Bhutan: Towards Sustainable Graduation through Economic Diversification & Resilience


Presented by: Thinley Namgyel, Secretary, Gross National Happiness Commission, Royal Government of Bhutan.
I. Country Background
II. Development Philosophy – Gross National Happiness
III. Strategic Development Framework
IV. Key Achievements
V. Macroeconomic Challenges & Vulnerabilities
VI. Key Policy Interventions
VII. National Graduation Outlook
VIII. Conclusion: Achieving Sustainable Graduation
I. Country Background

- Landlocked.
- Population: 634,982 (PHCB 2005)
  - (m 333,595; f 301,387; 69.1 % rural)
- Area: 38,394 square kilometres (Arable Land-7%; Under Cultivation-3%; Protected Areas-51.44%)
- Governance: Democratic Constitutional Monarchy (2008)
- Currency: Ngultrum (Nu) [ USD 1=Nu.67.19]
- Located in ecologically fragile region
  - 677 glaciers and 2,794 glacial lakes; 21 glacial lake outburst floods in last 2 centuries of which 4 outburst reported in the last forty years.
  - Lies in the seismic zone IV and V.
  - Vulnerable to landslide, floods, wind storm forest fires ..
II. Development Philosophy: GNH

- His Majesty the Fourth King Jigme Singye Wangchuck in early 1970s.

- Gross National Happiness (GNH) is a development approach that seeks to “achieve a harmonious balance between material well-being and the spiritual, emotional and cultural needs of our society.”

- Emphasis on i) sustainable and equitable socio-economic development; ii) conservation and sustainable utilization of environment; iii) preservation and promotion of culture; and iv) strengthening good governance.

Living Standards
• Assets
• Housing
• Household per capita income

Psychological Wellbeing
• Life satisfaction
• Positive emotions
• Negative emotions
• Spirituality

Health
• Mental health
• Self-reported health status
• Healthy days
• Disability

Ecological Diversity and Resilience
• Ecological Issues
• Responsibility towards environment
• Wildlife damage (Rural)
• Urbanization issues

Time Use
• Work
• Leisure
• Sleep

Education
• Literacy
• Schooling
• Knowledge
• Value

Community Vitality
• Donations (time & money)
• Community relationship
• Family
• Safety

Good Governance
• Gov't performance
• Fundamental rights
• Services
• Political Participation

Cultural Diversity and Resilience
• Speak native Language
• Cultural Participation
• Artistic Skills
• Driglam Namzha

GNH

Addition to the conventional indicators
### III. Strategic Development Framework – Five Year Plans

<table>
<thead>
<tr>
<th>FYP</th>
<th>Total Investment (Million Nu)</th>
<th>Plan to Plan % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; FYP (1961-66)</td>
<td>107</td>
<td>89%</td>
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<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt; FYP (1966-71)</td>
<td>202</td>
<td>135%</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt; FYP (1971-76)</td>
<td>475</td>
<td>133%</td>
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<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt; FYP (1976-81)</td>
<td>1,106</td>
<td>308%</td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; FYP (1981-86)</td>
<td>4,513</td>
<td>101%</td>
</tr>
<tr>
<td>6&lt;sup&gt;th&lt;/sup&gt; FYP (1986-92)</td>
<td>9,062</td>
<td>101%</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; FYP (1992-97)</td>
<td>15,591</td>
<td>72%</td>
</tr>
<tr>
<td>8&lt;sup&gt;th&lt;/sup&gt; FYP (1997-02)</td>
<td>30,151</td>
<td>93%</td>
</tr>
<tr>
<td>9&lt;sup&gt;th&lt;/sup&gt; FYP (2002-07)</td>
<td>70,000</td>
<td>132%</td>
</tr>
<tr>
<td>10&lt;sup&gt;th&lt;/sup&gt; FYP (2008-3)</td>
<td>146,252</td>
<td>109%</td>
</tr>
<tr>
<td><strong>11&lt;sup&gt;th&lt;/sup&gt; FYP (2013-18)</strong></td>
<td><strong>218,158 (USD 3.3 billion)</strong></td>
<td><strong>49%</strong></td>
</tr>
<tr>
<td><strong>12&lt;sup&gt;th&lt;/sup&gt; FYP (2018-23)</strong></td>
<td><strong>313,389 (USD 4.8 billion)</strong></td>
<td><strong>44%</strong></td>
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IV. Achievements: GNH Index and Poverty Reduction

**GNH Index**
- 0.743 (2010)
- 0.756 (2015)

**Income Poverty**
- 31.7% (2003)
- 23.2% (2007)
- 12% (2012)
- 8.2% (2017)

**MPI**
- 25.8% (2007)
- 12.4% (2012)
- 5.8% (2017)
VI. Macroeconomic Challenges & Vulnerabilities
Challenges

- Low productive capacity
- Single sector driven
  - Low level of diversification
- Absence of real economic transformation
- Growing income inequality (Gini 0.38)
- Disparities at disaggregated levels
Trade-related Challenges

- Narrow range of exports
  - 10 ten export products constitutes more than 80% of total exports
- Export market concentration
  - Single market-India
- Manufacturing is capital and energy intensive
- Insignificant scale of trade-price taker
- Price volatility
- High costs of trade
  - Distance from markets
  - Inadequate infrastructure
GDP: Single sector driven...

Real GDP
Growth(%)
An absence of real economic transformation
Pronounced agricultural instability: a key source of vulnerability.

- Subsistence farming
- Low returns
- Low productivity
- Plagued by human wildlife conflict
- Impact of climate change acute
High unemployment

1. Overall unemployed rate: low – 2.5%
2. Large Youth unemployed: – 10.7%
3. Female unemployment: 3.1%
4. Female youth unemployment: 12.7%
Trade related challenges persists...

Major Exports, 1981
1. Cement (36%)
2. Oranges (17%)
3. Timber (16%)
4. Potato (16%)
5. Cardamom (11%)

Major Imports, 1981
1. Structure & parts (44%)
2. Diesel (28%)
3. Iron rods (28%)
4. Truck chassis (20%)
5. Rice (16%)
6. Machinery parts (15%)
Concentration of markets
Major regions for Bhutan’s exports, 2015

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<tbody>
<tr>
<td>India</td>
<td></td>
<td>90.7</td>
<td>86.1</td>
<td>84.8</td>
<td>85.2</td>
<td>85.6</td>
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<tr>
<td>Bangladesh</td>
<td></td>
<td>6.1</td>
<td>7.1</td>
<td>6.7</td>
<td>7.9</td>
<td>10.8</td>
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<tr>
<td>USA</td>
<td></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.3</td>
<td>0.8</td>
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<tr>
<td>Nepal</td>
<td></td>
<td>0.6</td>
<td>0.4</td>
<td>0.7</td>
<td>0.4</td>
<td>0.7</td>
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<tr>
<td>Germany</td>
<td></td>
<td>0.2</td>
<td>1.5</td>
<td>2.4</td>
<td>0.8</td>
<td>0.6</td>
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<tbody>
<tr>
<td>India</td>
<td></td>
<td>78.8</td>
<td>82.3</td>
<td>84.0</td>
<td>78.9</td>
<td>82.0</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>1.4</td>
<td>2.0</td>
<td>1.3</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td>2.5</td>
<td>2.1</td>
<td>1.7</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>2.4</td>
<td>0.6</td>
<td>2.5</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td>3.1</td>
<td>1.8</td>
<td>0.0</td>
<td>0.5</td>
<td>1.9</td>
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Underdeveloped trade infra+ High Transportation Cost= Less Competitive
Bhutan ranked 135th out of 160 as per World Bank’s Logistic Performance Index
Fiscal Challenges

- Domestic revenue - highly dependent on hydropower
  - Low levels of diversification
- Narrow tax base
- Growing recurrent expenditure
  - Debt servicing
  - Maintenance and operational cost of past investments in infrastructure
- Capital expenditure
  - Still donor dependent
  - 30-35% total capital expenditure financed through external grants and borrowings
VI. Key Interventions
Economic Development Policy (EDP) 2016

Apex Policy for Economic Development

3. VISION

A green and self-reliant economy sustained by the philosophy of GNH.

5. B. STRATEGIES

1. Promote the five Jewels.
2. Diversify the economic base with minimal ecological footprint.
3. Harness and add value to natural resources in a sustainable manner.
4. Increase and diversify exports.
5. Promote Bhutan as an organic brand.
6. Promote industries that build the Brand Bhutan image.
7. Reduce dependency on fossil fuel.
8. Promote industries through a cluster effect and championing approach.

5. A. OBJECTIVES

5.1 Achieve economic self-reliance by the year 2020.
5.2 Sustain full employment (97.5%).
Fiscal Incentives Act 2017

Direct tax incentives

Provide:
1. Income Tax Exemption - 5-10 yrs
2. Tax rebate – 10 to 15%
3. Tax holiday (up to 10 years)

For:
1. Earning convertible currency
2. Adopting environmentally friendly technologies
3. Employing Bhutanese
4. Broad based ownership

Key sectors
CSI, Mining, Tourism, Agri and RNR, Edu, Health, ICT, Transport, Waste Mgt, Business Infra Development

Indirect Tax Incentives

Provide:
1. Sales Tax exemption
2. Customs Duty exemption

On:
1. Plant & Machinery
2. Raw materials & primary packaging materials
3. PoS and ATMS
4. Electronic cash transfer
5. R&D equipment
6. Promotion of games & sports

Key sectors:
Priority Sector Lending Guidelines

Objectives
- Platform for coordinated interventions
- Youth employment
- Domestic production
- Import substitution
- Catalyze CSI sector as economic transformation driver

2018 Targets
- Incremental targets
- Lending
  - Agricultural CSIs-1% of total portfolio
  - Non-Agricultural CSIs- Additional 1 percentage point on exposure as of end-June 2017
5 Jewels

1. Hydropower
   • Besides construction build capacity in terms of planning, designing and specialized construction (dams, tunnels)
2. Cottage and small industries
   • Job creation and poverty alleviation
3. Mining
4. Tourism
   • Balanced regional tourism and spreading tourism throughout the year
5. Agriculture
   • Shift towards commercialization
   • Organic farming, agro-processing, biotechnology, forest based products, poultry, fisheries, floriculture, health food, animal feed, apiculture, horticulture and dairy)
Other Policy Initiatives

• Public Debt Policy adopted in 2016
• Foreign Direct Investment Policy revised in 2016
• Public Private Partnership Policy adopted in 2016
• Working on establishing an Economic Stabilization Fund
VII. Bhutan: National Outlook towards Graduation

- our Majesties the Kings - ... emphasized on self-reliance and reducing dependency for sovereignty, security, strengthening of democracy ..... 

- ..... our Prime Minister - ... push for graduation rather than being pushed to graduate ..... 12th FYP (2018-2023) should be the last plan to address last mile challenges ..... 

- ..... our People - ... how long we are going to be depend on donor assistance ???..... when are we going to be self-reliant ???. 
VII. Bhutan: National Outlook towards Graduation

... welcome assessment of 2015 triennial review to include Bhutan as one of the countries eligible for graduation ...

... want to graduate...

.... but need to ensure smooth and sustainable transition with support of our development partners .....
VIII. Achieving Sustainable Graduation

- **Standard Transition Period**
  2018-2021
  Graduate in 2021

- **12th Five Year Plan=Transition Strategy**
  2018-2023

- **Transition Period-longer transition period**

- **Effective Graduation: End of 12th Plan**
12th Five Year Plan (2018-2023)

- Address last mile challenges
- Consolidate hard won social sector gains
- Emphasis on building economic resilience and productive capacity

- Last Plan as an LDC
- 12th FYP as the Transition Strategy
### 12th FYP-National Key Result Areas

<table>
<thead>
<tr>
<th>No.</th>
<th>Area</th>
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<tbody>
<tr>
<td>1</td>
<td>Macroeconomic Stability Ensured</td>
</tr>
<tr>
<td>2</td>
<td>Economic Diversity and Productivity</td>
</tr>
<tr>
<td></td>
<td>Enhanced</td>
</tr>
<tr>
<td>3</td>
<td>Poverty Eradicated and Inequality</td>
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<tr>
<td></td>
<td>Reduced</td>
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<tr>
<td>4</td>
<td>Culture and Tradition Preserved</td>
</tr>
<tr>
<td></td>
<td>and Promoted</td>
</tr>
<tr>
<td>5</td>
<td>Healthy Ecosystem Services Maintained</td>
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<td>6</td>
<td>Carbon Neutral, Climate and Disaster</td>
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<td></td>
<td>Resilient Development Enhanced</td>
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<tr>
<td>7</td>
<td>Quality of Education and Skills Improved</td>
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<tr>
<td>8</td>
<td>Water, Food and Nutrition Security</td>
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<tr>
<td></td>
<td>Ensured</td>
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<tr>
<td>9</td>
<td>Infrastructure, Communications and Public</td>
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<td>Service Delivery Improved</td>
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<tr>
<td>10</td>
<td>Gender Equality Promoted, Women and Girls</td>
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<td></td>
<td>Empowered</td>
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<tr>
<td>11</td>
<td>Productive and Gainful Employment</td>
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<td>Created</td>
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<tr>
<td>12</td>
<td>Corruption Reduced</td>
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<tr>
<td>13</td>
<td>Democracy and Decentralization</td>
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<td></td>
<td>Strengthened</td>
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<tr>
<td>14</td>
<td>Healthy and Caring Society Enhanced</td>
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<td>15</td>
<td>Livability, Safety and Sustainability</td>
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<tr>
<td></td>
<td>of Human Settlements</td>
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<tr>
<td>16</td>
<td>Justice Services and Institutions</td>
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<tr>
<td></td>
<td>Strengthened</td>
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INTEGRATION OF SDGs into the 12 FYP NKRs

1. Partnerships for the Goals
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Responsible Consumption and Production
8. Decent Work and Economic Growth
9. Reduced Inequalities
10. Peace, Justice and Strong Institutions
11. Sustainable Cities and Communities
12. Climate Action
13. Peace, Justice and Strong Institutions
14. Peace, Justice and Strong Institutions
15. Peace, Justice and Strong Institutions
16. Peace, Justice and Strong Institutions

Culture and Tradition Preserved and Promoted
Thank You for Your Attention