Early Warning System

# ADB-58522-001

## Trade Expansion and Diversification Program (Subprogram 1)

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### Quick Facts

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|---|---|
| **Countries** | Bhutan |
| **Financial Institutions** | Asian Development Bank (ADB) |
| **Status** | Approved |
| **Bank Risk Rating** | C |
| **Voting Date** | 2026-02-03 |
| **Borrower** | Government of Bhutan - Ministry of Finance |
| **Sectors** | Industry and Trade, Technical Cooperation |
| **Investment Type(s)** | Grant, Loan |
| **Loan Amount (USD)** | $ 13.00 million |
| **Grant Amount (USD)** | $ 13.20 million |
| **Project Cost (USD)** | $ 26.20 million |

## Project Description

According to the Bank’s website, the role of trade as a driver of economic growth and poverty reduction has long been recognized, as manifested in various World Trade Organization (WTO) platforms and the principles behind Aid for Trade. The proposed policy-based lending program aims to support the expansion and diversification of Bhutan's tradein trade partners and productsby unblocking policy bottlenecks, establishing institutional structures, filling legal and regulatory gaps, and rolling out new business processes and procedures. It aligns with the government's National Export Strategy 2022 and the 13th Five Year Plan, 2024-2028, which identifies the country's limited trade engagement as a barrier to deeper integration into the regional and international economy.

The program will help create an enabling environment for trade by complementing other interrelated enablers under the 13th Five Year Plan, such as transport connectivity, access to finance, skills development and job creation, and production scaling. The shortage of jobs has been one of the most critical development challenges in recent years, triggering an outward migration at an unprecedented scale. Given the small domestic market, the 13th Five Year Plan recognizes greater access to external markets as a cornerstone for strengthening the industry sector, which, in turn, will support job creation.

Bhutan's weak trade performance stems from multifaceted, interconnected, economy-wide challenges, including underdeveloped infrastructure, low industrial productivity, a shortage of skilled workers, and a weak finance sector. Efforts to improve the private sector's business environment are underway across multiple sectors. They include increasing investments in transport and logistics infrastructure, reforming state-owned enterprises to curtail their dominance, adopting the publicprivate partnership road map, and promoting e-commerce. The finance sector is at a nascent stage of strengthening its capacity but has begun expanding its role in providing trade finance solutions. New initiatives have been launched to support technical and vocational education, improving the skills and employability of youth, including in emerging fields such as new construction technology, food processing, and floriculture.

While these ongoing are expected to incrementally improve trade performance, critical trade sector constraints remain, threatening to diminish or offset broader development gains. These challenges stem from weak institutional structures and arrangements; inefficient, non-transparent, and unpredictable trade processes; and a restrictive policy and regulatory environment that limits private sector participation in trade.

Studies indicate promising untapped opportunities for Bhutan to access international markets, driven by the distinctive qualities of its productsits unique culture and heritage, abundant natural resources, and strong tradition of environmental sustainability. Demand assessments suggest that some of the top 10 exported products have potential to expand in market reach and volume beyond the immediate neighborhood, including Europe and Southeast Asia. In addition to the 10 top exported products, Diagnostic Trade Integration Study Update 2020 identified 15 products with high export potential, including agricultural produce, processed food items, and high-value-added goods. ADB's analysis of four potential exports for value chain developmentbottled water, herbal tea, handcrafted textiles, and natural cosmetics also confirmed their strong potential, provided that key trade barriers are removed.

## Early Warning System Project Analysis

Environment: C
Involuntary Resettlement: C
Indigenous Peoples: C

### Investment Description

- Asian Development Bank (ADB)

The assistance comprises a $13 million policy-based loan and a $12 million policy-based grant funded through the ADB-administered Asian Development Fund (ADF).

The TA financing amount is $1,200,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund.

## Contact Information

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ACCESS TO INFORMATION

You can submit an information request for project information at: https://www.adb.org/forms/request-information-form

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ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main.

## Bank Documents

- Grant Agreement (Special Operations) for Grant 1030-BHU: Trade Expansion and Diversification Program
- Loan Agreement (Ordinary Operations [Concessional]) for Loan 4752-BHU: Trade Expansion and Diversifi
- Supporting the Trade Expansion and Diversification Program: Technical Assistance Report
- Trade Expansion and Diversification Program (Subprogram 1): Concept Note
- Trade Expansion and Diversification Program (Subprogram 1): Report and Recommendation of the Preside

## Media

- ADB Supports Bhutan’s Trade Expansion and Diversification to Build a Competitive, Resilient Economy