreign Affairs’ (n 5).



in New York and Geneva.<sup>42</sup> The Department of Bilateral Relations under the Ministry of Foreign Affairs looks after Bhutan's diplomatic relations with other countries.

With respect to its multilateral relations, Bhutan, firstly, joined the Universal Postal Union in 1961, and after ten years, became a member of the United Nations on 21<sup>st</sup> September 1971.<sup>43</sup> Besides the United Nations and its specialised agencies, Bhutan is a member of other international and regional organisations such as the South Asian Association for Regional Cooperation (SAARC), IBRD, IMF, and the Asian Development Bank.<sup>44</sup> It is also a party to the international agreements on Biodiversity, Climate Change, Nuclear Non-Proliferation, Rights of the Child, and the Elimination of Discrimination against Women.<sup>45</sup> However, Bhutan is still not a member of the World Trade Organisation (WTO), a multilateral institution exemplifying the achievements of globalisation. It is still in the process of accession to the WTO. Bhutan's Working Party was established on 6 October 1999 and was chaired by Austrian Ambassador Thomas Hajnoczi.<sup>46</sup> Bhutan is apprehensive of joining the WTO as it holds the view that the demerits of joining it are highly likely to outweigh the advantages of joining it for now. The Prime Minister also shared concerns last year about the compatibility of WTO principles and values to those of Bhutan's development philosophy, GNH.<sup>47</sup> Because of these and other factors, it might take some time for Bhutan to become a member of the WTO.

The next chapter will discuss the legal framework of the EU's external action in general, and development cooperation with Bhutan in particular.

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<sup>42</sup> 'About the Mission – Permanent Mission of Bhutan to the United Nations' <[http://www.mfa.gov.bt/pmbny/?page\\_id=124](http://www.mfa.gov.bt/pmbny/?page_id=124)> accessed 7 August 2018.

<sup>43</sup> 'Bhutan and the UN – Permanent Mission of Bhutan to the United Nations' <[http://www.mfa.gov.bt/pmbny/?page\\_id=174](http://www.mfa.gov.bt/pmbny/?page_id=174)> accessed 17 July 2018.

<sup>44</sup> European External Action Service (n 35).

<sup>45</sup> *ibid.*

<sup>46</sup> 'WTO | Accession Status: Bhutan' <[https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_bhoutan\\_e.htm#status](https://www.wto.org/english/thewto_e/acc_e/a1_bhoutan_e.htm#status)> accessed 25 July 2018.

<sup>47</sup> 'Govt Says No to WTO for Now – The Bhutanese' <<https://thebhutanese.bt/govt-says-no-to-wto-for-now/>> accessed 10 August 2018.

## Chapter 2: Development Cooperation Between the EU and Bhutan

### 2.1 Diplomatic Relations Between the EU and Bhutan

The EU assistance to Bhutan started in 1982 although diplomatic relations were officially established only on 9<sup>th</sup> August 1985.<sup>48</sup> The amount of EU assistance between 1982 and 2002 was €46 million.<sup>49</sup> The EU has gradually expanded its scope and areas of cooperation and assistance. Renewable natural resources, climate change, rural development, health, good governance and environment are some of the focal sectors of the EU assistance.<sup>50</sup>

Besides these areas, other areas of cooperation include trade and export diversification in order to enable Bhutan to strengthen its trade and investment environment, so that it can actively participate in the multilateral trading system, which is becoming a norm of the day due to globalisation. At present, Bhutan's heavy reliance on hydropower projects as the main source of country's revenue is a matter of concern as the country would have no other viable source of generating adequate revenue if hydropower experiences some challenges in future. Electricity continues to be the largest export of Bhutan generating the highest amount of revenue. In the Financial Year 2016-2017, export of surplus electricity generated a revenue of Nu. 13,032 million.<sup>51</sup>

The EU strategy on its assistance to Bhutan is in line with the various plan and policy documents of development envisaged by the latter. Bhutan carries out its developmental activities on the basis of a five-yearly cycle of development plans. Five-Year Plans set out the goals of the government in different fields and sectors. Additionally, 'Bhutan 2020: A Vision for Peace, Prosperity and Happiness' (May 1999) is an important guiding framework for the developmental plans and policies as the document conceptualizes and aims to give priority to working towards maximizing Gross National Happiness (GNH).

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<sup>48</sup> 'Bhutan and the EU - European External Action Service' <[https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu_en)> accessed 10 July 2018.

<sup>49</sup> European External Action Service (n 35) 12.

<sup>50</sup> *ibid.*

<sup>51</sup> *National Revenue Report 2016-2017*, Department of Revenue and Customs, Ministry of Finance, p. 86.

The core objective of the EU's overall cooperation with Bhutan has been poverty reduction through promotion of sustainable growth and development.<sup>52</sup> Based on the need of the country, the majority of the funds have been allocated for Development Cooperation through the annual budget for Technical and Financial Co-operation. The EU initially chose to focus its assistance on 'raising productivity in agriculture, improving rural incomes, and improving the institutional capacity to manage sustainable development.'<sup>53</sup> The EU development assistance to Bhutan shows the international role that the former plays, as Bhutan is a small country that clearly does not hold much at its disposal to return any meaningful favour to the interests of the EU.

The interaction between the two has been carried out on a more frequent basis since 2004 with the commencement of biennial consultations covering all aspects of bilateral relations and regional and international developments, and also the common interests.<sup>54</sup> The latest round of biennial consultations was held in Thimphu on 1<sup>st</sup> April 2018.<sup>55</sup> A press release from the Ministry of Foreign Affairs of Bhutan stated that 'The agreed minutes recognize the progress made in the implementation of the multi annual indicative programme (MIP) for the period 2014-2020 and reaffirms EU's continued partnership with Bhutan.' The current cycle of development assistance (2014-2020) amounts to an EU commitment amounting to €45.5 million.

The Ambassador and Head of the EU delegation to India based in Delhi is concurrently accredited to Bhutan.<sup>56</sup> Bhutan has established an Embassy in Brussels, and it is concurrently accredited to the EU and a number of EU Member States.<sup>57</sup> There are regular visits by the Ambassadors of the EU to Bhutan, which provide opportunities for discussions and exchanges to further strengthen the EU-Bhutan relationship. On the political front, there have been some significant coordination and exchanges of visits between the EU and Bhutan. For example, the EU deployed as Election Observation Mission (EOM) at the invitation of Bhutan when the first National Assembly elections were held in 2008. The second parliamentary elections were held after five years in 2013 during which the EU deployed an Election Expert Mission (EEM). Another aspect of political cooperation

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<sup>52</sup> European External Action Service (n 35) 12.

<sup>53</sup> *ibid.*

<sup>54</sup> 'Bhutan and the EU - European External Action Service' (n 48).

<sup>55</sup> 'EU Commits € 52m - BBS | BBS' <<http://www.bbs.bt/news/?p=92951>> accessed 16 August 2018.

<sup>56</sup> 'Bhutan and the EU - European External Action Service' (n 48).

<sup>57</sup> *ibid.*

between the two sides is the exchange of inter-parliamentary visits. Members of the European Parliament visited Bhutan in the years 2009, 2011 and 2013. Members of parliament of Bhutan have also been invited to the European Parliament. The latest visit by the parliamentary members of Bhutan to European Parliament in Brussels took place from 17<sup>th</sup>-19<sup>th</sup> October 2017 at the invitation of the Mr. Antonio Tajani, the President of the European Parliament.<sup>58</sup> Such exchanges are crucial for the young parliament of Bhutan as they enable the Bhutanese Members of Parliament to learn from the experienced and old institutions of the EU.

Likewise, the former European Commissioner for Development, Mr. Andris Piebalgs, visited Bhutan from 21 to 22 October 2014.<sup>59</sup> The most important outcome of the visit was the launching of the EU's Multi-Indicative Plan (MIP) for 2014-2020 for Bhutan, which tripled the EU's assistance for Bhutan from €14 million to €42 million. The primary objective of the EU's MIP for Bhutan is to support democratisation and modernisation processes in Bhutan in line with the Five-Year Plans (the current one being 11<sup>th</sup> FYP 2013-2018) of the Royal Government of Bhutan. Two focal sectors that have been identified for support are Local Authorities and Civil Society, and Sustainable Agriculture and Forestry.<sup>60</sup> Subsequently, the Prime Minister of Bhutan visited Brussels from 2<sup>nd</sup>-5<sup>th</sup> June 2015. He was invited by the President of the European Commission, Mr. Jean-Claude Juncker to take part in the European Development Days. It was a historic visit and proud moment for Bhutan as it was the first ever visit by the Bhutanese Head of Government to Brussels.<sup>61</sup> This also shows that the EU is committed to support Bhutan to achieve its development goals as it is gearing up to graduate from the list of LDCs in 2021, which will be a huge challenge.

## **2.2 Legal Framework of EU Development Cooperation with Bhutan**

The preceding sections gave a brief overview of the existing relations and cooperation between the EU and Bhutan. It is equally important to study about the legal basis on which the EU draws its competency to provide development aid and other financial support to many countries, and Bhutan, in particular, for the present purpose. Along with the legal basis, the objectives behind the

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<sup>58</sup> 'National Assembly of Bhutan' <[http://www.nab.gov.bt/en/media/view\\_news\\_detail/390](http://www.nab.gov.bt/en/media/view_news_detail/390)> accessed 23 July 2018.

<sup>59</sup> 'Bhutan and the EU - European External Action Service' (n 48).

<sup>60</sup> Supra note 119. European External Action Service, 'Multiannual Indicative Programme (MIP) 2014-2020'.

<sup>61</sup> 'Bhutan and the EU - European External Action Service' (n 48).

development cooperation between the EU and Bhutan will also become clear, to a certain extent, in this section.

To begin with, Article 21 of the Treaty on European Union (TEU), and Article 208 of the Treaty on the Functioning of the European Union (TFEU) provide the guiding principles for EU external action and development cooperation. Article 21 of TEU provides that:

*'The Union's action on the international scene shall be guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.'*<sup>62</sup>

The next part of the same paragraph states that the Union shall endeavour to develop relations and build partnerships with third countries and other international, regional or global organisations which share the above principles. Thus, the principles contained under Article 21 of TEU are the fundamental basis of EU in conducting its external action and development cooperation with the third countries, and different international and regional organisations.

The EU's relations with developing countries are based on the principle of non-discrimination with the eradication of poverty as the most important objective in these relations.<sup>63</sup> Paragraph 2 of Article 21 elaborates on the objectives of cooperation in international relations the Union shall pursue. The most relevant objectives of EU cooperation in international relations with respect to Bhutan, a developing country, are sub-paragraphs (b), (d), (e), (f), and (g) of the above paragraph under Article 21. So far as these sub-paragraphs are concerned, the Union's pursuit of common policies and action for a high degree of cooperation in international relations are to:

*'... (b) consolidate and support democracy, the rule of law, human rights and the principles of international law;*

*(d) foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty;*

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<sup>62</sup> The Treaty on European Union, art 21, para 1.

<sup>63</sup> Mirjam van Reizen and Simon Stocker, 'The Treaty of Lisbon and the New Perspectives for EU Development Policy' [2010] Social Watch, p. 33.

- (e) encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade;*
- (f) help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development; and*
- (g) assist populations, countries and regions confronting natural or man-made disasters.*<sup>64</sup>

With respect to the external action of the EU, paragraph 1 of Article 24 of the TEU provides that the common foreign and security policy (CFSP) shall be defined and implemented by the European Council and the Council acting unanimously.<sup>65</sup> The European Council is mandated with the task of identifying the Union's strategic interests, determining the objectives and defining the general guidelines for the common foreign and security policy.<sup>66</sup> On the other hand, the TEU provides that 'the Council shall frame the common foreign and security policy and take the decisions necessary for defining and implementing it on the basis of the general guidelines and strategic lines defined by the European Council.'<sup>67</sup> The High Representative and the Member States are tasked with the role of putting into effect the CFSP.<sup>68</sup> Additionally, Article 27 of the TEU provides that the High Representative of the Union for Foreign Affairs and Security Policy shall not only contribute to the development of CFSP through his proposals but also to ensure implementation of the decisions adopted by the European Council and the Council.<sup>69</sup>

An important provision that specifically relates to and serves as the guiding legal instrument in EU policy in the field of development cooperation is Article 208 of the TFEU. Paragraph 1 of the Article states that the policy of the Union in the field of development cooperation shall be conducted within the framework of the principles and objectives of its external action, and that the Union's development cooperation policy and that of the Member States shall complement and reinforce each other. It provides that the primary objective of the EU development cooperation as

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<sup>64</sup> The Treaty on European Union, art 21 (n 62), para 2.

<sup>65</sup> *ibid* art 23, para 1.

<sup>66</sup> *ibid* art 26, para 1; See also art 22, para 1.

<sup>67</sup> *ibid*, para 2.

<sup>68</sup> *ibid*, para 3.

<sup>69</sup> *ibid* art 27, para 1.

the reduction of poverty, and its eventual eradication as the long-term objective.<sup>70</sup> The same paragraph further provides that the ‘the Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.’<sup>71</sup> These primary objectives of the EU development policy are the foundations for ‘policy coherence for development’ in the EU.<sup>72</sup>

An interesting debate arose concerning the phrase ‘take into account of the objectives of the development cooperation’ in the above provision. The question was whether this meant that the EU is obliged to strictly take into account the objectives of development cooperation when formulating its policies which are likely to affect developing countries, or does it simply mean the EU has to consider the objectives of development cooperation. It is now generally accepted that the above phrase only means an obligation of conduct to ‘consider’ development objectives and not necessarily to stick to them in unqualified terms because it is possible to take into account a consideration, and then to give priority to other considerations that are more important.<sup>73</sup> Thus, this entails that the EU can legally contradict development objectives in its decision-making on relevant policies as long as it is done so after considering the development objectives.<sup>74</sup>

Development cooperation is one of the ‘shared competencies’ between the Union and the Member States as is provided under Article 4 of TFEU. It provides that although the Union shall have the competence to carry out activities and conduct a common policy in the areas of development cooperation and humanitarian aid, it shall not prevent the Member States from exercising their competence in those areas.<sup>75</sup>

As to the question of to what extent Article 208 of the TFEU and the provisions relating to CFSP govern the EU-Bhutan relations, it is largely governed by Article 208 of the TFEU since the major chunk of the relations between the two are taking place under the umbrella of development

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<sup>70</sup> The Treaty on the Functioning of the European Union, art 208, para 1.

<sup>71</sup> *ibid.*

<sup>72</sup> Lorand Bartels, ‘Policy Coherence for Development Under Article 208 of the Treaty on the Functioning of the European Union - Towards a Complaints Mechanism’ [2016] *Ssrn*, p. 1.

<sup>73</sup> *ibid.*, p. 3.

<sup>74</sup> *ibid.*

<sup>75</sup> The Treaty on the Functioning of the European Union, art 4, para 4.

cooperation, which does not involve matters of EU security or defence matters as such. The role of the EEAS in the implementation of development cooperation programmes is covered in the next paragraph. The other aspects of relations relating to the delegations of the EU and the Bhutan's mission, their exchanges at different levels, and the regional and thematic programmes which are outside the mandate of instruments of development cooperation such as programmes relating to climate change, tourism, humanitarian aid and disaster management, are governed by the provisions of EU law relating to CFSP.

A new Development Cooperation Instrument (DCI) was adopted on the basis of Article 179 of the Consolidated Treaty Establishing the European Community (now replaced by and renamed the TFEU: Article 209) in December 2006.<sup>76</sup> It is highlighted under the Country Strategy Paper (2007-2013) that Bhutan was eligible to participate in cooperation programmes financed under the Regulation (EC) No. 1905/2006 of the European Parliament and of the Council of 18<sup>th</sup> December 2006, which established a financing instrument for development cooperation.<sup>77</sup> The new EU regulation No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020 based on Articles 209 and 212 of TFEU also provides that strategy papers shall be drawn up by the Union for the partner country or region concerned to provide a coherent framework for development cooperation between the Union and that partner country or region and that the strategy paper must be in accordance with the overall purpose, objectives policy provisions set out in the Regulation.<sup>78</sup> Thus, the development cooperation between the EU and Bhutan in the form of financial support and assistance in a wide range of sectors from the EU is largely legally based on the above instruments.

The European External Action Service (EEAS) is the diplomatic service of the EU with the main role of assisting the High Representative of the Union for Foreign Affairs and Security Policy.<sup>79</sup> The EEAS was established by the Council Decision of 26 July 2010 establishing the organisation

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<sup>76</sup> European External Action Service (n 35) 20.

<sup>77</sup> *ibid.*

<sup>78</sup> Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020, Art. 11, para 2.

<sup>79</sup> The Treaty on the European Union, art 27, para 3; See also art 3 of the Council Decision establishing the Organisation and Functioning of the European External Action Service.



and functioning of the European External Action Service.<sup>80</sup> To further emphasise the role of the EEAS in the external action of the Union, paragraph (4) of the Preamble of the Council Decision provides that in its contribution to the Union's external cooperation programmes, the EEAS should seek to ensure that its programmes fulfil the objectives for external action that are set out in Article 21 of TEU, while also keeping in mind the objectives of the Union's development policy as provided under Article 208 of the TFEU. This provision of the Council Decision singles out and stresses that the EEAS should particularly seek to fulfil the objective as set out in paragraph (2)(d) of Article 21 of TEU. Paragraph (2)(d) provides that the Union shall work for a high degree of cooperation in all fields of international relation in order to 'foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty.'<sup>81</sup> Paragraph (4) of the Preamble of the Council Decision further provides that in the context of above provisions and objectives therein, the EEAS should also ensure promotion of the fulfilment of the objectives of the European Consensus on Development<sup>82</sup> and the European Consensus on Humanitarian Aid.<sup>83</sup>

The EEAS operates alongside and in conjunction with the European Commission.<sup>84</sup> Since it is a diplomatic service, the EEAS is responsible for political dialogue with partner countries and regions, while it takes the lead on the allocation and programming of development cooperation for developing countries and regions specifically.<sup>85</sup> Furthermore, it has to ensure that EU policy which has an external dimension such as environment, development, security, trade, is coherent with the general line of EU foreign policy in a particular region or country.<sup>86</sup> On the other hand, The European Commission's Directorate General Development and Cooperation – EuropeAid (DEVCO) is responsible for defining development policy, coherence for development, and

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<sup>80</sup> Council of the European Union, 'Council Decision of 26 July 2010 Establishing the Organisation and Functioning of the European External Action Service' (2010) L 201 Official Journal of the European Union.

<sup>81</sup> The Treaty on European Union, art 21 (2)(d)

<sup>82</sup> OJ C 46, 24.2.2006, p. 1.

<sup>83</sup> Communication from the Commission to the European Parliament and the Council — Towards a European Consensus on Humanitarian Aid (COM (2007) 317 final)

<sup>84</sup> Jeske van Seters and Henrike Klavert, 'EU Development Cooperation after the Lisbon Treaty: People, Institutions and Global Trends' [2010] ECDPM Discussion Paper No. 123, p. 1.

<sup>85</sup> *ibid.*

<sup>86</sup> *ibid.*

ensuring development policy implementation, which entail that the DEVCO is in charge of conducting policy dialogue at sector level.<sup>87</sup>

With regard to the role of the European Parliament, it is provided under Article 14(1) of the TEU that the European Parliament shall exercise legislative and budgetary functions jointly with the Council alongside the functions of political control and consultation as laid down in the TEU and TFEU.<sup>88</sup> Additionally, paragraph 1 of Article 209 of the TFEU provides that ‘*The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall adopt the measures necessary for the implementation of development cooperation policy, which may relate to multiannual cooperation programmes with developing countries or programmes with a thematic approach.*’ With respect to its role in the external action of the Union, paragraph (6) of the Preamble of the Council Decision establishing the EEAS provides that apart from the role of the European Parliament in the legislative and budgetary matters, it shall be regularly consulted by the High Representative on ‘the main aspects and the basic choices of the Common Foreign and Security Policy (CFSP) and the views of the European Parliament are duly taken into consideration.’<sup>89</sup>

Although the management of the Union’s external cooperation programmes is under the responsibility of the Commission,<sup>90</sup> paragraph 2 of Article 9 of the Council Decision provides that the High Representative shall ensure overall political coordination of the Union’s external action, ensuring the unity, consistency and effectiveness of the Union’s external action, *inter alia*, through these external assistance instruments – the Development Cooperation Instrument,<sup>91</sup> the European Development Fund,<sup>92</sup> the European Instrument for Democracy and Human Rights,<sup>93</sup> and the

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<sup>87</sup> *ibid*, p. 2.

<sup>88</sup> The Treaty on European Union, art 14, para 1.

<sup>89</sup> Council of the European Union (n 80) Preamble, para (6).

<sup>90</sup> *ibid*, art 9, para 1.

<sup>91</sup> Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (OJ L 378, 27.12.2006, p. 41).

<sup>92</sup> Council Regulation No 5 laying down rules relating to calls for and transfers of financial contributions, budgetary arrangements and administration of the resources of the Development Fund for the Overseas Countries and Territories (OJ 33, 31.12.1958, p. 681/58)

<sup>93</sup> Regulation (EC) No 1889/2006 of the European Parliament and of the Council of 20 December 2006 on establishing a financing instrument for the promotion of democracy and human rights worldwide (OJ L 386, 29.12.2006, p. 1).

European Neighbourhood and Partnership Instrument.<sup>94</sup> Since EU assistance to Bhutan is carried out under the aegis of the Development Cooperation Instrument, the EEAS is directly responsible for dealing with the various programmes and projects under the development cooperation between the EU and Bhutan.

### **2.3 Development Policy of the EU after the Lisbon Treaty**

The Lisbon Treaty introduced many far-reaching reforms in the governance system of the EU mainly in the area of its external action with the primary aim of ensuring consistency of the EU external action for the larger goal of making EU an integrated and comprehensive actor in international affairs.<sup>95</sup> Unlike its previous efforts to improve collective action between the different components of the EU foreign relations machinery, the Lisbon treaty created entirely new bodies with the overarching aim of bridging the intergovernmental and supranational realms of EU foreign policy-making.<sup>96</sup> Some of the prominent reforms in the external action mechanism introduced by the Lisbon Treaty are the combination of the EU High Representative for Common Foreign and Security Policy (CFSP) and External Relations Commissioner in the new post of the High Representative/Vice-President of the Commission, establishment of the European External Action Service (EEAS), reforming the Commission directorates general (DGs) responsible for development and neighbourhood policy, enhancement of the European Parliament's oversight role and reforming the EU delegations.<sup>97</sup> All these reforms were introduced with the aim of drawing closer together the policies on foreign relations and security, development and neighbourhood and humanitarian response.<sup>98</sup>

The issue that is closer to the main area of study concerned in this thesis i.e. EU development cooperation with Bhutan, is the nexus between the development policy and security policy of the EU. The co-existence of and policy coherence between these two areas have been a topic of debate for many scholars studying the impacts of the Lisbon Treaty on the new look of the EU mechanism

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<sup>94</sup> Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument (OJ L 310, 9.11.2006, p. 1).

<sup>95</sup> Mark Furness and Stefan Gänzle, 'The Security–Development Nexus in European Union Foreign Relations after Lisbon: Policy Coherence at Last?' (2017) 35 *Development Policy Review*, p. 476.

<sup>96</sup> *ibid.*, p. 475.

<sup>97</sup> Furness and Gänzle (n 97).

<sup>98</sup> *ibid.*

for external action.<sup>99</sup> The creation and role of EEAS, therefore, are discussed in the following paragraphs.

The Council Decision that established the EEAS brought an end to the lengthy institutional disagreement as to under whose control the development fund of the EU should be placed. Without limiting the scope of EEAS's role to the domain of the CSFP, the Council Decision on establishment of the EEAS mandates the EEAS with the task of assisting the High Representative also in her capacity as the Vice-President of the Commission.<sup>100</sup> The Council Decision granted the High Representative of the Union for Foreign Affairs and Security Policy and the EEAS participation in the programming and management cycle of instruments for development cooperation like the European Development Fund (EDF) and the Development Cooperation Instrument (DCI),<sup>101</sup> and responsibility for the preparation of country allocation, country and regional strategic papers and national and regional indicative programmes.<sup>102</sup> Significantly, the Council Decision provides the EEAS with the responsibility for preparing proposals on the basic regulations for the EDF and the DCI.<sup>103</sup> There were concerns raised about the impact of the reforms introduced by this Council Decision on the EU's policy on external action. The Lisbon Treaty was seen as creating avenues to transform the development cooperation from an independent policy into a component of the EU's wide foreign policy instrument, placed under the "unity of command" as envisaged by the European Security Strategy back in 2003.<sup>104</sup>

The above reforms were justified, in the views of the Council and the European Parliament, for greater consistency in the Union's external action. However, the reforms received strong criticism from many quarters including NGOs since they argued that the reforms were contrary to the spirit of the Lisbon Treaty. The main reason behind their concerns was the seemingly incompatible interests and objectives of the foreign policy and development policy. It was feared that the objectives of development policy which is recipient-oriented would be undermined or sidestepped

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<sup>99</sup> *ibid*, p. 477.

<sup>100</sup> Council of the European Union (n 80), Art. 2, para 1.

<sup>101</sup> *ibid*, Art. 9

<sup>102</sup> Mario Giuseppe Varrenti, 'EU Development Cooperation after Lisbon: The Role of the European External Action Service' [2010] EU Diplomacy Papers, p. 8.

<sup>103</sup> Council of the European Union (n 101).

<sup>104</sup> Mario Giuseppe Varrenti, 'EU Development Cooperation after Lisbon: The Role of the European External Action Service' [2010] EU Diplomacy Papers, p. 4.

by the interests of the European citizens, which is the primary objective of the EU foreign policy. In other words, it was felt that the foreign policy-formulators, whose main objective is to safeguard the interests of European citizens cannot and would not be responsible for development policy, whose main objective is to promote the interests of people in the developing countries.<sup>105</sup>

Similarly, the concerns also arose because of the apparently challenging task of balancing the terms of working methods and timeframes of the two policies. James Mackie from the European Centre for Development Policy Management (ECDPM) argued, for example, that ‘usually short timeframes in which many foreign policy actions operate are at odds with the longer timeframes necessary for sustainable development.’<sup>106</sup> Another concern was that the specialised nature of development cooperation will be adversely impacted in a large foreign service.<sup>107</sup> The main argument of those who criticised the placing of development cooperation under the control of the High Representative and the EEAS was that the loss of development policy’s independent status poses a threat to the EU’s commitment to poverty eradication, which would be against the principles of the Lisbon Treaty as it accords high importance to the reduction of and eventual eradication of poverty.<sup>108</sup>

To elaborate further, the biggest concern about the EEAS’s responsibility over aid regulations and programming is that the development funds could be distorted to serve the EU’s self-interest rather than the interests of the developing countries.<sup>109</sup> Some examples of EU interests that are likely to encroach upon the objective of poverty eradication as pointed out in Mario Giuseppe Varrenti’s paper are geopolitical interests, geo-economic and commercial interests, securitization, political conditionality and visibility of certain high-profile crises in select countries, etc.<sup>110</sup>

It is beyond the scope of this thesis to provide an all-encompassing critical assessment of the above criticisms in the practical operation of the development cooperation under the larger context of EU

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<sup>105</sup> *ibid*, p. 5.

<sup>106</sup> Mackie, H. Baser, J. Frederiksen and O. Hasse, “Ensuring that Development Cooperation Matters in the New Europe”, Maastricht, *European Centre for Development Policy Management*, October 2003, p. 11

<sup>107</sup> Varrenti (n 104).

<sup>108</sup> *ibid*.

<sup>109</sup> Varrenti (n 104) 9.

<sup>110</sup> *ibid*, p. 9-11.

foreign policy. However, it will become clear after we study some of the programmes and projects carried out under the development cooperation between EU and Bhutan as to whether the primary concerns and objectives of development policy, which is the reduction and, in the long term, eradication of poverty, has been undermined by the larger interests of EU foreign policy in the specific context of Bhutan. Mario Giuseppe Varrenti argues that the loss of development policy's independent status does not necessarily lead to a weakening of the EU's commitment to poverty eradication,<sup>111</sup> and it will be interesting to see whether a similar conclusion can be drawn in Bhutan's context or the dynamics between the development policy and foreign policy is otherwise.

Having discussed the primary legal instruments supporting the EU development assistance to Bhutan in this section, the next chapter will focus on the specific strategic papers that serve as the blueprints for funding different sectors in Bhutan's development.

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<sup>111</sup> *ibid*, p. 6.

## **CHAPTER 3: COUNTRY STRATEGY PAPER AND MULTIANNUAL INDICATIVE PROGRAMME**

### **3.1 Country Strategy Paper (CSP): Bhutan**

#### **3.1.1 CSP (2002-2006)**

The first comprehensive documents on strategy of EU assistance to Bhutan were called the Country Strategy Paper (CSP) 2002-2006 and CSP 2007-2013. The allocation of EU aid to Bhutan under the Country Strategy Paper 2002-2006 (CSP) & National Indicative Programme (NIP) 2002-2006 was €15 million.<sup>112</sup> The highest priority was given to renewable natural resources sector by allocating 64% of the budget. The other areas of priority were health and traditional medicine, trade development and export diversification. Following are brief notes on some of the major projects that were initiated under the EU assistance under this CSP and NIP:

##### *i. Wang Watershed Management Project*

The Wang Watershed Management Project was one of the most significant contributions from the EU with a project fund of €9.2 million. It was started in September 2000 and its implementation was completed in June 2007. The main purpose behind the project was to develop, test and institutionalise practical watershed, land and farm management techniques and procedures within the Wang watershed, the successful management of which benefited 10,000 rural families of four western districts of Haa, Thimphu, Paro and Chukha.<sup>113</sup>

##### *ii. Medicinal Plants Project, Phase II*

The second major project the EU supported and funded in Bhutan was the phase II of Medicinal Plants Project, which had two components:

- i) the Medicinal Plants Conservation and Cultivation Component; and
- ii) Traditional Medicine Product Marketing and Commercialisation Component.<sup>114</sup>

The project was funded with a budget of €4.2 million with the main aim of helping in the conservation of natural resources, alleviation of poverty, enhancing health standards, and also

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<sup>112</sup> European External Action Service (n 35) 13.

<sup>113</sup> *ibid.*

<sup>114</sup> *ibid.*

creation of economic opportunity through the sustainable development of the medicinal plants sector.

*iii. Support to the Livestock Sector*

The livestock sector received a project fund of around €4.6 million. It was recognized as one of the priority areas in order to reduce rural poverty, to enhance food security by increasing the country's self-sufficiency in livestock products.<sup>115</sup>

*iv. Support to the Agriculture Sector*

This sector received an assistance of €5 million with the objective of increasing potential and productivity of agricultural yield. The sector needed more input in terms of innovation and technology. Agriculture was found to be labour-intensive and low-yielding. In order to improve on these weaknesses, the EU assistance concentrated on efficient crop production methods that involved minimum costs. The primary aim of the project was to enable successful marketing of Bhutanese agricultural products in the future by bringing the agricultural products nearer to international standards and by helping to set quality control measures within the country.<sup>116</sup>

*v. Trade Capacity Development Project*

This sector received a fund of €1.2 million with the aim of developing export capacity especially in the private sector and its supporting infrastructures. The fund also supported Bhutan's ongoing accession process into the WTO.<sup>117</sup>

### **3.1.2 The European Commission's Response Strategy Paper (2007-2013)**

When the CSP 2007-2013 was formulated, Bhutan was in the process of implementing its 9<sup>th</sup> Five-Year Plan (FYP): 2002-2008. As a result, the strategy paper was in line with the policies of the 9<sup>th</sup> FYP and in support of development goals formulated therein. Despite improvements in living standard and economic progress, Bhutan had a considerably high rate of poverty. A poverty

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<sup>115</sup> *ibid.*

<sup>116</sup> *ibid.*

<sup>117</sup> *ibid.*



assessment carried out in 2004 indicated that Bhutan's national poverty rate was 31.7%, while the poverty in rural areas was assessed to be 38.3%.<sup>118</sup>

Under the present CSP, the scope of EU's development commitments towards Bhutan covered the following three main areas:

**i. Renewable Natural Resources (RNR):**

The EU continued its assistance in the RNR sector under this CSP with the primary objective of assisting Bhutan in achieving the sustainable development of RNR sector through creating an enabling environment and further development of its institutional regulatory frameworks.<sup>119</sup> Under this CSP, the RNR sector was allocated 60% of the total EU support.<sup>120</sup>

**ii. Good Governance:**

The government of Bhutan recognised the importance of decentralisation since a long time by encouraging increased participation of people at the grassroots level in the decision-making process. Decentralisation promotes participation of people in the policy and decision-making processes, thereby giving their voice more importance. This leads to pluralistic views as it promotes a greater participation of people in the governance, which is an essential element of democracy. Since democracy is one of the founding values of the EU,<sup>121</sup> democratization process continues to be an important area for EU support in many developing countries, including Bhutan. The aim of the EU assistance in this area was to strengthen the capacity of the government of Bhutan and other institutions for a smooth transition to democracy and the establishment of a sustainable democracy.<sup>122</sup> This sector was allocated 20% of the CSP allocation, and the EU focused on best practices in good governance, decentralised decision-making and best practices in development, including innovative methods to improve delivery of services to address poverty, gender issues, institutional reforms and public sector management.<sup>123</sup>

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<sup>118</sup> Royal Government of Bhutan, 'Bhutan National Human Development Report 2005: The Challenge of Youth Employment', p. 53.

<sup>119</sup> European External Action Service (n 35) 1.

<sup>120</sup> *ibid*, p. 16.

<sup>121</sup> The Treaty on European Union, Preamble and art 2.

<sup>122</sup> European External Action Service (n 119).

<sup>123</sup> *ibid*, p 17.

### iii. Trade Facilitation:

Bhutan's participation in global trade and economy is negligible due to a number of reasons – lack of trade diversity being the most prominent one, and the small size of the economy is another reason behind it. Moreover, trade is also hampered by Bhutan's land-locked nature because of which the northern-most parts of Bhutan are almost inaccessible. Trade facilitation was identified as the third focal area of EU assistance and received 20% of the CSP fund allocation. The main tasks considered by the EU support in this sector were to strengthen the export capacity of Bhutan, especially by enhancing the capacity of the Bhutan Chamber of Commerce and Industry along with other private sector stakeholders to facilitate private sector exporters and improve the quality of the export products.<sup>124</sup>

The strategy paper highlights that Bhutan has sufficient hydropower resources to be a major regional source of electricity.<sup>125</sup> However, environmental concerns limits the harnessing of the full potential for hydropower generation, which is estimated to be about 30,000 MW, of which 23,760 MW has been identified as economically feasible. As of today, there are four major hydropower plants with several others in the process of construction. The four hydropower plants and their capacity of power generation are indicated in the table below:

*Table 1. Hydropower Plants and their capacities*<sup>126</sup>

Sl. No.	Hydropower Plant	Capacity
1.	Bashochhu Hydropower Plant	64 MW
2	Chhukha Hydropower Plant	336 MW
3	Kurichhu Hydropower Plant	60 MW
4	Tala Hydropower Plant	1020 MW
5	23 other hydropower plants	8 MW
Total		1488 MW

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<sup>124</sup> *ibid.*

<sup>125</sup> European External Action Service (n 35).

<sup>126</sup> 'DGPC | Bhutan Electricity Authority' <<http://www.bea.gov.bt/dgpc/>> accessed 17 July 2018.

The above table shows that not even half of the total hydropower potential of 30,000 MW has not been harnessed, showing the huge potential it holds for the Bhutanese economy. In fact, the revenue generated from these hydropower plants has been the primary driver behind the rapid growth of Bhutan's economy over the past several years.<sup>127</sup>

The strategy paper points out that the other industries are minimal and labour intensive, which are mostly economic ventures engaged in the production of handcrafts and textile products. These sectors have seen considerable improvements in the past several years due to concerted efforts and initiative by various civil society organisations (CSOs) and non-governmental organisations (NGOs). Similar to the current scenario, tourism was the largest hard currency generator within the services sector that saw a growth reaching double-digit rates during the 1990s. According to the strategy paper, per capita income had increased from US\$ 51 in 1961, which was the lowest in the world at that time to US\$ 870 in 2005, one of the highest in South Asia.<sup>128</sup> This shows the steady and impressive economic growth and improvement of living standard in Bhutan over the decades. The country's real annual economic growth averaged about 7-8 per cent over the last two decades and grew by 6.8% in 2003.<sup>129</sup>

### **3.2 Multiannual Indicative Programme (MIP): 2014-2020**

The Multiannual Indicative Programme (MIP) 2014-2020 points out that the modernisation process in Bhutan has led to positive results not only in terms of political stability, but also economic growth and accelerated growth towards Millennium Development Goals (MDGs) targets.<sup>130</sup> The strong economic growth Bhutan has experienced over the years has enabled the government to support poverty reduction initiatives and advance social development despite the growing gaps between development of urban and rural areas.<sup>131</sup>

The MIP stresses Bhutan's democratisation and modernisation processes as the main strategic objectives of EU-Bhutan cooperation, with special emphasis on the Royal Government of Bhutan's

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<sup>127</sup> European External Action Service (n 35) 4.

<sup>128</sup> Royal Government of Bhutan, 'Bhutan National Human Development Report 2005: The Challenge of Youth Employment', p. 44.

<sup>129</sup> European External Action Service (n 127).

<sup>130</sup> *ibid*, p. 3.

<sup>131</sup> *ibid*.

effort to reduce poverty through inclusive socio-economic development and growth.<sup>132</sup> Besides its assistance to strengthen democratic governance mechanism and support developmental activities, the EU continues to support efforts to tackle climate change which is seen as a serious threat to sustainable development. In order to maximise impact and contribution to development outcomes, the EU and the Gross National Happiness Commission agreed that the focus of EU's assistance for 2014-2020 to be mainly on two sectors:

- i. Good Governance (Fourth Pillar of GNH); and
- ii. Renewable natural resources, while also addressing cross-cutting issues under the FYP in EU-funded programmes and projects.<sup>133</sup>

The EU assistance and commitment to helping Bhutan in achieving its development goals was further encouraged by the fact that Bhutan was assessed positively with regard to the fulfilment of EU Budget Support (BS) eligibility criteria, which is 'a stability-oriented macroeconomic policy, progress in Public Finance Management (PFM) systems, transparency of the budget and appropriate sector policies for the chosen sectors.'<sup>134</sup>

The different sectors of EU assistance in Bhutan under the MIP 2014-2020 are highlighted below, while the detailed discussion will be covered in the latter chapters.

### **3.2.1 Sector 1: Local Authorities and Civil Society**

The first area of EU assistance, good governance, according to the objectives of the 11<sup>th</sup> Five-Year Plan, specifically focused on the following three areas:

#### *i. Fiscal Decentralisation and Capacity Development for Local Governments*

An able and active involvement of local governments is an important element of a successful democratic governance. For the same reason, Bhutan has been according importance to decentralisation and devolution of power to lower levels of governance. The division of responsibilities framework was developed in 2012 to facilitate the distribution of resources between the centre and the local governments.<sup>135</sup> The framework was guided by the principle of subsidiarity, which envisaged that 'the provision of public goods and services should take place at the lowest level of the government and that the centre should be involved only when the lower

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<sup>132</sup> *ibid.*

<sup>133</sup> *ibid.*, p. 4.

<sup>134</sup> *ibid.*, p. 5

<sup>135</sup> Gross National Happiness Commission, *Eleventh Five Year Plan 2013-2018*, vol I (2013) p. 249.

levels of government cannot provide the goods and services efficiently.’<sup>136</sup> The importance of strengthening local governance finds an important place in the Constitution of Bhutan as well. Article 22 (1) of the Constitution provides that ‘Power and authority shall be decentralised and devolved to elected Local Governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being.’<sup>137</sup>

The Local Government Act 2007, and the first and second local government elections in 2011 and 2016 respectively further strengthened the processes of decentralisation of power and resources to the local governments at district and block levels. The Royal Government of Bhutan and a group of development partners – Denmark, Austria, Netherlands, UN Development Programme, United Nations Capital Development Fund and Switzerland signed a Memorandum of Understanding (MoU) on the ‘Partnership for Good Governance 2008-2013.’<sup>138</sup> The MoU defined a five-year Local Governance Support Programme (LGSP) and had a budget of US \$17.58 million. The Department of Local Governance under the Ministry of Home and Cultural Affairs was tasked with the implementation of the programme with special focus on fiscal decentralisation, capacity development and financial management of the local government and integrated public service delivery.<sup>139</sup>

The EU became a signatory to the above MoU on ‘Partnership for Good Governance’ in 2011 after which it started funding the LGSP. It provided a support of €2.8 million particularly to support the Annual Capital Grant facility of the Royal Government of Bhutan, which was aimed at ensuring transfer of budget from the central to local level. Upon evaluation by the Gross National Happiness Commission of the LGSP in 2013, it commended the programme as a ground-breaking flagship project supporting local governance through innovative practices for decentralisation, local capacity development, and service delivery. It also recommended that the programme may be extended to further strengthen its achievements.<sup>140</sup>

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<sup>136</sup> *ibid.*

<sup>137</sup> The Constitution of the Kingdom of Bhutan, art 22(1).

<sup>138</sup> European External Action Service (n 60) 4.

<sup>139</sup> *ibid.*

<sup>140</sup> *ibid.*

## *ii. Capacity Development of Civil Society*

Civil Society Organisations (CSOs) is a relatively recent phenomenon in Bhutan as their emergence started only since 2008. The EU shared the view that CSOs in Bhutan need assistance in strengthening its civil society more than ever as it became the world's youngest democracy in 2008. CSOs are seen as important actors in democratic societies in the arena of public policy as they can advocate public opinion and play an important role in the decision-making process. The EU envisaged that the capacity development for CSOs should be carried out along the lines developed in the European Commission's Communications of 12<sup>th</sup> September 2012 related to Europe's engagement with Civil Society in external relations.<sup>141</sup> The main priorities of EU assistance in this area, in coordination with other development partners, were strengthening the civil society through projects, capacity development for management and organization, and through supporting dialogue between CSOs and public institutions at central and local levels. The EU made a budget commitment of €4 million towards capacity development of CSOs as part of the MIP 2014-2020.<sup>142</sup>

## *c) Public Finance Management (PFM) Reform*

The EU assistance towards Public Finance Management (PFM) reform was found necessary in order for Bhutan to make efficient use of budget support, to promote good governance and also to facilitate fiscal decentralisation.<sup>143</sup> Decentralisation of roles and functions for governance would not lead to achievement of its goals without fiscal decentralisation. The power to allocate capital to fund various development projects would ensure that the local government leaders will enjoy the freedom to use the funds in areas of priority. However, they must have a certain level of understanding on public finance management for efficient use of the available funds. Under the current MIP, the EU-Bhutan policy dialogue on PFM reforms and their assessment found that further technical assistance was needed on procurement system, tax regulations and tax payer registration and fiscal decentralization.<sup>144</sup>

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<sup>141</sup> *ibid*, p. 6.

<sup>142</sup> *Annex of the Commission Implementing Decision on the Annual Action Programme 2016 Part 2 in favour of Bhutan for Support to Civil Society in Bhutan*, p. 3.

<sup>143</sup> European External Action Service (n 60) 6.

<sup>144</sup> *ibid*.

### 3.2.2 Sustainable Agriculture and Forestry

The MIP 2014-2020 focuses on sustainable agriculture and forestry as well in line with the 11<sup>th</sup> FYP of the Royal Government of Bhutan. RNR is seen as a sector that contributes to all the four pillars of GNH, and in particular to the 1<sup>st</sup> pillar – equitable and sustainable socio-economic development, and the 3<sup>rd</sup> pillar – preservation of the environment.<sup>145</sup> The contribution of agriculture to GDP had declined to 16% of GDP in 2012 as compared to 35% in 1990, even though it saw a higher annual growth rate of 3.44% in 2012 from 2% during 2004-2008.<sup>146</sup> One reason behind the reduced share of agriculture’s contribution to the total GDP can attributed to the growth and strong performance of other sectors, whereas the limited arable land of Bhutan remains a constraint to realize the benefits of large-scale agriculture.

Bhutan is highly dependent on imports of food products from India. Bhutan recognizes the importance of RNR in its development policies because of its potential to help enhance food security, better nutrition, reduce poverty, and also to generate export earnings while also leading to reduction of food imports from India. Some of the key objectives of the EU support to achieve the goals of 11<sup>th</sup> FYP were improving food security and rural livelihood, generating employment, accelerating sector growth through commercial farming and enterprises, and promoting sustainable use of natural resources.

*Table 2: Financial Overview (Indicative Amounts)*<sup>147</sup>

Sl. No.	Sector/Areas of Support	Amount
1.	Local Authorities and Civil Society	€24 million
	i) Fiscal decentralization and capacity development for local authorities	€17 million
	ii) Capacity development for civil society	€4 million
	iii) Public Finance Management reform	€3 million

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<sup>145</sup> *ibid.*

<sup>146</sup> *ibid.*

<sup>147</sup> *ibid.*

2.	Sustainable Agriculture and Forestry i) Support to RNR 11 <sup>th</sup> FYP	€16.5 million €16.5 million
3.	Support Measures i) Identification, formulation, other ad hoc studies, outreach and visibility actions	€1.5 million €1.5 million
Total		€42 million

*Note:* It is reported that the EU revised its commitment to MIP 2014-2020 by €3.5 million making it €45.5 million<sup>148</sup> but it could not be confirmed as to for which sectors the additional assistance is allocated.

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<sup>148</sup> ‘EU Assures Assistance beyond 2020 – KuenselOnline’ <<http://www.kuenselonline.com/eu-assures-assistance-beyond-2020/>> accessed 25 July 2018.



## CHAPTER 4: RENEWABLE NATURAL RESOURCES AND GOOD GOVERNANCE

### 4.1 Renewable Natural Resources (RNR)

The commencement of the EU assistance to Bhutan focused on renewable natural resources sector.<sup>149</sup> The strategy on the RNR sector included livestock, agricultural production and extension and integrated pest management. During the period spanning from 1980s to 1990s, the EU focused its assistance on providing trainings to a large number of agricultural extension workers mainly in helping farmers to increase crop yields. Following this, since early 2000, the EU has begun to support marketing, livestock development and the production and distribution of traditional medicine.<sup>150</sup> Assistance in the construction of farm roads, irrigation channels, and providing seeds along with training of farmers to improve farming practices and market access have led to an increase in revenues, especially in rural areas. Moreover, improved quality and availability of fodder, coupled with improved animal health services have contributed to livestock becoming an important source of income for many farmers in Bhutan.<sup>151</sup> Respect for human dignity and alleviation of poverty through liberalization of trade and economy are important values on which the EU bases its development cooperation. Improved farming techniques and enhanced quality of livestock health services have directly contributed to better food security, which, in turn, contributes to reduction of poverty.

Self-sufficiency has been a long-term goal of Bhutan's development plans since a long time. In fact, the objective of the 11<sup>th</sup> FYP was '*Self-reliance and Green Inclusive Socio-Economic Development*'.<sup>152</sup> *Self-Reliance* means being able to meet all national development needs as articulated through the FYPs; *Inclusive Social Development* aims at reducing poverty and inequality by enhancing living standard and the quality of life of the most vulnerable sections of our society, while *Green Development* refers to the country's development taking place in a carbon neutral manner at all times.<sup>153</sup> The 11<sup>th</sup> FYP was largely formulated as an important platform for achieving three key and related national milestones by the year 2020, which are also the objectives articulated in Vision

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<sup>149</sup> 'Bhutan and the EU - European External Action Service' <[https://eeas.europa.eu/delegations/india/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/delegations/india/2062/bhutan-and-eu_en)> accessed 11 July 2018.

<sup>150</sup> *ibid.*

<sup>151</sup> *ibid.*

<sup>152</sup> Gross National Happiness Commission, *Eleventh Five Year Plan 2013-2018*, vol I (2013), p. 3.

<sup>153</sup> *ibid.*, p. 13.

2020.<sup>154</sup> The three key objectives were self-reliance, full employment and graduating from the list of Least Developed Countries (LDCs). Additionally, it also has set out enhancing food security, growth of the agricultural sector, improving rural livelihoods and promotion of sustainable management of the natural resources as some of key priorities.<sup>155</sup>

Bhutan has been striving to reduce poverty rate in the country, which is particularly high in the rural areas of the country. Incidence of poverty was high due to a number of factors. Reduction of poverty is happening in the right direction as the poverty rate has reduced below 10% for the first time in Bhutan's history in 2017.<sup>156</sup> Consistent support and assistance from donors including the EU in the relevant sectors and measures taken by the Royal Government of Bhutan are yielding positive results in alleviation of poverty.

To continue the support for the sustainable agriculture and rural development, the Royal Government of Bhutan and the EU launched a new €21.5 million Rural Development and Climate Change Response Programme on 12<sup>th</sup> April 2017.<sup>157</sup> The project is aimed at providing support for sustainable agricultural development and climate change adaptation in Bhutan. It was launched by the Prime Minister of Bhutan with Dr. Johann Hesse, head of Cooperation, EU Delegation for Bhutan, which is based in New Delhi, India.<sup>158</sup> The sustainability of renewable natural resources is closely intertwined with the aspects relating to climate change. Climate change has become a serious threat globally and Bhutan, which is located in a geographically fragile region, is highly susceptible to the adverse effects of climate change, which is discussed in greater in a latter part of this thesis. The main objective of the above project is to assist the government of Bhutan in implementation of reforms aimed at making rural communities more resilient to climate change.<sup>159</sup>

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<sup>154</sup> *ibid*, p. 4.

<sup>155</sup> ““Rural Development and Climate Change Response Programme” Launched Today, to Support Sustainable Agricultural Development and Climate Change Adaptation in Bhutan. - European External Action Service’ <[https://eeas.europa.eu/delegations/india/24682/rural-development-and-climate-change-response-programme-launched-today-support-sustainable\\_en](https://eeas.europa.eu/delegations/india/24682/rural-development-and-climate-change-response-programme-launched-today-support-sustainable_en)> accessed 17 July 2018.

<sup>156</sup> ‘NSB’ <<http://www.nsb.gov.bt/publication/publications.php?id=2>> accessed 25 July 2018.

<sup>157</sup> ‘Rural Development and Climate Change Response Programme in Bhutan | Global Climate Change Alliance+’ <<http://www.gcca.eu/rural-development-and-climate-change-response-programme-in>> accessed 11 July 2018.

<sup>158</sup> *ibid*.

<sup>159</sup> *ibid*.

Some key actions under the programme are construction of rural roads and irrigation facilities, increased use of resilient seeds and livestock breeds and efficient natural resource management.<sup>160</sup> Programmes to combat adverse effects of climate change on agricultural sector, such as the abovementioned, are crucial due to Bhutan's vulnerability to climate change and its high dependence on agriculture. If a vulnerable country like Bhutan does not have access to new ideas and methods to introduce agricultural practices that are resilient to adverse effects of climate change, it will be a big obstacle to realization of food security and alleviation of poverty in the long run. The Rural Development and Climate Change Response Programme funded by the EU through a combination of geographical development instrument (€16.5 million) and the thematic Global Climate Change Alliance programme (€5 million) is divided into two components.<sup>161</sup>

#### **4.2 Local Governments**

A main focus of the Royal Government of Bhutan under the 11<sup>th</sup> Five-Year Plan (2013-2018) has been greater decentralisation by devolving more power and resources to the local 'gewog' (block) and 'dzongkhag' (district) levels of government. The 11<sup>th</sup> Five-Year Plan (FYP) allocated a substantially higher amount of budget compared to the 10<sup>th</sup> FYP. Under the 11<sup>th</sup> FYP, Nu. 25 billion, which is about 27% of the total capital budget of Nu. 92 billion was allocated to the Local Government.<sup>162</sup> Nu. 15 billion was exclusively allocated for districts and blocks, which was an increase of 25% over the 10<sup>th</sup> FYP allocation of Nu. 12 billion.<sup>163</sup> The division of responsibilities framework was developed in 2012 to facilitate the distribution of resources between the centre and the local governments.<sup>164</sup> The framework was guided by the principle of subsidiarity, which envisaged that 'the provision of public goods and services should take place at the lowest level of the government and that the centre should be involved only when the lower levels of government cannot provide the goods and services efficiently.'<sup>165</sup> The EU has been providing support to this sector and a new programme for 2017 had a budget of €16 million.<sup>166</sup>

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<sup>160</sup> *ibid.*

<sup>161</sup> "Rural Development and Climate Change Response Programme" Launched Today, to Support Sustainable Agricultural Development and Climate Change Adaptation in Bhutan. - European External Action Service' <[https://eeas.europa.eu/delegations/japan/24682/rural-development-and-climate-change-response-programme-launched-today-support-sustainable\\_en](https://eeas.europa.eu/delegations/japan/24682/rural-development-and-climate-change-response-programme-launched-today-support-sustainable_en)> accessed 16 August 2018.

<sup>162</sup> Gross National Happiness Commission (n 135) 254.

<sup>163</sup> *ibid.*, p. 252.

<sup>164</sup> *ibid.*, p. 249.

<sup>165</sup> *ibid.*

<sup>166</sup> 'Bhutan and the EU - European External Action Service' (n 48).

### 4.3 Public Finance Management (PFM)

A US \$4 million grant was signed between the Royal Government of Bhutan and the World Bank on 21<sup>st</sup> September 2017 with the objective of helping Bhutan manage public funds more effectively and improve procurement and budgetary systems.<sup>167</sup> The overarching goal of the grant is to strengthen delivery of public services and enhance governance. As the country experiences increasing economic development with large amounts of public finance to handle, it requires an efficient system of public financial management. Moreover, as stated by the Finance Secretary of Bhutan during the signing of the grant, the public financial management proposed through the grant will be instrumental in promoting and strengthening accountability, transparency, efficiency and effectiveness in the resource mobilisation and allocation of the public resources to achieve the development goals of Bhutan.<sup>168</sup>

Good governance is one of the four principles or pillars of Gross National Happiness (GNH). There is no internationally agreed definition of good governance, the European Commission understands it as a state of governance in which ‘the concepts of human rights, democratisation and democracy, the rule of law, civil society, decentralised power sharing and sound public administration gain importance and relevance, and society develops a more sophisticated political system.’<sup>169</sup> The concept of good governance in the context of Bhutan would not differ much as an efficient, transparent and accountable governance system has been an integral part of Bhutan’s notion of good governance.<sup>170</sup> The similar understanding of the concept of good governance in the context of GNH with that of the European Commission’s definition can be confirmed from the fact that political participation, political freedom, service delivery and government performance were used as four measures<sup>171</sup> to assess good governance during the second GNH Survey in 2010.

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<sup>167</sup> ‘Bhutan, World Bank Sign \$4 Million Grant Supported by European Union and Austrian Development Agency to Strengthen Management of Public Funds’ <<https://www.worldbank.org/en/news/press-release/2017/09/21/bhutan-world-bank-sign-4-million-grant-supported-by-european-union-and-austrian-development-agency-to-strengthen-management-of-public-funds>> accessed 14 July 2018.

<sup>168</sup> *ibid.*

<sup>169</sup> Renata Lok Dessallien, ‘Democracy, Good Governance and Happiness: Some Views from the Kingdom of Bhutan’ p. 6.

<sup>170</sup> ‘Lessons on Good Governance from the World’s Youngest Democracy | Challenges to Democracy Challenges to Democracy’ <<http://www.challengestodemocracy.us/home/lessons-on-good-governance-from-the-worlds-youngest-democracy/#sthash.loL2hvSt.dpbs>> accessed 14 August 2018.

<sup>171</sup> Karma Ura, Sabina Alkire and Tshoki Zangmo, ‘GNH and GNH Index’ [2012] The Centre for Bhutan Studies, p. 16-18.

A sound public financial management is an important component of good governance. The commencement of such projects as highlighted above with financial assistance from the EU and Austrian Development Agency (ADA) shows that these bodies do not only provide development aid in various sectors of Bhutan, but also invest in capacity building of the country to handle such public finance efficiently by ensuring accountability, transparency and efficient and effective delivery of public resources.

#### **4.4 Civil Society Organisations**

Civil Society Organisations (CSOs) are relatively new in Bhutan as they started to emerge only since 2008.<sup>172</sup> Thus, their ability to voice people's opinions and influence policy-making is still at an early stage, which underlines the clear need for more structured dialogue with CSOs in the public policy processes.<sup>173</sup> The EU envisages that such engagement and interaction with the CSOs should be done according to the guidelines developed in the European Commission's Communications of 12<sup>th</sup> September 2012 concerning Europe's engagement with Civil Society in external relations. The EU considers CSOs as including all non-State, not-for-profit structures, non-partisan and non-violent, through which people organise to pursue shared objectives and ideals, whether political, cultural, social or economic, and it especially engages with accountable and transparent CSOs that share EU's commitment to social progress and to the fundamental values of peace, freedom, equal rights and human dignity.<sup>174</sup> It emphasises in the above Communication that civil society participation in public policy processes and in policy dialogues not only leads to inclusive and effective policies<sup>175</sup> but also the fact that poor governance constrains development due to lack of accountability and transparency.<sup>176</sup> It also recognises that although it is mainly the responsibility of parliaments to hold governments to account, CSOs have an important role to play in boosting domestic accountability at local and national levels through a free, clear, accessible flow of information.<sup>177</sup> As a new democracy, it is even more important for Bhutan to support and

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<sup>172</sup> European External Action Service (n 60) 6.

<sup>173</sup> *ibid.*

<sup>174</sup> European Commission, 'Communication From the Commission to the European Parliament, The Council, The European Economic and Social Committee and The Committee of the Regions', p. 3.

<sup>175</sup> *ibid.*, p. 6.

<sup>176</sup> *ibid.*, p. 7.

<sup>177</sup> *ibid.*

promote the growth of CSOs for better dialogue between the government and the civil society for more accountability and responsibility.

Bhutan enacted the CSO Act in 2007 and established the CSO Authority in 2009.<sup>178</sup> Its Preamble provides that the Act is enacted in order to ‘strengthen civil society by developing human qualities and rendering humanitarian services’.<sup>179</sup> Thus, the overarching aim of the legislation is to promote CSOs in order to strengthen civil society, promote social welfare and to improve conditions and quality of life in Bhutan.<sup>180</sup> The CSO Authority is the regulatory authority that is responsible for registration of CSOs, communication and liaison between the CSOs and state institutions, monitor the activities of CSOs.<sup>181</sup> As of today, there are 51 CSOs registered with the CSO Authority.<sup>182</sup>

Development partners of Bhutan including Denmark, Austria, Netherlands and Switzerland started contributing since 2010 to the CSO Funds Facility, which was a temporary mechanism aimed mainly to enable non-state actors to contribute to Bhutan’s democratisation and modernisation processes.<sup>183</sup> The EU identified the civil society as one of the sectors that need assistance in the form of capacity development for management and organisation, and through dialogues between CSOs and public institutions.<sup>184</sup> The EU has earmarked €2.5 million for this project.<sup>185</sup>

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<sup>178</sup> ‘Civil Society Organization Authority’ <<http://www.csoa.org.bt/web/content/pageContent.php?id=8>> accessed 18 July 2018.

<sup>179</sup> The Civil Society Organisations Act of Bhutan 2007, Preamble, para 1.

<sup>180</sup> *ibid*, Chapter 3, sec 5, para 1.

<sup>181</sup> *ibid*, sec15.

<sup>182</sup> ‘Civil Society Organization Authority’ <<http://www.csoa.org.bt/web/content/pageContent.php?id=39>> accessed 18 July 2018.

<sup>183</sup> European External Action service (n 172).

<sup>184</sup> *ibid*.

<sup>185</sup> ‘Bhutan and the EU - European External Action Service’ (n 48).

## CHAPTER 5: CLIMATE CHANGE AND OTHER THEMATIC PROGRAMMES

### 5.1 Climate Change

Bhutan is a carbon-negative country, meaning that it stores more carbon than what it emits. However, that fact does not shield it from its vulnerability to climate change owing to the adverse impacts of rising temperatures and changing rain patterns in the Himalayas. Moreover, it is located in an extremely vulnerable geographical set-up that is prone to landslides and soil erosion if proper care is not taken to conserve forests in the rugged and mountainous terrains. Glacial Lake Outburst Floods (GLOFs) are a serious threat that Bhutan faces due to rising temperature, which results in accelerated melting of glaciers. Another adverse impact of climate change is irregular pattern in rainfall, which could result in the occurrence of long dry spells without adequate rain during crop cultivation leading to failure of crops unless there are adequate irrigation facilities. All these would pose a serious challenge in achieving Bhutan's goal of food security. Failure to achieve a minimum level of food security would not only hamper the goal to reduce food import, which already is taking place at a large scale, but also hamper efforts to reduce poverty.

Owing to all these important considerations, the EU has been forthcoming in its support to Bhutan in taking preventive measures and combating climate change. Climate change is a global phenomenon that is not restricted by regional or national borders and territories. As such, it truly has to be a collective global effort to minimise the causes that lead to climate change. EU is an active international actor that takes the concerns of climate change seriously. In this context, the next paragraphs deal with some of the projects and programmes that are initiated and funded by EU, from which Bhutan has benefited in one way or the other.

#### 5.1.1 Global Climate Change Alliance (GCCA)

The GCCA was formally proposed in a 2007 Commission Communication<sup>186</sup> with the objective 'to strengthen dialogue and cooperation with developing countries, in particular least developed

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<sup>186</sup> European Commission (2007) "Communication from the Commission to the Council and the European Parliament: Building a Global Climate Change Alliance between the European Union and poor developing countries most vulnerable to climate change" (COM (2007)054).

countries (LDCs) and small island developing States (SIDS).<sup>187</sup> Subsequently the European Parliament passed a resolution on the same in 2008.<sup>188</sup> After it initially started its work in four pilot countries, today it has expanded and is active in as many as thirty-eight countries, eight regions and sub-regions.<sup>189</sup> As one of the most important climate change initiatives in the world, the GCCA currently has a budget of more than €300 million. The actions in the GCCA are in line with the objective of EU development cooperation programme which is to reduce poverty and eradicate it in the long run. LDCs and SIDS will be hit hardest according to the projects of the effects of climate change based on the scientific data analysed by the Intergovernmental Panel on Climate Change (IPCC).<sup>190</sup> Climate change is seen as a major threat to achievement of MDGs and a challenge to poverty reduction in developing countries. The programme does not have any benefit to the EU but is furtherance of its poverty reduction efforts through aid effectiveness and integrating climate change into national development planning as the primary aim of the GCCA.<sup>191</sup>

The Alliance helps ensure that poor developing countries, which are most vulnerable to climate change, increase their capacities to adapt to the effects of climate change by fostering effective dialogue and cooperation on climate change. A new phase of the GCCA called the GCCA+ began under the European Commission's new Multiannual Financial Framework (2014-2020).<sup>192</sup> The GCCA+, with the aim of boosting the efficiency of its response to the needs of vulnerable countries and groups, has identified the two following mutually reinforcing pillars: 1) the GCCA+ serves as a platform for dialogue and exchange of experience between the EU and developing countries.;<sup>193</sup> and 2) the GCCA+ acts as a source of technical and financial support for those countries, which are most vulnerable to climate change and its adverse effects.

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<sup>187</sup> 'What Is the GCCA/GCCA+? | Global Climate Change Alliance+' <<http://www.gcca.eu/about-the-gcca/what-is-the-gcca>> accessed 11 July 2018.

<sup>188</sup> Building a Global Climate Change Alliance P6\_TA (2008)0491 European Parliament resolution of 21 October 2008 on building a Global Climate Change Alliance between the European Union and poor developing countries most vulnerable to climate change (2008/2131(INI)).

<sup>189</sup> 'What Is the GCCA/GCCA+? | Global Climate Change Alliance+' (n 189).

<sup>190</sup> European Commission, *Using Innovative and Effective Approaches to Deliver Climate Change Support to Developing Countries* (2011), p. 5.

<sup>191</sup> 'What Is the GCCA/GCCA+? | Global Climate Change Alliance+' (n 189).

<sup>192</sup> *ibid.*

<sup>193</sup> *ibid.*



Under the GCCA funding scheme, the EU is assisting the government of Bhutan in planning and implementing climate change adaptation measures mainly in the agriculture, livestock and forestry sectors under the 11<sup>th</sup> Five Year Plan.<sup>194</sup> A Financing Agreement was signed between the European Union and Bhutan by the former EU Ambassador to Bhutan and the former Agriculture and Forests Minister on 30<sup>th</sup> November 2012.<sup>195</sup> The agreement formalised the EU's support to Bhutan under the GCCA programme with an EU pledge of €4.4 million. Some of the key achievements of the GCCA-supported climate change initiatives in Bhutan include reduction in the import of liquefied petroleum gas (LPG) for rural households, increase in milk-production, improved breeds of cattle against heat stress, and providing alternative livelihood to farmers.<sup>196</sup>

## **5.2 European Civil Protection and Humanitarian Aid Operations (ECHO)**

Article 214 of TFEU provides that the Union's operations in the field of humanitarian aid shall be conducted within the framework of the principles and objectives of the external action of the Union with the main objective of providing ad hoc assistance and relief and protection for people in third countries who are victims of natural or man-made disasters.<sup>197</sup> It also provides that the humanitarian aid operations shall be conducted in compliance with the principles of international law and with the principles of impartiality, neutrality and non-discrimination.<sup>198</sup>

The EU humanitarian aid is in line with the principle of solidarity among the Member States as provided under the Lisbon Treaty, which also states that the EU's operations in the field of humanitarian aid shall be conducted within the framework of the principles and objectives of the external action of the EU, and that such operations shall be with the intention to provide ad hoc assistance and relief and protection for people in third countries who are victims of natural or man-

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<sup>194</sup> External Action Service, 'Bhutan and the EU - European External Action Service'

<[https://eeas.europa.eu/delegations/india/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/delegations/india/2062/bhutan-and-eu_en)> accessed 9 July 2018.

<sup>195</sup> 'EU To Support Bhutan Under Global Climate Change Alliance - CLIMATE HIMALAYA'

<<http://chimalaya.org/2012/12/07/eu-to-support-bhutan-under-global-climate-change-alliance/>> accessed 17 July 2018.

<sup>196</sup> 'Climate Change Adaptation in Bhutan's Renewable Natural Resources Sector' <<https://rtm.gnhc.gov.bt/climate-change-adaptation-in-bhutans-renewable-natural-resources-sector/>> accessed 22 July 2018.

<sup>197</sup> Treaty on the Functioning of the European Union, art 214, para 1.

<sup>198</sup> *ibid*, para 2.

made disasters.<sup>199</sup> The ECHO has been providing assistance to those people who are in need since 1992 with an annual humanitarian budget of over €1 billion.<sup>200</sup>

The ECHO started its presence in Bhutan since 2011. The main task of the Directorate-General of ECHO in Bhutan has been to provide support and enhance the capacity of local communities to mitigate and minimize the risk of future natural disasters.<sup>201</sup> It commenced its work through school-based disaster management and health emergency preparedness interventions to achieve the above goals. The ECHO has contributed more than €1.5 million towards conducting disaster preparedness programmes in Bhutan till date.<sup>202</sup> The activities carried out under its mandate are highly relevant in Bhutan mainly because of the latter's geographical location. Some of the imminent natural hazards Bhutan is prone to are floods during the monsoon, landslides, droughts due to erratic rainfall pattern and earthquakes. Given these threats and high vulnerability of Bhutan to them, one of the aims central to and at the heart of ECHO operations in Bhutan is 'preparing the local communities to better respond to natural disasters.'<sup>203</sup>

School disaster management initiatives under the funding of ECHO has been focusing on the development of a comprehensive management plan to strengthen preparedness, and to ensure risk reduction and response capacities of Bhutan's education sector. Some of the results of the school-based and community-based actions over the past several years include the implementation of school safety measures, the development of safety training manuals and also introduction of safety training.<sup>204</sup>

Expanding its area of programme, the ECHO also funded a health emergency preparedness project since 2013. The health emergency preparedness project was introduced in order to improve the capacity of health facilities in order to respond to large-scale disasters such as earthquakes. Emergency preparedness in key health facilities is given priority to ensure that the institutional

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<sup>199</sup> Treaty on the Functioning of European Union, Art. 214.

<sup>200</sup> 'Humanitarian Aid - European Commission' <[http://ec.europa.eu/echo/what/humanitarian-aid\\_en](http://ec.europa.eu/echo/what/humanitarian-aid_en)> accessed 18 July 2018.

<sup>201</sup> 'Bhutan and the EU - European External Action Service' (n 48).

<sup>202</sup> *ibid.*

<sup>203</sup> *ibid.*

<sup>204</sup> *ibid.*

capacity to respond to emergencies is strengthened, and for the targeted health centres to remain functional - being able to provide essential medical services and support in times of disaster.

The government of Bhutan has been actively involved in carrying out safety campaigns for precaution during natural disasters like floods and earthquakes especially in schools. As Bhutan is situated in the seismically active Himalayan mountain belt,<sup>205</sup> earthquakes happen often. Recognising this fact, the government has undertaken many initiatives, one of which was to enhance emergency response capability of schools. The government circulated guidelines to prepare school disaster plans and mock drills are conducted from time to time for this purpose.<sup>206</sup> Some of the reasons why schools are given priority in this concern are because schools are densely populated areas, that too of young children with high vulnerability. The Department of Disaster Management, the authority which looks after concerns of natural calamities and disasters in Bhutan, has already started the School Safety Programme.<sup>207</sup> A few of the school buildings in Bhutan are built of earthquake-resistant materials, that is capable of standing impact of earthquakes.

### **5.3 Sustainable Tourism**

The need to diversify trade and economy from heavy reliance on hydropower resources is a serious concern for the government of Bhutan. Trade and export diversification were some areas of focus other than RNR sector between the EU and Bhutan under the CSP 2002-2006 and CSP 2007-2013. They were seen as essential in supporting Bhutan to enhance its trade and investment environment, which in turn, would help it participate effectively in the multilateral trading system and global economy.<sup>208</sup> Tourism is rightly seen as one of the alternative sectors that can play a crucial role in generating revenue and enhancing people's standard of living.

Bhutan has a huge potential for tourism industry. It is increasing becoming a favourite destination among the tourists because of a number of reasons. Most of the settlements in Bhutan still follow traditional lifestyle, which is very unique and simple. This factor attracts many cultural tourists.

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<sup>205</sup> 'Department of Disaster Management' <[http://www.ddm.gov.bt/school\\_safety](http://www.ddm.gov.bt/school_safety)> accessed 23 July 2018.

<sup>206</sup> *ibid.*

<sup>207</sup> *ibid.*

<sup>208</sup> European External Action Service (n 35) 12.

Likewise, Bhutan was not known by the outside world until few decades back, and many people still do not have an idea about its existence as a sovereign State, let alone its location. This element gives it an element of curiosity and mysticism. These factors, combined with Bhutan's pristine natural environment, with clean air not polluted by big factories and manufacturing plants attract many tourists.

Bhutan is endowed with a great variety of vegetation in its natural environment ranging from tropical forests in the southern foothills to the alpine vegetation in the north. It has been dubbed as the 'crown jewel' of the Eastern Himalayas – a region that has been recognised as a global biodiversity hotspot.<sup>209</sup> The number of tourists visiting Bhutan are increasing every year. However, putting in place adequate laws and regulations to ensure a sustainable tourism industry is very important to prevent the adverse impacts of a growing tourism sector.

As addressed in his 2014 annual State of the Nation, the Prime Minister of Bhutan stated that the government would focus and further develop and enhance the five jewels of Hydropower, Cottage and Small Industries, Mining, Tourism and Agriculture to ensure self-reliance.<sup>210</sup> Tourism sector in Bhutan has experienced impressive growth over the years. The number of tourists visiting Bhutan increased from 116,000 in 2013 to 255,000 in 2018, which is equivalent to more than a 100% increase in the number of tourists in five years. This growth in tourism increased the revenue generated from tourism to Nu. 8.4 billion in 2017 from what was Nu. 5.5 billion in 2013.<sup>211</sup>

The growth in tourism industry has not only resulted in increased revenues but has also created employment opportunities for tour operators and tour guides. The number of tour operators increased to 3,100 from 1,100 in 2012, while the number of tour guides saw an increase to 4,000 from 1,900 in 2012.<sup>212</sup> Likewise, the number of hotels catering to tourists in Bhutan increased from 900 in 2012 to 1,400.

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<sup>209</sup> Gross National Happiness Commission (n 138).

<sup>210</sup> Royal Government of Bhutan, 'Economic Development Policy 2017', p. 7.

<sup>211</sup> Royal Government of Bhutan, 'State of the Nation 2018', p. 22.

<sup>212</sup> *ibid.*

### 5.3.1 Bhutan's Tourism Policy and Sustainable Tourism

Bhutan recognizes that unregulated tourism would lead to adverse impacts on the country's resources and environment in the long run. The government of Bhutan has put in place stringent regulations on tourism industry in the country. The tourism policy of Bhutan is based on the principle of 'High Value, Low Impact'. Regulating the number of tourists, according to this policy, should be done through high tariff on tourists which will ensure that only a manageable number of tourists will visit the country, yet they will be of high worth and value to the country's economic health and progress. Bhutan's tourism industry is founded on the principle of sustainability, which entails that tourism must be environmentally and ecologically friendly, socially and culturally acceptable and economically viable.<sup>213</sup> The concept of sustainability in Bhutan's context also means that the tourism industry should be viable not only for the present benefits but also for the future generations.

The EU is supporting sustainable tourism in Bhutan with a grant from its SWITCH Asia Programme,<sup>214</sup> which is funded through its Development Cooperation Instrument<sup>215</sup> created by Regulation (EU) No 233/2014 of the European Parliament and of the Council on 11<sup>th</sup> March 2014.<sup>216</sup> The programme aims to contribute to economic prosperity, poverty reduction and climate change mitigation through sustainable tourism.<sup>217</sup> The SWITCH Asia project had a total budget of €1, 205, 654.60, ninety percent of which was EU contribution.<sup>218</sup> The Bhutan Tourism Monitor 2017 states that 254, 704 tourists visited Bhutan in 2017 – an increase of 21.5% over 2016.<sup>219</sup> In 2017, tourism sector generated a government revenue of US \$ 22.361 million.<sup>220</sup>

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<sup>213</sup> 'Tourism Policy | Tourism Council of Bhutan' <<https://www.tourism.gov.bt/about-us/tourism-policy>> accessed 13 July 2018.

<sup>214</sup> 'Bhutan and the EU - European External Action Service' (n 48).

<sup>215</sup> 'SWITCH-Asia.Eu - Funding' <<http://www.switch-asia.eu/programme/funding/>> accessed 8 August 2018.

<sup>216</sup> European Parliament and Council of the European Union, 'Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 Establishing a Financing Instrument for Development Cooperation for the Period 2014-2020' [2015] Official Journal of the European Union L77/44.

<sup>217</sup> 'SWITCH-Asia.Eu - Tourism in Bhutan' <<http://www.switch-asia.eu/projects/tourism-in-bhutan/>> accessed 18 July 2018.

<sup>218</sup> *ibid.*

<sup>219</sup> Tourism Council of Bhutan, 'Bhutan Tourism Monitor', p. 11.

<sup>220</sup> *ibid.*, p. 25.

## CHAPTER 6: SOME OUTCOMES AND IMPLICATIONS OF EU ASSISTANCE TO BHUTAN

### 6.1 The Current Status of Poverty and Good Governance in Bhutan

After going through the materials available on the EU assistance to Bhutan, one is able to discern that the core objectives of the EU programmes in Bhutan are to firstly, reduce poverty and eradicate it in the long run and secondly, to strengthen democratic institutions and good governance. These are also among the central concerns of the development policies of Bhutan, which the objectives of the EU assistance are based on. In fact, good governance is the one of the core concerns under the philosophy of GNH. A good system of governance is seen as the prerequisite to achievement of other socio-economic development goals.

First, poverty is a multi-faceted concern, which is not possible to be reduced by working on a single sector or area. For instance, when we talk about poverty, the first thing that comes to one's mind is about food security. Most of us would assume that people living under the poverty line are those who do not have enough food for consumption and livelihood. But upon a deeper thought, poverty encapsulates many elements, which fall short among the population living under the poverty line, which, although quite arbitrary, was set at \$1 a day in the late 1990s was revised to \$1.90 a day in September 2015 according to the UNDP.<sup>221</sup>

On the other hand, the essential understanding of poverty by EU is based on the definition first agreed by the Council of the European Communities in 1975: *'Persons beset by poverty: individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member State in which they live.'*<sup>222</sup> An elaborated definition states that 'because of their poverty, people may experience multiple disadvantages through unemployment, low income poor housing, inadequate health care and barriers to lifelong learning,

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<sup>221</sup> UNDP, 'UNDP and the Concept and Measurement of Poverty' Issue Brief, p. 1.

<sup>222</sup> Koen Decancq and others, 'The Evolution of Poverty in the European Union : Concepts, Measurement and Data' [2013], p. 2-3.

culture and recreation.’<sup>223</sup> The second part of the EU definition of poverty is composite of many other aspects of life than income alone.

Thus, an individual or a family requires a certain minimum amount of daily or monthly income to be above the set poverty line and more importantly for a comfortable life. A steady flow of income is possible only if the general economic environments and opportunities in the country is conducive for economic activities. Likewise, to ensure food security and good health, the methods of agriculture must be improved to increase the yield. Because of this reason, as we have seen, the EU assistance to Bhutan is multi-pronged with special focus on agriculture and livestock, which fall under RNR sector, climate change and good governance.

Eradication of poverty is a challenging task and more so in countries with large populations. While it has its own drawbacks, Bhutan’s small population could be attributed as one of the main reasons for the positive outcomes of the various programmes that have been initiated to reduce poverty. With the total population of only over seven-hundred thousand people, poverty in Bhutan is prevalent in rural areas. Because of this reason, it can be seen that most of the EU programmes, needless to include the RNR sector, target the rural areas of Bhutan. The efforts to reduce poverty in Bhutan is yielding results and it looks promising for the future eradication, although it might take quite some more time and effort. Besides the EU, there are many other donor countries helping in the similar sectors as targeted by the EU assistance.

The collective efforts of the external donors, the developmental initiatives and welfare schemes from the office of His Majesty the King have seen the rate of poverty reduce by impressive margins. Bhutan has come a long way since the early years. The Prime Minister of Bhutan lauded Bhutan’s efforts towards alleviation of poverty in his recent State of the Nation address to the Parliament of Bhutan. He highlighted that Bhutan, for the first time in its history, has been able to achieve a single-digit poverty rate of 8.2% in 2017<sup>224</sup> compared to what was assessed to be 12%

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<sup>223</sup> Eurostat, ‘The Measurement of Poverty and Social Inclusion in the EU: Achievements and Further Improvements’ [2013] Seminar ‘The way forward in poverty measurement’ UN Economic Commission for Europe. Working Paper 25, p. 2.

<sup>224</sup> ‘NSB’ (n 156).

in 2012.<sup>225</sup> However, as pointed out earlier, Bhutan will graduate from the list of LDCs in the next couple of years after which it would not be eligible for as much external assistance. The government of Bhutan will have to ensure that it continues the efforts of reducing poverty in the country by exploring new ways in the aftermath of Bhutan's graduation from the status of LDC.

On the front of good governance, democratic government and institutions are in place but Bhutan needs to ensure that the ideals of good governance are promoted and strengthened. Without a good administration system, no other goals can be achieved, however lofty and promising they might be. Corruption is an evil every society faces in the world. The rapid economic growth of Bhutan has opened doors for privatisation and many developmental projects are taking place. If the problem of corruption is not kept under check, it will hamper the quality of the developing country's infrastructure and investment environment. Combating corruption is one of the most important concerns that Bhutan will have to grapple with, more so as endeavours to create strong foundations of democratic governance that would serve the interests of the country and people's needs.

With increasing rate of literacy and access to education, decentralisation efforts may see better results in the next decade or so. The devolution of power to the lower levels of governments also must be matched equally by the capabilities and calibre of those who are going to shoulder the responsibility. The administrative positions at the block levels, until recently, have been held by those who did not have adequate education and exposure. With the decentralisation of powers to the lower local governments as one of the important aims of the government, and also due to the laws on local governments, the decentralisation efforts must be able to produce better outcomes than before. Strong local governments are considered as one of the essential components of an efficient administrative system in Bhutan.

## **6.2 Implications of EU Assistance on Other External Donors of Aid**

It would be interesting to look at how the EU development assistance to Bhutan has affected other sources of external assistance to Bhutan. For instance, as highlighted previously, India is the biggest trading partner and external donor of development aid to Bhutan. Apart from the budgetary

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<sup>225</sup> Prime Minister, 'State of the Nation 2018', p. 14-15.



assistance it provides to finance the development plans under the FYPs, it provides large amounts of grants and loans mainly to fund the mega hydropower projects.

While there is no discernible evidence showing any sort of the aim of EU assistance to reduce Bhutan's reliance on India and other major donors of aid, yet a comparative look at the amount of India's assistance to Bhutan alongside the EU assistance over the years might show an apparent reduction or otherwise of Bhutan's reliance on India and other major donors of development assistance. It is noted that the emergence of new donors from Latin America, Middle East and Asia with alternative models of development cooperation than that of the EU began to impact the way in which the latter viewed its development policy in the global aid agenda.<sup>226</sup> For example, emerging donors like China, Brazil and India are increasingly expanding their roles as aid donors, who regard themselves as interested parties in a mutually beneficial relationship with their development partner countries and not distinguishing some countries as 'donors' and others as 'recipients'.<sup>227</sup> These new actors, with different approaches, are conceived as challenging the EU's global weight and traditional leadership role as a donor.<sup>228</sup> Can any such dynamics be observed in its development cooperation with Bhutan?

The first two FYPs of Bhutan were completely funded by Indian development assistance<sup>229</sup> but thereafter, the percentage of India's budget assistance in the FYPs reduced although the reduction in the contribution does not have a regular pattern. In fact, an increase in the percentage of India's contribution can be seen between the 5<sup>th</sup> and 6<sup>th</sup> FYP from 30.2% to 42.1% respectively. Likewise, India's contribution to the total fund of the 9<sup>th</sup> FYP (2002-2008) saw an increase to 29.33% from 26% in the 8<sup>th</sup> FYP (1997-2002).<sup>230</sup> The share of India's contribution to the 10<sup>th</sup> and 11<sup>th</sup> FYPs remained same at 23%. Although the share of contribution can be seen decreasing over the years, it may not reflect the actual amount of money external donors like India contributes to Bhutan's development plans. The total fund for the FYPs increases as increasing socio-economic activities

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<sup>226</sup> LUIS MAH, 'Reshaping European Union Development Policy: Collective Choices and the New Global Order' (2015) 58 *Revista Brasileira de Política Internacional*, p. 48.

<sup>227</sup> *ibid.*

<sup>228</sup> *ibid.*

<sup>229</sup> 'Economic Cooperation with Bhutan – Embassy of India' <<https://www.indembthimphu.gov.in/pages.php?id=33>> accessed 11 August 2018

<sup>230</sup> *ibid.*

and costly development projects are carried out. For instance, India committed an amount of Rs. 45 billion for the 11<sup>th</sup> FYP, which is a very huge amount.

A look at the above trend obvious show reduction in the Indian development assistance to Bhutan but it would be an overstatement to suggest that the EU assistance to Bhutan had a major role in it. The EU assistance, no doubt, has been playing an important role alongside other external donor countries and organisations in Bhutan's socio-economic development. Another factor behind reduction in India's share of contribution to FYP fund is clearly due to the growth of Bhutan's GDP as the country's economic growth rate has been recognised as one of the highest in the region. Therefore, a combination of some of the factors, such as the above two, are the highly possible reasons behind Bhutan's less reliance on Indian assistance, which is a positive achievement for the Bhutanese economy.

As highlighted constantly in this thesis, since the development relations between India and Bhutan goes back to the very beginning of Bhutan's modernisation and development process, it is hard to see any ostensible aim by EU to reduce India's presence in the socio-economic development of Bhutan. Another reason why it is difficult to suggest the existence of any direct correlation between two different sources of external aids, for instance the EU and India, is that their assistance is concentrated in different sectors of Bhutan's development. As observed before, the EU engages with Bhutan mainly in the field of RNR sector, climate change, good governance, trade facilitation and capacity development of CSOs. On the other hand, India's assistance to Bhutan, excluding the grants and loans it provides for the construction of hydropower projects are mainly concerned with primary sectors of Bhutan's socio-economic development like schools, roads, bridges, hospitals, culture and sports, etc.<sup>231</sup>

Another perspective through which the EU development policy can be looked at is the trade aspect as the link between trade and development is becoming a key factor in defining the future of European development policy.<sup>232</sup> There are observations made about how EU is seeing Africa as

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<sup>231</sup> *ibid.*

<sup>232</sup> Mah (n 227), p. 53.

a potential market and a source of natural resources.<sup>233</sup> Because of this new outlook, the EU foreign investment and European trade links with Africa will be retained and enhanced further. Could one say that there is such an avenue for its development policy vis-à-vis Bhutan? The answer will be an emphatic no because of the very small market and the economy, which could be of any interest to the EU. In fact, the Framework Agreement signed between the government of Bhutan and the European Investment Bank (EIB) in December 2014<sup>234</sup> is yet to take off as the National Council of Bhutan (one of the two Houses of Parliament) decided against ratifying the Framework Agreement.<sup>235</sup> The National Council felt that the Agreement needed further and thorough review on some of its provisions. It was of the view that the Agreement ‘was not in consonance with the country’s external commercial borrowing guidelines’<sup>236</sup> and that ‘the agreement risks overriding numerous other national laws and regulations pertaining to the economic and financial sectors.’ Some members of the Council felt that Agreement does not make Bhutan an equal partner, while also raising concerns about sovereign guarantee for private sector borrowing envisaged by the Agreement.<sup>237</sup> The above discussion shows that the objectives of sustainable development and eradication of poverty in EU’s development policy are the main interests that guide the EU development cooperation with Bhutan.

### **6.3 EU’s Security Policy Versus Development Policy in EU-Bhutan Relations**

It was highlighted in the section of the thesis dealing with EU’s reforms post-Lisbon Treaty in relation to its external relations mechanism that there were serious concerns that placing development relations of the EU under the control of the EU diplomatic service, EEAS would make the aims of development cooperation secondary to that of other foreign policy considerations of the EU. Now that the form and main areas of EU’s relations with Bhutan have been discussed in the preceding chapters, it would be meaningful to discuss the dynamics between the two interests in the context of Bhutan.

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<sup>233</sup> *ibid.*, p. 54.

<sup>234</sup> *ibid.*

<sup>235</sup> ‘Council Rejects European Investment Bank Framework Agreement – KuenselOnline’ <<http://www.kuenselonline.com/council-rejects-european-investment-bank-framework-agreement/>> accessed 14 July 2018.

<sup>236</sup> *ibid.*

<sup>237</sup> *ibid.*

While the observations made here may not apply in other regions or countries, EU's development cooperation with Bhutan has prioritised the interests of Bhutan as a developing country with the aim of reduction, and the long-term eradication of poverty, which is the primary objective of the EU development policy. To put it into context, section 3.1.1 of the thesis covered the CSP 2002-2006, wherein it was highlighted that 64% of the EU assistance to Bhutan was allocated to the RNR sector. Similarly, 60% of the EU assistance was allocated to the RNR sector in the CSP 2007-2013 (discussed in section 3.1.2 of the thesis) with the remaining 20% each for good governance and trade facilitation. RNR sector and trade facilitation are sectors and areas of interest that are directly related to sustainable development and poverty eradication in the long run. Good governance is a component of democracy and one may say that EU's assistance in this field has some of its own interests embedded in it for the overarching aim of promoting democracy as one of its founding values. Irrespective of this, the pattern of allocation of development assistance to Bhutan clearly shows that reduction of poverty and sustainable development, as some of the core areas that are crucial for Bhutan's socio-economic development, are at the forefront of EU development cooperation with Bhutan.

Continuing further with the pattern of EU assistance allocation, as it can be seen from the Table 2 in Chapter 3, the MIP 2014-2020 allocation are distributed among the areas of good governance (development of local authorities, civil society, enhancement of public finance management) and sustainable agriculture and forestry. With an allocation of €24 million, good governance sector received the highest share of the EU fund whereas the sustainable agriculture and forestry received only €16.3 million. While this pattern of allocation might point to a shift in the EU focus towards programmes relating to promotion of democracy through strengthening local governments and civil society, it can hardly be down to consideration of EU interest as more important than those of Bhutan, mainly reduction of poverty. Bhutan became a democracy only in 2008 and it needed to strengthen and enhance its capacity for a sustainable democracy. The increase in EU assistance allocation towards good governance could very well be because of this consideration and not otherwise. In the hindsight, strengthening of these sectors is mutually beneficial for achievement of the ultimate aim of reduction of poverty, and it would be an injustice to dissect the allocation and be critical of its pattern, especially in the context of Bhutan that holds little interest to the EU's foreign policy other than the former's own aims of economic development and poverty eradication.

As a testimony to the efforts of development aids of the EU, several other international organisations and countries along with the efforts of the government of Bhutan towards reduction of poverty, we saw that Bhutan's poverty rate has been reduced to 8.2% in 2017 from 31.7% in 2004. the EU.

It is hard to relate the concern relating to securitisation of EU's development efforts in the specific context of Bhutan. Bhutan is highly unlikely to be a significant consideration in the geo-politics or other strategic interests of the EU. The common form of EU relation with Bhutan in the political field are conducted through EU deploying Election Observation Mission, exchanges of visits between the members of the European Parliament and the Parliament of Bhutan. Other than this, EU allocates some part of its development assistance to strengthening of local governments as part of enhancing good governance. Notwithstanding these areas, the major thrust of EU development cooperation is focused on its goal of reducing poverty in Bhutan.

With regard to the interplay of geo-politics among the trio of China, Bhutan and India, Bhutan does not have official diplomatic relations with China<sup>238</sup> whereas India is its closest neighbour and biggest trading partner. If there is ever any EU interest to keep China away from its influence over Bhutan's affairs through the former's development assistance, it would be hard to notice it easily because of India's overwhelming interest in the same. Even a small move from Bhutan to conduct some minimum relations with China sends ripples in the diplomatic headquarters of India. For example, in July 2013, India withdrew all its subsidies on cooking gas and kerosene that were provided to Bhutan, which created a huge crisis in Bhutan apparently as an attempt by India at thwarting Bhutanese overtures towards China in 2012 after the former Prime Minister of Bhutan met with the Chinese Premier Wen Jiabao in Rio in June 2012.<sup>239</sup> The nature of development projects supported by the EU development cooperation with Bhutan confirms that the interests of Bhutan are at the forefront of EU's relations with Bhutan, and it can be safely suggested that the larger interests of the EU foreign and security policy have not affected the objectives of its development cooperation with Bhutan.

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<sup>238</sup> BC Upreti, 'Gross National Happiness and Foreign Policy of Bhutan: Interlinkages and Imperatives' p. 11.

<sup>239</sup> Hussain Malik Arif and Ahmad Sheikh Nazir, 'Changing Dynamics of Indo-Bhutan Relations: Implications for India' (2016) 4 J. Polit. Sci. Develop, p. 48.

## CONCLUSION

The European Union has been ever present in Bhutan's development journey in many important sectors. Renewable natural resources, climate change and good governance (comprising many components under it) are the major sectors of EU support under its development cooperation with Bhutan. Some areas which are not, as such, part of EU-Bhutan cooperation but that fall under the regional thematic programmes are also eligible for EU assistance in Bhutan. Moreover, it is well known that EU is forthcoming in its assistance to developing countries and least developed countries in areas relating to fundamental values such as democracy, human rights, rule of law, respect for human dignity etc. The author would like to outline some of his observations and possible areas that need strengthening on the main sectors of EU assistance to Bhutan in the following paragraphs.

*i. Renewable Natural Resources Sector:* Renewable natural resources are an important sector to the agrarian economy of Bhutan. It covers all the natural resources, including agriculture and livestock. Enhancement of the RNR sector continues to be highly relevant because majority of the Bhutanese population live in rural areas with around 60% of them depending on agriculture as their source of livelihood. Subsistence farming, which was labour intensive and gave less yields used to be the traditional practice. While many people still continue to use the traditional methods of agriculture and farming, the efforts and initiatives from the government of Bhutan has seen tremendous changes over the years. Many villages and communities have highly benefited from the EU assistance and other development partners towards making agricultural activities more productive with improved quality of seeds, methods that are more resilient to climate change, and using modern equipment and techniques.

As people become aware of the prospects in cash crops and commercial farming, more farmers are turning towards cash crops, while also improving their methods of farming to improve their yields. EU, no doubt, has played an important role in helping farmers improve their produces through many programmes and projects. Yet a lot more needs to be done to ensure food security and reduction of poverty, which is highly prevalent especially in the rural areas of Bhutan. One of the major challenges farmers are facing today is lack of irrigation resources in most places and human-

wildlife conflict. In most cases, lack of irrigation facilities is not due to lack of water resources but because of the water sources being situated at lower elevations than the agricultural lands. Lack of adequate technology to use the available water resources remains a huge challenge, which limits the production capacity of farmers.

Likewise, human-wildlife conflicts are becoming a matter of concern. As the population grows and people start expanding their settlements, the habitats of wild animals are affected. One often sees news reports of how large groups of elephants eat, trample and destroy the crops of Bhutanese farmers in the south, and how wild boars wreak havoc in some maize fields in the eastern and central Bhutan. The government has been trying to find ways to tackle the problem of human-wildlife conflict through methods such as electric fencing, which has not solved all the problems. Therefore, building on support and assistance provided by development partners, the government of Bhutan has a task in hand to tackle this sort of major challenges.

It is very crucial for Bhutan to conserve the natural environment given its high vulnerability to soil erosion and landslides due to unstable terrain and geological conditions. Many areas in the country face shortage of drinking water today and if the water sources are not protected and conserved, the problem could get more serious. The EU was involved in conservation of watershed areas and other projects relating to RNR sector from the very beginning. They have benefited several communities. With the growth of population and urban development, waste management is increasingly becoming a huge problem. Growth of consumerism has led to more waste. Bhutan needs to act fast and stringently regulate waste disposal or else it could be a problem for the country's environmental policy in the long run.

**ii. Climate Change:** As far as efforts to combat climate change are concerned, the EU's assistance, along with the farsighted vision of the government of Bhutan has achieved impressive results and must be appreciated. Bhutan remains a carbon-neutral country and it is in the best interest of the country to always be on its toes in combating adverse effects of climate change as it is highly vulnerable to climate change and its destructive impacts. Climate change is intricately linked to agricultural resources like water, land productivity and resistibility of crops to climate change. Therefore, it is a cross-cutting issue that needs to be continuously monitored.

**iii. Good Governance:** Good governance is not a stand-alone concept. It has other values and areas imbedded in it. In fact, good governance is the starting point for achievement of other goals and aims. The EU has been supporting several important sectors, especially in strengthening local governments and public finance management, and fiscal decentralisation. Good governance was long recognised as an indispensable virtue in the governance in Bhutan because of which it has been identified as the fourth pillar of its development philosophy, GNH.

After it became a democratic constitutional monarchy in 2008, Bhutan devoted even more attention and resources to enhance decentralisation of power and resources to local governments as strong local governments are vital for a successful democracy. The local government has become increasingly democratic and capable due to strong laws governing the eligibility of the candidates participating in the local government elections. It bodes well for the future of local governance in particular and democracy at large. Although it is a relatively young democracy, Bhutan's political landscape presents a promising future in its journey of economic growth. It is a peaceful country without any large-scale violence although the problem of immigrants in the south and their subsequent status of refugees in Nepal in the early 1990s has not been completely solved yet.

Moreover, while some form of corruption in some spheres are reported and undeniable, it is one of the least corrupt countries in the South Asia. For instance, Bhutan was ranked 26<sup>th</sup> by the Transparency International in the Corruption Perceptions Index 2017.<sup>240</sup> This fact is appreciated by most external donors as their aid and support towards different projects and development programmes will be efficiently used to achieve their set objectives. The EU also assessed Bhutan's eligibility for EU assistance based on different parameters and was satisfied with the results. The assessment was carried out as a part of the Action Document for Rural Development and Climate Change Response Programme in 2016. Bhutan was assessed on the fundamental values of democracy, human rights and the rule of law. The assessment confirmed that Bhutan has been doing well in these areas and should continue to be eligible for receiving budget support from the

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<sup>240</sup> 'Corruption Perceptions Index 2017 - Transparency International'  
<[https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)> accessed 11 August 2018.



EU.<sup>241</sup> The two other areas of assessment were PFM and the transparency and oversight of budget for EU budget support, on both of which the assessment found the country eligible. ‘Zero tolerance’ to corruption is one of the cornerstones of the government’s overall policy.

**iv. Civil Society Organisations (CSOs):** As observed in the part of the thesis dealing with the CSOs, they are gaining momentum in the country and are playing increasingly important roles in the civil society of the Bhutanese democracy. The signs are encouraging, and the government must ensure that the objectives of CSOs in general and also the EU support are upheld by strengthening the growth of CSOs. In the past few years, several CSOs have been established (discussed in the relevant parts of the thesis) and they are playing very active roles in various crucial areas like maintenance of cleanliness, promotion of cooperative farming, helping the disabled people and so on.

**v. Diversification of Trade and Expansion of Exports:** It is clear that much remains to be done in the trade sector. Trade diversification, expansion of export beyond the agricultural products and few other products are some important issues the government of Bhutan should take up. FDI is picking up in the country and the government must put in place laws and regulations and provide a conducive environment for foreign investors, while at the same time giving priority to the national interests and development policies.

**vi. Tourism Sector:** Tourism industry is growing rapidly as transport facilities and other infrastructures are enhanced. The government must take steps to enact a law on tourism. Until now, the tourism sector has been regulated through some broad policy guidelines, rules and regulations. A comprehensive legislation on it would ensure clarity and convenience for the different parties involved in the tourism sector. Tourism sector in Bhutan presents a very promising opportunity not only in earning hard currency but also in generating employment and helping backward communities to find commercial opportunities as source of their income.

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<sup>241</sup> European Commission, ‘Action Document for Rural Development and Climate Change Response Programme’, p. 7.

Overall, one can only appreciate the EU for extending development assistance to Bhutan, which has come a long way from being an isolated country in the Himalayas more than 50 years ago. As far as the author is concerned, a close look at the development programmes of EU in Bhutan confirms that the fear of considerations and goals of development policy being overshadowed by the bigger picture of the EU foreign and security policy does not hold true in the specific context of Bhutan. The concerted efforts of assistance and development aid by development partners like India, the EU, some Member States of EU, several other countries and international organisations have been instrumental to Bhutan's socio-economic development. Bhutan can do the development partners proud by making efficient use of the development aid and grants to achieve their objectives. It has done satisfactorily well until now and will be in the interest of the country to be accountable and transparent in utilization of the external development aid as it would not be eligible for as much aid in a few years' time. In fact, a number of development partners have already ended their support to Bhutan based on its achievement in economy and human development.

As a result of the impressive socio-economic development experienced by Bhutan, it is on the cusp of graduating from the list of LDCs in a few years. While it is, no doubt, a proud achievement, Bhutan will face some challenges as it would not get as much external development aid and support as it does now after it graduates from the list of LDCs. It can only be hoped that the next development plan, i.e., 12<sup>th</sup> FYP, which begins this year through 2023 will successfully achieve its National Key Result Areas (NKRAs) which include stability of macroeconomy, eradication of poverty, remaining carbon neutral, strengthening of democracy and decentralisation and strengthening of delivery of justice services and institutions.<sup>242</sup> Achievement in these key result areas would go a long way in securing Bhutan's socio-economic growth in its journey of development and modernisation.

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<sup>242</sup> 'Central – Gross National Happiness Commission' <[https://www.gnhc.gov.bt/en/?page\\_id=1338](https://www.gnhc.gov.bt/en/?page_id=1338)> accessed 26 July 2018.

## ABSTRACT

Bhutan made its entry into the international arena rather late in the early 1960s and saw the commencement of some development activities with financial assistance of India. It existed in isolation for a long time, virtually unknown to most of the outside world. With the meaningful steps it took in the direction of modernization, it has come a long way in more than five decades. Bhutan's socio-economic development was largely funded through external development aids and grants. EU started its development cooperation with Bhutan in the mid-1980s starting with the renewable natural resources sector. It continues to provide development assistance to Bhutan, which is on the verge of graduation from the list of Least Developed Countries.

Based on promotion and support of fundamental values such as democracy, the rule of law, human rights, the respect for human dignity and equality, EU has been playing an important role in helping to integrate Bhutan into the global economy. Truly exemplifying its global reach, EU has been supporting Bhutan, a country far away in the Himalayas in important sectors such as renewable natural resources, climate change, good governance and trade facilitation for a long time through development cooperation. The EU has initiated many projects and programmes in furtherance of objectives specific to different sectors.

An overarching objective of EU support to Bhutan is reduction of poverty. Bhutan has achieved impressive success in this respect with the poverty rate in country assessed to be a record low of 8.2% in 2017, achieving a single digit poverty rate in its history. A smooth transition to parliamentary democracy in 2008 further bolstered Bhutan's eligibility for EU development assistance, strengthening the ideal of good governance, which has been a central concern of the Bhutanese system for a long time. The EU has assured of its support to Bhutan after 2020, which is the final year of the current Multi-annual Indicative Programme 2014-2020.

**Key words:** European Union, Bhutan, development cooperation, economy, poverty, good governance, sustainable development.

## ABSTRAKT

Bhutan trat erst Anfang der 1960er Jahre in die internationale Arena ein und begann mit finanzieller Unterstützung Indiens einige Entwicklungsaktivitäten. Es existierte lange Zeit isoliert, praktisch unbekannt für den größten Teil der Außenwelt. Mit den sinnvollen Schritten in Richtung Modernisierung hat es in mehr als fünf Jahrzehnten einen langen Weg zurückgelegt. Bhutans sozioökonomische Entwicklung wurde weitgehend durch externe Entwicklungshilfen und Zuschüsse finanziert. Die EU begann ihre Entwicklungszusammenarbeit mit Bhutan Mitte der 1980er Jahre, beginnend mit dem Sektor für erneuerbare natürliche Ressourcen. Es leistet weiterhin Entwicklungshilfe für Bhutan, das kurz vor dem Abschluss der Liste, der am wenigsten entwickelten Länder steht.

Auf der Grundlage der Förderung und Unterstützung grundlegender Werte wie Demokratie, Rechtsstaatlichkeit, Menschenrechte, Achtung der Menschenwürde und Gleichheit spielt die EU eine wichtige Rolle bei der Integration von Bhutan in die Weltwirtschaft. Die EU unterstützt Bhutan, ein weit entferntes Land im Himalaya, in wichtigen Bereichen wie erneuerbare natürliche Ressourcen, Klimawandel, gute Regierungsführung und Handelserleichterungen seit langem durch Entwicklungszusammenarbeit. Die EU hat zahlreiche Projekte und Programme zur Förderung von Sektor spezifischen Zielen initiiert.

Ein übergreifendes Ziel der EU-Unterstützung für Bhutan ist die Verringerung der Armut. Bhutan hat in dieser Hinsicht beachtliche Erfolge erzielt: Die Armutsquote in Ländern, die 2017 auf ein Rekordtief von 8,2% geschätzt wurden, erreichte eine einstellige Armutsrate in ihrer Geschichte. Ein reibungsloser Übergang zur parlamentarischen Demokratie im Jahr 2008 stärkte Bhutans Förderfähigkeit für die Entwicklungshilfe der EU und stärkte das Ideal der guten Regierungsführung, das seit langem ein zentrales Anliegen des bhutanischen Systems ist. Die EU hat zugesagt, Bhutan nach 2020, dem letzten Jahr des laufenden mehrjährigen Richtprogramms 2014-2020, zu unterstützen.

**Schlüsselwörter:** Europäische Union, Bhutan, Entwicklungszusammenarbeit, Wirtschaft, Armut, gute Regierungsführung.

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