



Bhutan: Towards Sustainable Graduation through Economic Diversification & Resilience

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Presentation Outline



- 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
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I. Country Background

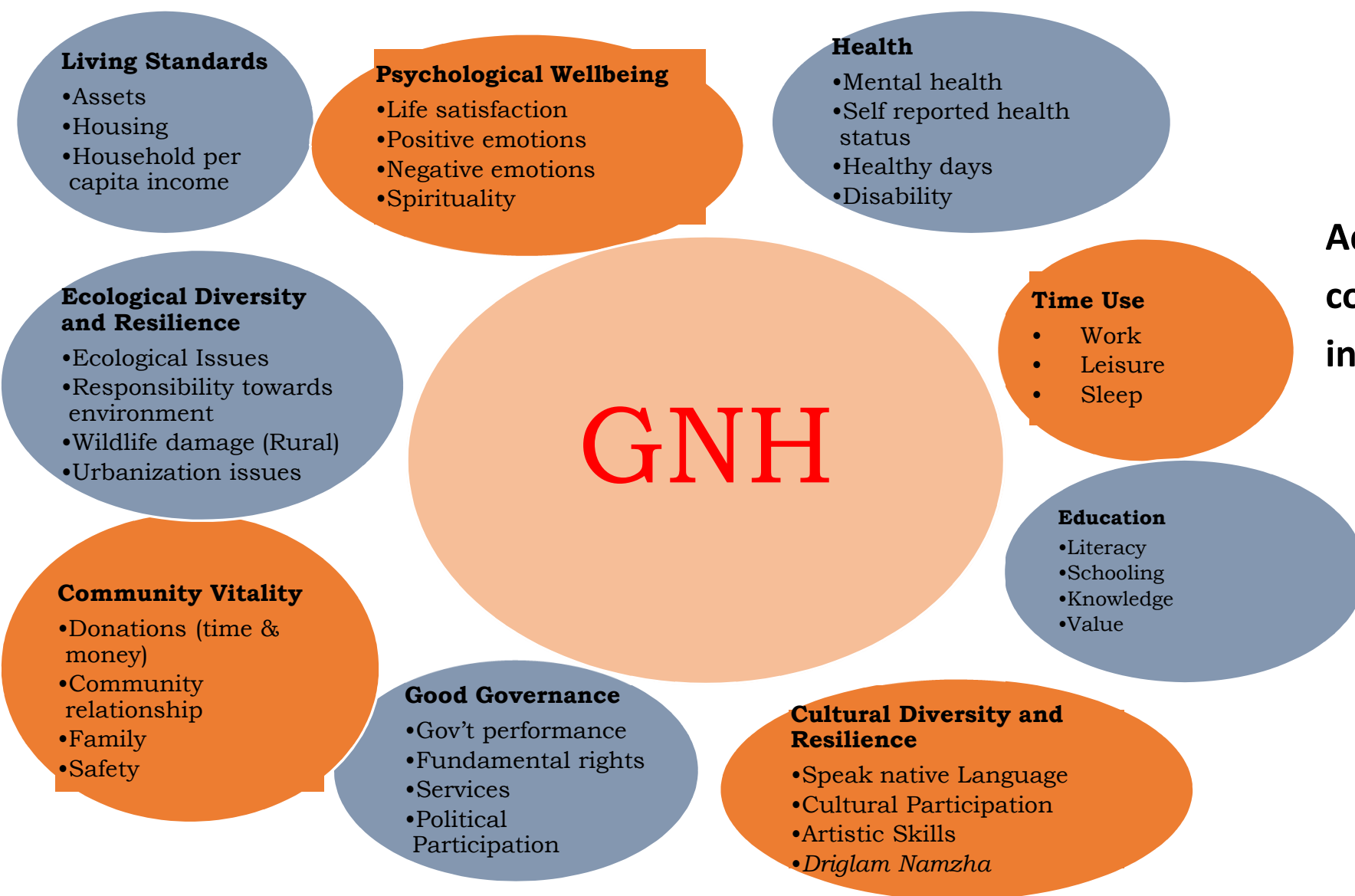


- Landlocked.
- Population: 634,982 (PHCB 2005)
 - (m 333,595; f 301,387; 69.1 % rural)
- Area: 38,394 square kilometres (Arable Land-7%; Under Cultivation-3%; Protected Areas-51.44%)
- Governance: Democratic Constitutional Monarchy (2008)
- Currency: Ngultrum (Nu) [USD 1=Nu.67.19]
- Located in ecologically 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**.
- ✓ Since 2008, GNH Survey carried out – 2008 (pilot), 2010 and 2015.



**Addition to the
conventional
indicators**



III. Strategic Development Framework – Five Year Plans



FYP	Total Investment (Million Nu)	Plan to Plan % change
1 st FYP (1961-66)	107	
2 nd FYP (1966-71)	202	89%
3 rd FYP (1971-76)	475	135%
4 th FYP (1976-81)	1,106	133%
5 th FYP (1981-86)	4,513	308%
6 th FYP (1986-92)	9,062	101%
7 th FYP (1992-97)	15,591	72%
8 th FYP (1997-02)	30,151	93%
9 th FYP (2002-07)	70,000	132%
10 th FYP (2008-3)	146,252	109%
11th FYP (2013-18)	218,158 (USD 3.3 billion)	49%
12th FYP (2018-23)	313,389 (USD 4.8 billion)	44%

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



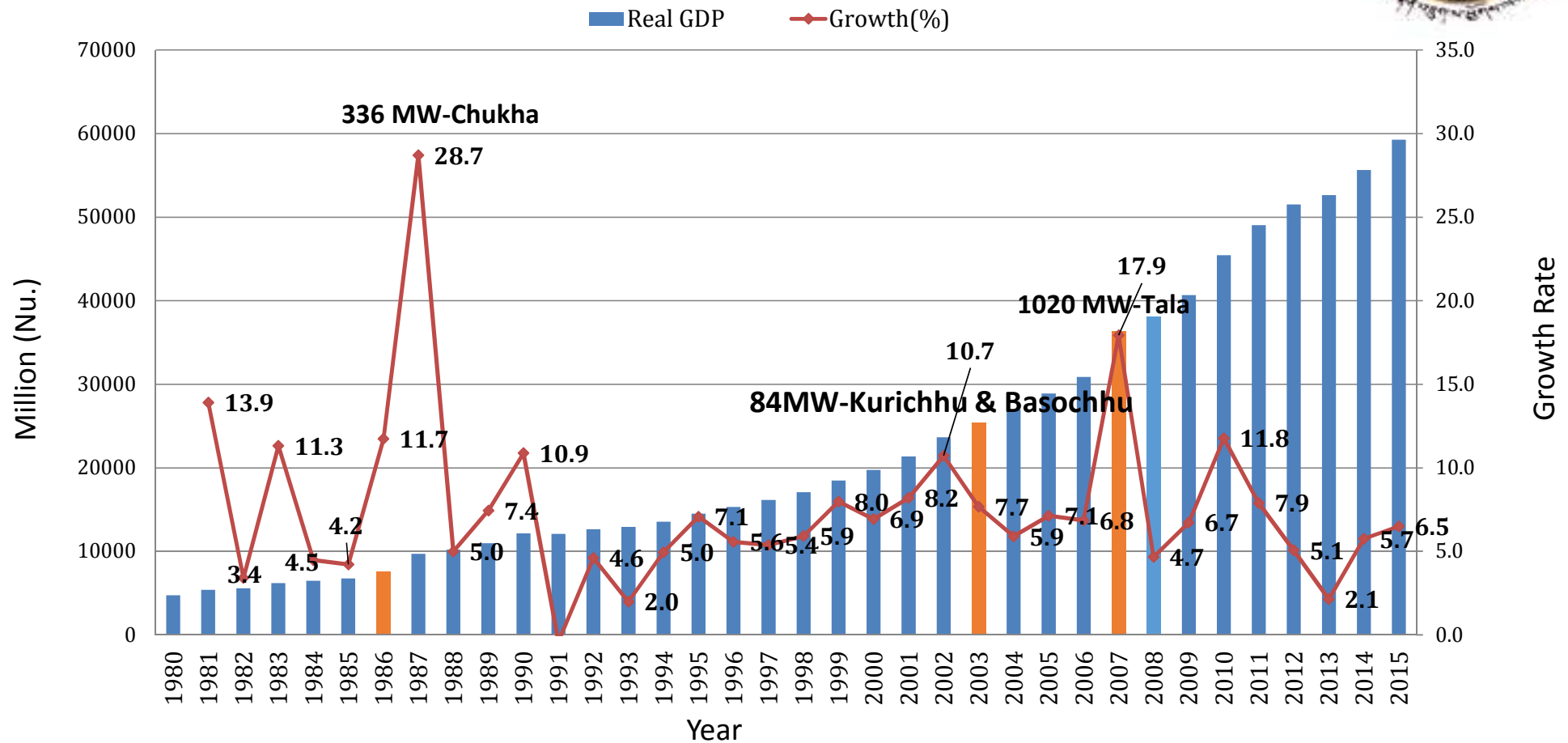
- Low productive capacity
- Single sector driven
 - Low level of diversification
- Absence of real economic transformation
- Growing income inequality (Gini 0.38)
- Disparities at disaggregated levels



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

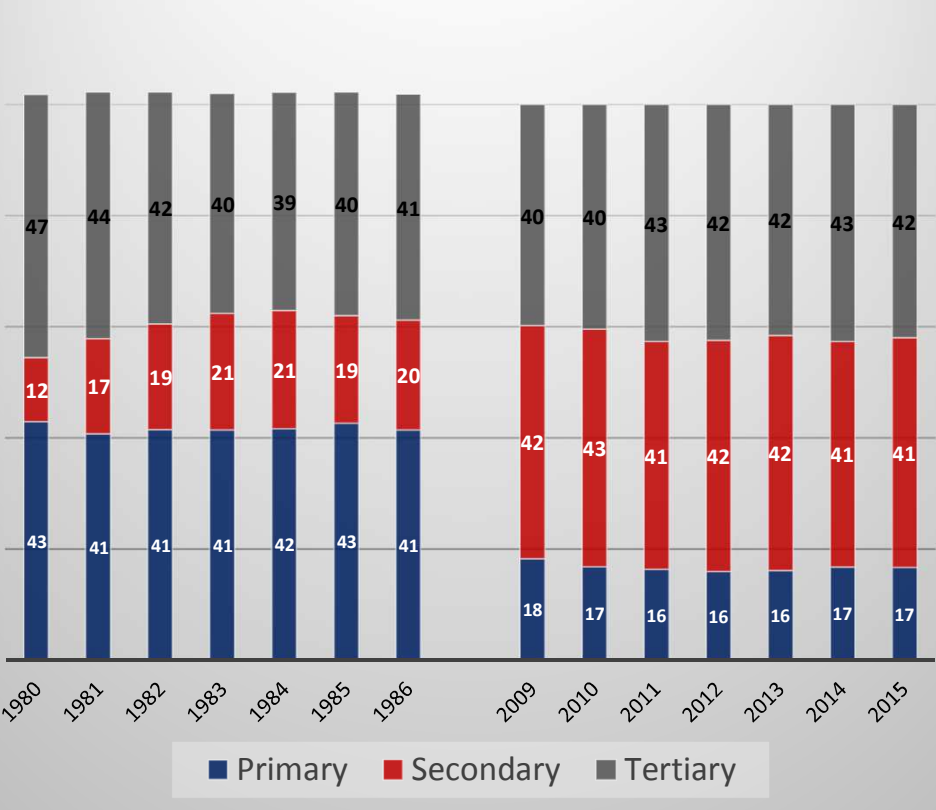
GDP: Single sector driven...



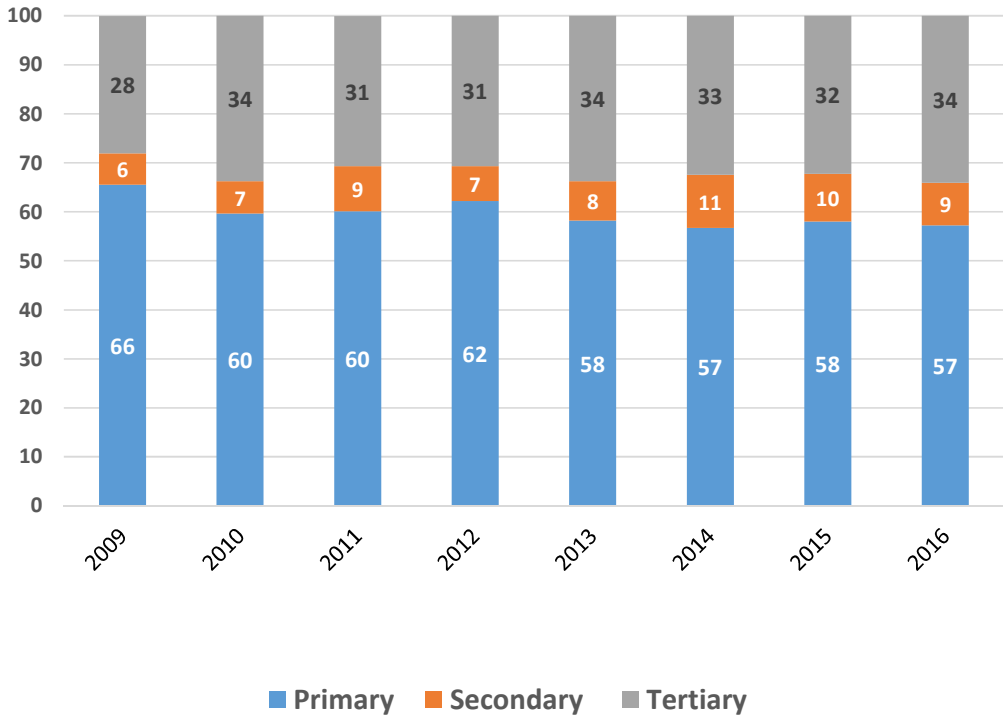


An absence of real economic transformation

Sectoral share in GDP (%)



Employment Share by Economic Sectors



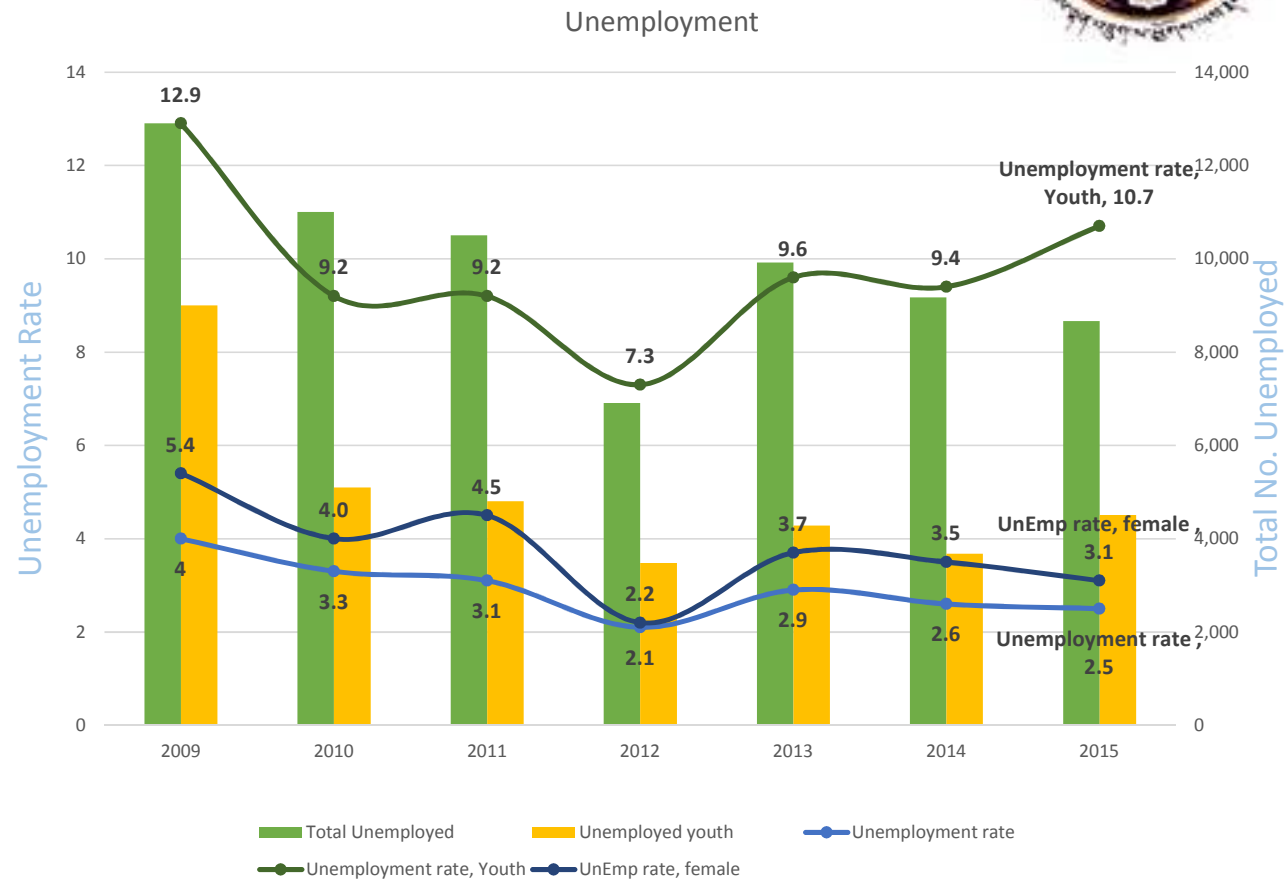
Pronounced agricultural instability: a key source of vulnerability....



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

High unemployment

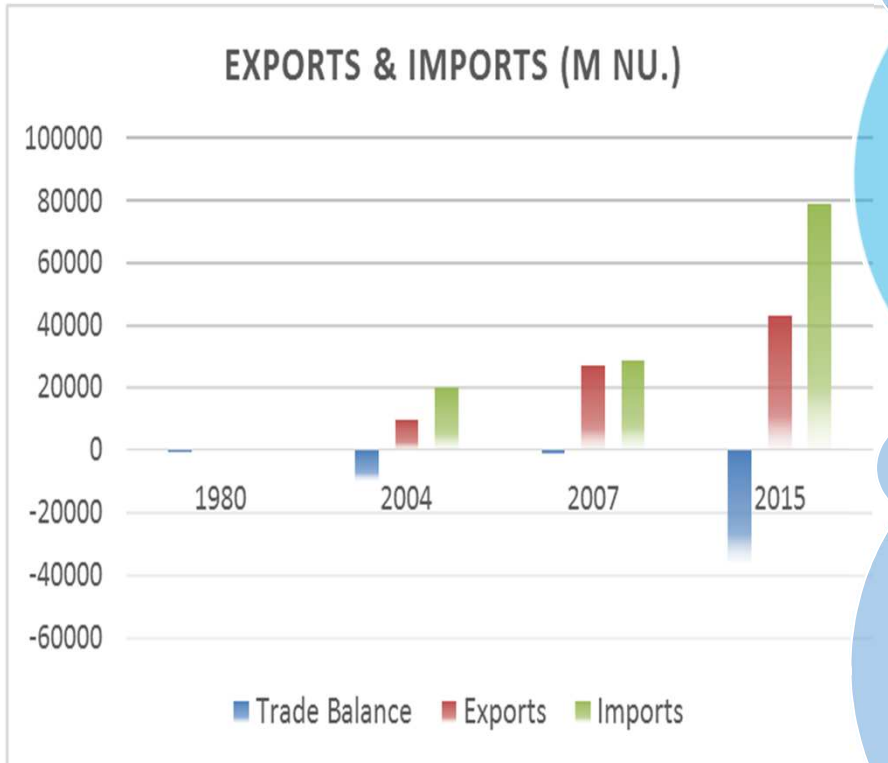
1. Overall unemployed rate low – 2.5 %
2. Large Youth unemployed – 10.7 %
3. Female unemployment- 3.1%
4. Female youth unemployment-12.7%



Trade related challenges persists...



EXPORTS & IMPORTS (M NU.)



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%)

2015

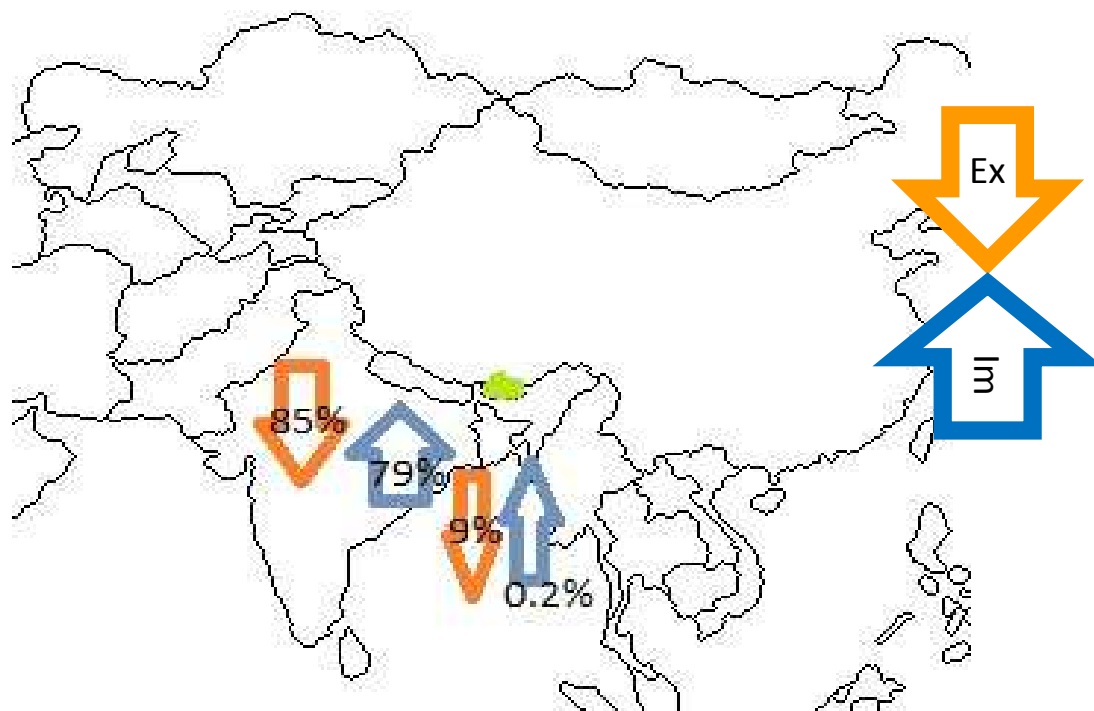
Top 10 Exports	% Share
Ferro Silicon	30.0
Iron	8.0
Cement	7.1
Cardamom	4.1
Calcium Carbide	4.0
Iron Rod	3.8
Silicon	3.5
Dolomite	3.0
Silicon Carbide	3.0
Gypsum	2.8

Top 10 Imports	% Share
Diesel	7.8
Aircraft & parts	5.1
Hydraulic turbines & wheels	4.9
Iron ore	3.8
Petrol	2.5
Electric motors & parts	2.4
Structure & parts	2.2
Wood charcoal	2.1
Rice	1.7
Vehicles	1.6



Concentration of markets

Major regions for Bhutan's exports, 2015



Country	Share of Total Exports (%)				
	2012	2013	2014	2015	2016
India	90.7	86.1	84.8	85.2	85.6
Bangladesh	6.1	7.1	6.7	7.9	10.8
USA	0.0	0.0	0.0	1.3	0.8
Nepal	0.6	0.4	0.7	0.4	0.7
Germany	0.2	1.5	2.4	0.8	0.6

Country	Share of Total Imports (%)				
	2012	2013	2014	2015	2016
India	78.8	82.3	84.0	78.9	82.0
Thailand	1.4	2.0	1.3	1.7	2.2
China	2.5	2.1	1.7	2.7	2.2
Japan	2.4	0.6	2.5	2.2	1.9
South Korea	3.1	1.8	0.0	0.5	1.9

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 a the philosophy of GNH.

5. B. STRATEGIES

5. A. OBJECTIVES

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

- 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.

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:

Energy, CSI, Mining, Tourism, Agri and RNR, Construction, Edu, Health, ICT, Transport, Waste Mgt



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



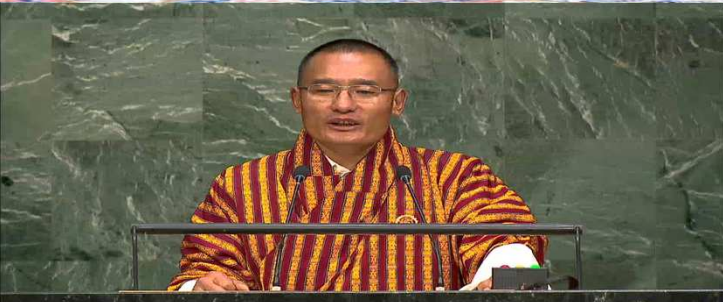
1. Hydropower
 - Besides construction build capacity in terms of planning, designing and specialized construction (dams, tunnels)
2. Cottage and small industries
 - Job creation and poverty alleviation
3. Mining
4. Tourism
 - Balanced regional tourism and spreading tourism throughout the year
5. Agriculture
 - *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
- Longer transition period (2019-24) coinciding with 12th FYP (2018-2024)
- 12th FYP as the Transition Strategy

12th FYP-National Key Result Areas



1 Macroeconomic
Stability Ensured

2 Economic
Diversity and
Productivity
Enhanced

3 Poverty Eradicated
and Inequality
Reduced

4 Culture and
Tradition Preserved
and Promoted

5 Healthy Ecosystem
Services Maintained

6 Carbon Neutral,
Climate and Disaster
Resilient Development
Enhanced

7 Quality of
Education and Skills
Improved

8 Water, Food and
Nutrition Security
Ensured

9 Infrastructure,
Communications and
Public Service
Delivery Improved

10 Gender Equality
Promoted, Women and
Girls Empowered

11 Productive and
Gainful Employment
Created

12 Corruption
Reduced

13 Democracy and
Decentralization
Strengthened

14 Healthy and Caring
Society Enhanced

15 Livability, Safety and
Sustainability of Human
Settlements

16 Justice Services and
Institutions
Strengthened

INTEGRATION OF SDGs into the 12 FYP NKR





Thank You for Your Attention