

Follow-up Mission of the Macroeconomic Advisory Capacity (MAC) of UN-DESA
3-13 February 2012

The follow-up mission¹ of the Macroeconomic Advisory Capacity (MAC) Initiative of UN-DESA held a series of meetings during its presence in Thimpu on 3-13 February 2012. The mission met with the Prime Minister, the Finance Minister, the Governor of the Royal Monetary Authority, Secretary, Ministry of Economic Affairs, Secretary Ministry of Labour and Human Resources, Secretary, Gross National Happiness Commission (GNHC), Director General, National Statistical Bureau, the UN Resident Coordinator, the UNDP country team and the core planning team of GNHC. The mission also held informal discussions with the representatives of the Bhutanese private sector at the Bhutan Chamber of Commerce and Industries.

Both the Prime Minister and the Finance Minister welcomed the candid and objective assessment of the MAC scoping mission report of July 2011². They expressed strong interest in the follow-up activities of the mission and reaffirmed their support for objective and rigorous analysis of policy options available to the Royal Government of Bhutan in implementing the Economic Development Policy and the 11th Plan.

Based on these consultations and responding to the priorities identified by GNHC, the mission agreed to support the following activities:

- a. **Inputs to the strategic framework of the 11th plan:** The mission provided impromptu feedback to the strategic framework of the 11th plan, especially to the Key Performance Indicators (KPI) and the Key Result Areas (KRA). The mission identified areas where the KRAs could be streamlined and strengthened to meet the strategic objectives of the 11th plan. It also suggested that the framework could include additional indicators on productivity and inequality dimensions. GNHC expressed strong interest in receiving further inputs from DESA on the framework of the plan.

Timeline	Immediate and on-going. Final set of comments on the 11 th Plan Strategic Framework by 29 February 2012.
Key Responsibility	UN-DESA.
Resource requirement	UN-DESA staff time. No additional resource will be required.

- b. **Critical review of the Economic Development Policy (EDP):** Concurring with some of the initial observations of the scoping mission report, RGoB has expressed the need for conducting a critical review of EDP to enhance its relevance and effectiveness. The review would involve re-prioritizing and sequencing critical economic sectors, identifying dynamic comparative

¹ Dr. Hamid Rashid, Senior Adviser for Macroeconomic Policy in UN-DESA led the follow-up mission, which included Dr. Basudev Guha Khasnobis, Resident Senior Economist, UNDP-Kathmandu

² UN-DESA scoping mission, led by Dr. Hamid Rashid, visited Thimpu during 6-16 July 2011

advantages of Bhutan over medium to long-term and strengthening cross-sectoral linkages for structural transformation of the economy. The exercise will also identify specific interventions to remove regulatory bottlenecks and help develop a standard operating procedure (SOP) implementation of EDP. It was agreed that the UNDP Senior Economist would take a lead in conducting the critical review and share the first draft with UN-DESA by late March.

Timeline	First draft by 30 April 2012.
Key Responsibility	UNDP.
Resource requirement	UNDP staff time. No additional resource will be required.

- c. **Financing strategies for EDP:** It is recognized that RGoB would greatly benefit from a comprehensive financing strategy for implementation of EDP. The exercise will identify all existing and potential financing options, including fiscal policy interventions to ease the financing constraints. In particular, the strategy will look into the impact of excise duty arrangements on the competitiveness of Bhutanese manufacturing and export sectors. It will also look into alternative financing options – both public and private – for implementation of EDP. The study will assess the feasibility of developing a capital market and a government securities market to boost domestic private investments and FDI. The exercise will develop the roadmap for economic self-reliance of Bhutan, which will require enhanced tax revenue, increased private investment and phasing out of ODA. The study will also serve as a strategy for Bhutan to graduate from the LDC group.

Timeline	UN-DESA will develop a ToR for this study by 15 March 2012 and manage recruitment of an external expert to conduct the study, which will be completed by 15 May 2012.
Key Responsibility	UN-DESA and UN-ESCAP.
Resource requirement	UN-DESA will liaise with ESCAP to mobilize necessary resources for deployment of the external expert.

- d. **Management of Rupee Demand and Liquidity:** RGoB is facing a severe crunch in Rupee liquidity, which is adversely affecting the Balance of Payment (BoP) position of Bhutan. It has requested the mission to prepare a policy note on Rupee management that would look into both administrative and market-based measures for a long-term and sustainable solution to growing demand for Rupee. The policy note will identify the structural causes for Rupee shortfalls and recommend necessary mitigation measures, taking into account the experiences of other countries with currency pegs and persistent current account imbalances.

Timeline	First draft by 15 April 2012.
Key Responsibility	UN-DESA.
Resource requirement	UN-DESA staff time. No additional resource will be required.

- e. **Economic Forum:** GNHC, in partnership with RMA, UNDP and UN-DESA, will organize an Economic Forum during the 6-7 June 2012 to disseminate the findings and recommendations of these studies and policy notes. It will help increase awareness about various policy options for reducing persistent Rupee shortage and increasing economic self-reliance for implementation of EDP. The forum will be followed by a training workshop on macroeconomic policy framework of the 11th plan for the parliamentarians and the media. UN-DESA and UNDP staff members and other external experts participating in the forum will act as resource persons for the training workshop.

Timeline	6-7 June 2012 for Economic Forum, followed by Training Workshop and UNDAF consultations
Key Responsibility	GNHC, UNDP and UN-DESA.
Resource requirement	<ul style="list-style-type: none"> - UN-DESA will bear the participation costs of international experts/resource persons in the Economic Forum. - UNDP- Bhutan and GNHC will provide necessary logistical support and local costs for organizing the economic forum and the training workshop. - UN-ESCAP will be invited to share some of the costs associated with the Economic Forum and the workshop.

- f. **Support to GNHC for the implementation of the 11th Plan:** The mission identified the critical need for on-site support for the formulation of the 11th plan. In particular, the support is needed to prioritize and maximize synergies and positive externalities of various sectoral proposals for inclusion in the 11th plan. This will help build the long-term capacity of GNHC to rationalize various competing investment proposals. It was agreed that an external expert – preferably a development planner with proven track record – would be deployed in GNHC for at least four months (May-August 2012) to support the proposed activities.

Timeline	UN-DESA and UNDP will jointly develop a ToR by 31 March 2012 and prepare and share a long list of external experts for consideration of UNDP and GNHC. The expert will be deployed in GNHC by 1 May 2012.
Key Responsibility	UNDP and UN-DESA will provide technical oversight and guidance to the expert deployed in GNHC.
Resource requirement	UNDP-Bhutan will provide necessary financial resources to recruit and deploy the international expert in GNHC.

- g. **Capacity development support for macroeconomic modeling:** The mission recognized that the policy-makers in Bhutan are not aided with any macroeconomic model that can help them weigh various policy or funding options and take policy-decisions. It was agreed that a simple and user-friendly macroeconomic model, with few elasticity parameters and well-defined objective functions, will greatly facilitate policy decisions. Such a macroeconomic model will also enrich the discourse among various economic entities of Bhutan.

Timeline	September 2012.
Key Responsibility	UN-DESA will use both in-house and external resources to develop a simple but comprehensive macroeconomic model for RGoB.
Resource requirement	UN-DESA will bear all costs for developing the macroeconomic model for RGoB.

- h. **Capacity Development Support to National Statistical Bureau of Bhutan:** The mission met with the Director General of NSB, who expressed strong interest in receiving capacity development support for data collection and data analysis, particularly on national accounts data as well as data on household income and expenditure, inequality and labour productivity. The mission agreed to put NSB in touch with the concerned official in the UN Statistics Division for necessary follow-up action. The support to NSB will be outside the purview of MAC activities in Bhutan.

Timeline	Immediate.
Key Responsibility	UN-DESA will put NSB and UNSD in touch for necessary follow-up action and implementation.
Resource requirement	UNSD staff time. No additional resources will be required from the MAC project or UNDP-Bhutan.