



NATIONAL REPORT: IMPLEMENTATION
OF THE ISTANBUL PROGRAMME OF
ACTION
NOVEMBER 2019
ROYAL GOVERNMENT OF BHUTAN

NATIONAL FOCAL POINT FOR LDC GRADUATION
GROSS NATIONAL HAPPINESS COMMISSION
National Report-Bhutan

ACRONYMS

AES	Annual Education Statistics	DRE	Department of Renewable Energy
AFS	Annual Financial Statement		
AH	Asian Highway	DVPA	Domestic Violence Prevention Act
AHB	Annual Health Bulletin		
ANER	Adjusted Net Primary Enrolment Rate	ECCD	Early Childhood Care and Development
ARE	Alternative Renewable Energy	ECP	Environment, Climate Change and Poverty
AREP	Alternative Renewable Energy Policy	EDP	Economic Development Policy
BAOWE	Bhutan Association of Women Entrepreneurs	EE&C	Energy Efficiency and Conservation
BDBL Limited	Bhutan Development Bank	EVI	Economic Vulnerability Index
BFL	Bhutan for Life	FDI	Foreign Direct Investment
BHTF	Bhutan Health Trust Fund	FIP	Financial Inclusion Policy
BLSS Survey	Bhutan Living Standard Survey	FYP	Five Year Plan
BMIS Survey	Bhutan Multiple Indicator Survey	G2B	Government to Business
BNCA	Bhutan Narcotic Control Agency	G2C	Government to Citizen
BNEW	Bhutan Network for Empowerment of Women	GC	Gewog Centres
BPA	Bhutan Poverty Analysis	GCF	Green Climate Fund
BTFEC	Bhutan Trust Fund for Environmental Conservation	GDP	Gross Domestic Product
BWSI	Bhutan Water Security Index	GEF	Global Environment Facility
CBS&GNHR	Centre for Bhutan Studies and GNH Research	GER	Gross Enrolment Rate
CCPA	Child Care and Protection Act	GFP	Gender Focal Person
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women	GHG	Greenhouse Gas
CoP	Conference of Parties	GLOF	Glacier Lake Outburst Floods
CSO	Civil Society Organization	GNH	Gross National Happiness
DCSI	Department of Cottage and Small Industries	GNHC	Gross National Happiness Commission
DDM	Department of Disaster Management	GNHCS	Gross National Happiness Commission Secretariat
DDMC	Dzongkhag Disaster	GNI	Gross National Income
IT	Information Technology	GPMS	Government Performance Management System
IWRMP	Integrated Water Resource Management Plan	GPP	Green Public Procurement
IZCs	Institute of Zorig Chusum	HAI	Human Asset Index
KM/km	Kilometer	HIV	Human Immuno-deficiency Virus
KPIs	Key Performance Indicators	ICT	Information and Communication Technology
LDC	Least Developed Countries	INDC	Intended Nationally Determined Contribution
LFS	Labour Force Survey	M&E	Monitoring and Evaluation
		MFCTC	Macroeconomic Framework Coordination Technical Committee
		MFIs	Microfinance Institutions
		MoAF	Ministry of Agriculture and Forests



MoEA	Ministry of Economic Affairs	SER	Goals State of the Environment Report
MoF	Ministry of Finance		
MoLHR	Ministry of Labour and Human Resources	SMEs	Small and Medium Enterprises
MoWHS	Ministry of Works and Human Settlements	SYB	Statistical Yearbook of Bhutan
MPI	Multidimensional Poverty Index	TEIs	Tertiary Education Institutes
MRG	Mainstreaming Reference Group	TTI	Technical Training Institute
MW	Mega Watt	TVET	Technical and Vocational Education and Training
NAPA	National Adaptation Program of Action	USD	United States Dollar
NAS	National Accounts Statistics	VNR	Voluntary National Review
NCD	Non- Communicable Disease	WRMP	Water Resources Management Plan
NCWC	National Commission for Women and Children	WSP	Water Safety Plan
NDMA	National Disaster Management Authority		
NDRMF	National Disaster Risk Management Framework		
NEC	National Environment Commission		
NES	National Environment Strategy		
NEWH	Northern East-West Highway		
NFE	Non-Formal Education		
NGOs	Non-Government Organization		
NHS	National Health Survey		
NKRAs	National Key Result Areas		
NSB	National Statistical		
ODA	Official Development Assistance		
PAR	Poverty Analysis Report		
PCB	Penal Code of Bhutan		
PHCB	Population and Housing Census of Bhutan		
PISA-D	Program for International Student Assessment for Development		
PPD	Policy and Planning Division		
RMA	Royal Monetary Authority		
RNR	Renewable Natural Resources		
SAPA	Sector Adaptation Plan of Action		
SDGs	Sustainable Development		



Table of Contents

1. Introduction	1
2. National Development Planning Process	1
3. Assessment of progress and challenges in the implementation of the Istanbul Programme of Action for the Decade 2011-2020	2
3.1 Productive Capacity	2
3.2 Agriculture, food security and rural development	5
3.3 Trade & Commodities	7
3.4 Private Sector Development	9
3.5 Human and Social Development	11
3.5.1 Education	11
3.5.2 Population and Primary Health	14
3.5.3 Youth Development	16
3.5.4 Water and Sanitation	18
3.5.5 Gender and Empowerment of Women	20
3.5.6 Social Protection	22
3.6 Multiple Crisis and other emerging challenges	23
3.6.1 Climate Change	23
3.6.2 Managing Public Debt	25
3.7 Mobilizing financial resources for development and capacity building	26
3.7.1 Domestic resource mobilization	26
3.7.2 Official development assistance	27
3.7.3 Foreign direct investment	27
3.7.4 Remittances	27
3.8 Good governance at all levels	27
3.9 Progress towards graduation	29
4. Coherence and linkages with the 2030 Agenda and other global processes	29
5. Towards the next LDC agenda	32

1. Introduction

The Kingdom of Bhutan is a small landlocked country located in the eastern Himalayas. It has a total land area of approximately 38,394 square kilometres and a population of 727,145¹. In view of the country's development priorities and its active role as a member of the global community, international and regional commitments such as Sustainable Development Goals and the Istanbul Program of Action (IPoA) have been closely considered and referred to during the formulation of Bhutan's national development agenda. Provisions of the IPoA have been mainstreamed into national policies and development frameworks given that the priority areas are reflective of the country's ongoing challenges as an LDC and an LLDC.

This report presents an assessment of implementation of the IPoA in Bhutan and provides an overview of the progress achieved, policy reforms and initiatives undertaken. It identifies specific areas where ongoing efforts need to be accelerated as the country prepares to graduate from an LDC in 2023. The findings of the assessment will be useful as Bhutan begins preparation of its transition strategy to achieve its goal of sustainable graduation.

The Gross National Happiness Commission (GNHC) Secretariat as the designated national focal point for Bhutan's LDC graduation coordinated the preparation of this report. Inputs from key stakeholders and development partners were sought in preparing this report and special efforts were made to seek the inputs of the CSO community and the private sector. Care was undertaken to ensure that views and comments of all relevant stakeholders were duly incorporated into the final draft of the report.

The GNHC as the central coordinating agency for planning, policy formulation and resource allocation ensures that international commitments are mainstreamed into the national planning, policy making and monitoring frameworks and cascaded through all levels of government. It is uniquely placed to do so, as it is chaired by the Hon'ble Prime Minister and has as its member the Finance Minister as the Vice-chairman, the ten Secretaries to the Government and Secretaries of the National Environment Commission and GNHC as its members. The effective monitoring and reporting of progress has however, been impeded by capacity issues, data limitations and financial constraints.

2. National Development Planning Process

The GNHC is Bhutan's central planning and public policy formulation body. It ensures that Bhutan's development plans and policies adhere to the principles of Gross National Happiness (GNH) which is the overall guiding development philosophy and development goal of Bhutan. The GNHC is also responsible for determining the overall resource allocation ensuring that priority areas and sectors receive adequate resources. Bhutan follows a five year planning cycle that articulates the socio-economic development priorities and programmes to be implemented over a five-year period. Development plans are formulated following extensive consultations from grassroots level to key stakeholders and partners at the national level.

The IPoA decade spans two Five Year Plans (FYP) of Bhutan, namely the 11th FYP which ended in

¹ PHCB 2017, National Statistics Bureau of Bhutan.

2018 and the current 12th FYP which commenced in 2018 and will end in 2023. Emphasizing its commitment to graduating from LDC status, Bhutan has consistently mainstreamed IPoA's eight principles and priority areas in the two plan periods falling within the IPoA decade from 2011 to 2022.

The 11th FYP was formulated under the broad objective of 'Economic Self-Reliance and Inclusive Green Socio-Economic Development'. In alignment with the priorities of the IPoA, the 11th FYP's key focus was on poverty reduction, strengthening the economy, improving quality of social services and development of strategic infrastructure. A total of 16 National Key Result Areas (NKRAs) were identified such as achieving sustainable economic growth, poverty reduction, food security, employment, sustainable environmental utilization, natural resource management, water security, disaster resilience, good governance and gender.

The 12th FYP is Bhutan's current national development plan that commenced implementation in November 2018. It will be Bhutan's last plan as an LDC and seeks to address last mile challenges in all sectors and ensure that Bhutan's graduation is sustainable and irreversible. The focus therefore is on improving productive capacity, building the economy's resilience and meeting the last mile challenges in areas of poverty, health and education. The 12th FYP Plan has identified 17 NKRAs to achieve these objectives as it prepares to graduate in 2023. In addition to the agency and local government plan programmes, the 12th FYP will see the implementation of priority flagship programmes. These are in the areas of tourism, CSI and Startup, digitalizing Bhutan, technology, water security, organic agriculture, health, education and waste management.

3. Assessment of progress and challenges in the implementation of the Istanbul Programme of Action for the Decade 2011-2020

3.1 Productive Capacity

Bhutan's real GDP in the last seven years (2010-2017) grew by an average of 6.4 percent² and the growth in 2017 was estimated to be 4.4 percent. Preliminary national projections show that the positive trend is expected to continue with an average growth rate of 5.6 percent in the 12th FYP³.

Bhutan continues to evolve into a modern economy with the industry and services sectors growing more rapidly than the agriculture sector (primary sector) pointing to some structural transformation and productivity gains. The share of primary sector reduced from 27 percent in 2000 to 17 percent in 2017. On the other hand, the shares of secondary and tertiary economic sectors have grown from 35 percent to 41 percent and 38 percent to 42 percent respectively, during the same reporting period. Services sector share which includes tourism, the highest foreign exchange earner, has remained steady. The hydropower sector has been the main growth driver through direct export earnings and its spill-over effects on construction sector and power intensive industries.

² SYB 2018, National Statistics Bureau of Bhutan

³ Bhutan: Selected Economic Indicators, October 2019, Macroeconomic Framework Coordination Technical Committee

3.1.1 Major Initiatives

- i. With “Self-reliance and Inclusive Green Socio-economic Development” as the overarching objective of the 11th FYP, there was a strong emphasis on Economic Development through adoption of the Economic Development Policy (EDP) 2016. The policy identifies hydropower, agriculture, cottage and small industries, tourism, and mining, referred to as the “Five Jewels” that have the potential for export, revenue generation and employment creation. A set of broad strategies including diversification of exports and economic base, development of ‘Brand Bhutan’ and industrial cluster approach was adopted for development of the selected priority sectors.
- ii. In the 11th plan, the Royal Monetary Authority of Bhutan introduced the Minimum Lending Rate (MLR), a forward-looking and integrated interest rate, replacing the Base Rate System, to encourage competition among the financial institutions and create favourable lending rates to productive sectors⁴. The sectors that benefitted were manufacturing, services and transport with over 10 per cent decline in their lending rates. Additionally the Parliament also endorsed tax waiver on interest earned from fixed deposits to encourage domestic savings in the economy.
- iii. To foster non-formal rural economic growth, the Government instituted Rural Enterprise Development Corporation Limited (REDCL) to provide collateral free loan at an interest rate of 4 percent⁵ and also launched Priority Sector Lending (PSL)⁶ scheme to enhance access to finance to stimulate the cottage and small industries (CSI) as an important economic growth engine.
- iv. Hydropower is Bhutan’s comparative advantage and its sustainable exploitation has had significant impact in boosting the country’s economy. It constitutes 16 percent of GDP and 30 percent of revenue. As of 2017, the installed generation capacity is about 1,488 MW and three mega projects that would contribute an additional 2,940 MW, are under advanced stages of construction. Today, 99.9 percent of the households in Bhutan have access to electricity. Efforts to diversify sources of energy have been made through adoption of Alternative Renewable Energy (ARE) Policy, which targets to generate 20 MW from various technologies by 2025. The country has installed a 600 kW wind power plant on a pilot basis that electrifies 300 households. A domestic feed in tariff policy is under formulation. Further, to encourage use of renewable energy, rural households and poor urban households are provided with 100 units of free electricity a month. Recently the government has announced additional 100 units of free electricity for highland communities which experience more severe climatic conditions.
- v. Demand-side management of energy and improvements in the energy performance standards have been carried out in the areas of industry, transport, buildings and appliances through adoption of energy efficiency and conservation standards.
- vi. At the regional level, given the benefits of optimal sharing of the limited energy resources, especially in the field of hydropower energy, a trilateral cooperation among Bhutan, Bangladesh, and India for investment in hydropower project is being discussed.

⁴ Annual Report, RMA, 2015/16

⁵ <http://www.redcl.gov.bt/language/en/company-profile/>

⁶ <https://www.rma.org.bt/PSL/psl.pdf>

- vii. Furthermore, National Energy Efficiency and Conservation Policy has also been drafted to ensure sustainable use of energy across all sections of the consumers and to encourage general improvements in the energy performance standards of four major sectors of industry, transport, buildings and appliances.
- viii. Recognizing Telecommunications and Broadband as important contributors to the socio-economic development of the country, the Bhutan Telecommunications and Broadband Policy was approved in 2014. This Policy has been guiding and shaping the development of telecommunications and broadband sector in the country. The main objectives of the policy are: connectivity for all, strengthening of rules and regulations, creation of conducive environment for private investments and competition leading towards an efficient market and affordable broadband and telecom services.
- ix. Today, all 20 Districts and 205 blocks of Bhutan have access to cellular connectivity; internet and broadband penetration in all 20 Districts is up to 75 percent and Government to Citizen services consist of more than 100 public services made online through electronic and mobile platforms.
- x. In addition, electronic-government interoperability framework and an enterprise architecture to enable efficient sharing of information has been developed from 2014.
- xi. Bhutan has developed its first TechPark with support from multilateral donors and Public Private Partnership with the objective of employment generation and promoting knowledge-based society. The park also serves as innovation hub for startup businesses.
- xii. To foster innovation and ICT enabled growth, Bhutan is investing in Start-Up innovation camps and has established a Business Start-Up Center in the capital.

Despite the progress made in harnessing renewable energy, challenges remain. The impact of climate change on hydropower sector would have dire consequence and is a source of vulnerability for Bhutan. Successfully ensuring access to affordable, reliable, sustainable and climate resilient infrastructure through scaling existing initiatives will require significant investment in terms of human resources, and technology transfer. The Royal Government will continue efforts to improve the investment climate through review of relevant policies and regulatory frameworks to attract financing.

While Bhutan's economy has undergone some degree of structural change, it has not resulted in commensurate redistribution of labour, employment creation and private sector development. Agriculture sector continues to be the primary employer with approximately 57 percent of labor force followed by the public sector⁷. Bhutan's industrial sector has been largely driven by hydropower and construction and the economy remains relatively undiversified with electricity constituting a significant share of GDP. Economic growth was sustained by the growth of construction sector (15.87 percent) in 2017, which led to aggregate industrial growth⁸. Other industry sub-sector recorded modest growth: the manufacturing subsector remains relatively small, accounting for only about one-fifth of the industrial sector. Bhutan's manufacturing sector is dominated by a small number of major operators and a larger number of small manufacturing plants concentrated in the food processing activities and cottage industries. In general, the

⁷ BLSS 2018, National Statistics Bureau of Bhutan

⁸ NAS 2017, National Statistics Bureau of Bhutan

manufacturing sector in Bhutan is locked into relatively low value-added products. Furthermore, with a population of only 768,577, the small size of domestic market offers limited opportunities to harness economies of scale for production. Capacity constraints and negligible investment in the area of science, technology, research and innovation are a major constraint facing the Bhutanese economy.

Further, nearly 85 percent of trade is with a single trading partner. As a country located in the ecologically fragile Eastern Himalayas, Bhutan is vulnerable to impacts of climate change. With a majority of the population dependent on agriculture, and the economy heavily reliant on hydropower and tourism, climate change has serious implications for Bhutan's socioeconomic development.

3.2 Agriculture, food security and rural development

Agriculture sector is the major source of employment for Bhutanese with 57 percent of the population dependent on the sector for their livelihood⁹. Food self-sufficiency is high with 97 percent of the households in Bhutan reported to be food sufficient¹⁰, with urban residents rarely experiencing food insufficiency. Approximately 4 percent of people in rural areas report experiencing food insufficiency. The high percentage of food sufficiency is largely a result of food imports. For instance, Bhutan is only 47 percent self-sufficient in rice, its main staple cereal¹¹ with the remaining requirement being imported. Rural households still experience seasonal food shortages, peaking during the months of May to August, during which times they adapt to coping mechanisms such as off-farm activities, daily wage labouring, and depending on cash remittances¹².

Labour shortages and the seasonal feminisation of agriculture, crop damages by the wild animals, inadequate irrigation water, seasonal drought, hail and windstorms, landslides, limited arable land and access to markets are some of the factors limiting agriculture productivity¹³. Climate change impacts and other disasters intensify the agricultural challenges. The location of farmland on slopes makes agriculture practices inherently difficult. For instance, 31 percent of agriculture land is situated on slopes of more than 50 percent gradient¹⁴, resulting in a high rate of soil erosion¹⁵. Agriculture is largely small holder subsistence farming, operated by family members with an average landholding of 1.2 ha¹⁶.

3.2.1 Major Initiatives

To address these challenges, a series of programmes have been implemented by the Government to accelerate the growth of the agriculture sector with a focus on drivers of change, including irrigation development, farm mechanization and addressing human wildlife conflict

⁹ BLSS 2017, National Statistics Bureau of Bhutan

¹⁰ BLSS 2017, National Statistics Bureau of Bhutan

¹¹ RNR Statistics 2017, Ministry of Agriculture & Forests, Royal Government of Bhutan.

¹² Agriculture Statistics, 2016, Department of Agriculture, Ministry of Agriculture & Forest, Royal Government Bhutan.

¹³ Agriculture Statistics, 2016, Department of Agriculture, Ministry of Agriculture & Forest, Royal Government Bhutan.

¹⁴ National Action Program to Combat Land Degradation, 2014, National Soil Service Centre, Department of Agriculture, Ministry of Agriculture and Forest, Royal Government of Bhutan

¹⁵ Measurement and analysis of soil erosion plot data, 2009, National Soil Service Centre, Department of Agriculture, Ministry of Agriculture and Forest, Royal Government of Bhutan

¹⁶ Katwal, T.B, Multiple Cropping in Bhutanese Agriculture – Present Status and Opportunities, <http://www.nbc.gov.bt/wpcontent/uploads/2010/06/Multiple-Cropping-Paper-Bhutan-for-SAC-1.pdf>

management:

- i. In the 11th FYP around 2640 kilometers of irrigation channels were constructed or renovated and land brought under assured irrigation increased from 47,424 acres in 2010 to 68,955 acres in 2017¹⁷. Distinguishing water as critical input for agriculture development and transformation to commercial and semi-commercial, and also to adapt to climate change, a National Irrigation Master Plan a 15-year action plan was developed in 2016¹⁸.
- ii. Agriculture mechanization is priority of the government to ease farm labour shortage. With the objective of providing farm mechanization goods and services to the farming communities at an affordable price, Farm Machinery Corporation Limited (FMCL) was incorporated as a State Owned Enterprise. In addition, the Government distributed 1200 power tillers and built 5363 kilometers of farm roads.
- iii. 40 percent of farming households are affected by human – wildlife conflict, and on average spend 47 number of days and 58 nights each year guarding crops from wild animals¹⁹. Electric fencing is considered a safe and acceptable intervention, with more than 2000 kilometers of fencing now in place benefiting close to 11,000 rural households²⁰.
- iv. To ensure Bhutan’s agriculture production system is sustainable and resilient to changing climate, the Government has been pursuing various climate-smart agriculture options, including organic agriculture²¹. To systematically address the problem of soil erosion and agriculture land degradation arising from unsustainable slope farming, the Government launched the Agriculture Land Development Guidelines (ALDG) in 2017²². These set out the importance of sustainable land management for enhanced food production, and for Bhutan to remain committed to the carbon neutrality targets of the UNCCD.
- v. The National Rehabilitation Programme (NRP) to benefit rural farmers was initiated by the National Land Commission Secretariat (NLCS). The aim of the programme was to alleviate poverty and food insecurity by allocating economically viable farming land on a freehold basis²³. Under the program, more than 6,536 landless households were allotted with 23,800 acres (3.6 percent of total arable land) of farming land with an inclusive resettlement package. Land Use Right System (URS) was also introduced recently to enhance economic livelihood opportunities. The URS allows beneficiaries to use state land as long as the land is being used productively for the purpose for which the land is allotted through payment of taxes at par with existing land tax.
- vi. Given that poverty is largely a rural phenomenon in Bhutan with 11.9 percent of population in rural areas living below the poverty line²⁴, the agriculture sector has

¹⁷ 11th Five Year Plan 2013-18 Final Report, GNH Commission

¹⁸ National Irrigation Master Plan, 2016, Department of Agriculture, Ministry of Agriculture and Forest, Royal Government of Bhutan

¹⁹ Agriculture Statistics, 2016, Department of Agriculture, Ministry of Agriculture and Forest, Royal Government of Bhutan

²⁰ The State of the Nation Report, June 2017

²¹ CIAT; World Bank, 2017, Climate Smart Agriculture in Bhutan, CSA Country Profile for Asia Series, International Centre for Tropical Agriculture (CIAT); The World Bank, Washington, D.C, 26 p. 65

²² Agriculture Land Development Guidelines, 2017, Department of Agriculture, Ministry of Agriculture and Forest, Royal Government of Bhutan (<http://www.nssc.gov.bt/>)

²³ <http://www.nlcs.gov.bt/>

²⁴ Bhutan Poverty Analysis Report 2017, National Statistics Bureau

- received the highest capital outlay in both the 11th and 12th FYP.
- vii. The Rural Economy Advancement Programme (REAP) provided support for socio-economic development to 75 poorest villages comprising of about 1600 households. Under the programme, 837 houses were constructed or renovated, 777 improved toilets were constructed, 12 villages were supported with water supply and irrigation schemes, 259 agriculture machineries including power tillers were supplied, and 114 kms of electric fencing were installed. Efforts have also been undertaken to target the poor at the household level. A total of 2678 poorest households were identified and interventions to reduce their poverty have been developed.
 - viii. Recognizing the sector's vulnerabilities, particularly to climate change impacts and climate change induced disasters, the Sector Adaptation Plan of Action (SAPA), 2016²⁵ identifies forest & biodiversity, food security & agriculture and water resources as the most vulnerable sub-sectors from climate change impact.
 - ix. The 12th FYP provides the required programmatic focus by identifying "Food and nutrition" and "Water security" as two of the NKRA's. Assuring 24-7 supply of safe water for drinking and irrigation has also been identified as a Flagship Programme. The investment required to adapt to climate change in these sub-sectors are substantial.

3.3 Trade & Commodities

Given Bhutan's small domestic market with limited scope for expansion, building export capacity is viewed as essential to achieve larger goals of sustainable growth and economic self-reliance. Total exports increased by 27 percent between 2010 and 2017 while import volume increased by 71 percent²⁶. Bhutan faces a trade deficit which stood at 19 percent of GDP in 2017 and on average has remained at around 22 percent of GDP between the period of 2010 and 2017.

While the export composition has undergone some degree of transformation from primary based exports to higher value-added products, it remains highly concentrated. The export basket at product level is largely dominated by few range of products besides electricity, namely: Ferro-silicon, Steel, Portland cement, Calcium Carbide, Silicon Carbide, Cardamom, Dolomite, and Gypsum. Electricity, has remained the highest merchandise export over the last decade averaging 36 percent. Another 45 percent was concentrated only in 10 commodities. Traditional exports (agriculture) contributed up to 4 percent of the total export.

Bhutan's export earnings are vulnerable to both external and internal shocks. While mineral and base metal products are currently competitive due to cheap electricity rather than any technological advantage, production of electricity is reliant on hydrological flows. Pattern of non-hydro export has stagnated over the last decade signifying major challenge in product diversification. There is also limited value addition with majority of the commodities being exported in its primary form.

India has been the largest trading partner with an average share of 82% of the total trade in last

²⁵ The Renewable Natural Resources Sector Adaptation Plan of Action, 2016, RNR Climate Change Adaptation Program, Ministry of Agriculture and Forest, Royal Government of Bhutan

²⁶ Statistical Year Book of Bhutan 2018 & 2011, National Statistics Bureau

decade. In 2017, export to India constituted 85 percent of the total export followed by Bangladesh at 9.35 percent. In terms of import, India alone accounted for 80% of the total imports in 2017²⁷. There exists an untapped economic opportunity to further diversify Bhutan's export basket with the large Indian market and beyond.

Bhutan faces challenges in diversifying its economy, in part because of the inherent constraints associated with being landlocked with a small population. Lack of adequate infrastructure, land, access to finance, lack of skills and issues associated with labor market are prominent binding constraints faced by the private sector.

3.3.1 Major Initiatives

- i. Bhutan adopted the Economic Development Policy 2016 which provides the strategic direction for growth and key guiding policy in Bhutan's drive towards economic diversification through development of sectors that have the highest potential, namely- Hydropower, Tourism, CSIs, Mining and Agriculture. The EDP has a total of 252 Policy provisions and provides the overall enabling environment to continue creating a transparent and conducive environment for business and investment in the Bhutanese economy.
- ii. To complement the EDP 2016, the Parliament of Bhutan enacted the Fiscal Incentives Act of Bhutan 2010 and 2016. This Act and its subsequent amendments effectively grants fiscal incentives in the form of both direct and indirect tax exemptions and concessions to stimulate economic growth, foster private sector development and generate employment. Incentives and exemptions ranging from income tax holiday, reinvestment allowance, tax rebate, income exemption, additional expenditure deduction, TDS exemption, sales tax exemption, customs duty exemption, and concessional customs duty have been granted. The general incentives are applicable to all the sectors of the economy and the sector specific incentives are applicable to priority sectors identified under the EDP.
- iii. The Government has built more than 18,088 km of roads²⁸, linking the capital, Thimphu with the Central and Eastern Districts, plus a series of north-south connections to the Indian Border, including the main access between Thimphu and the border at Phuentsholing. All the 20 districts are connected by blacktopped motor-able roads forming part of the National Highway Network. Additionally, the Government is double laning the Northern East-West Highway (NEWH). Upgradation of the three domestic air ports in the East, South and Central parts of the country will facilitate regional development, enhance connectivity, and reduce travel time and distance besides facilitating trade and business for larger economic gains.
- iv. Bhutan's Customs Act 2017 seeks to bring its customs rules and regulations into line with best international practice. Bhutan is now implementing an Automated Customs System allowing the electronic declaration of goods and advanced paper management.
- v. Acknowledging the international importance of dry ports, Bhutan has initiated the process of accession to the Intergovernmental Agreement on Dry Ports to improve

²⁷ SYB 2018, National Statistics Bureau of Bhutan

²⁸ Annual Information Bulletin 2018, Policy & Planning Division, Ministry of Work & Human Settlement

operational efficiency and enhancing the environmental sustainability of transport. A mini 'dry port' facility, which is the first dry port facility in the country, is currently being constructed under the ADB-South Asian Sub-regional Economic Cooperation road connectivity project at Phuentsholing to speed up the transit of goods. Three more dry port infrastructures are being explored in the Southern border areas (Pasakha, Nganglam, and Gelephu). Construction of modern integrated check posts are also underway in two border towns of Phuentsholing and Gelephu.

- vi. The India-Bhutan bilateral trade treaty signed in July 2017 will enhance Bhutan's access to countries beyond India. The treaty permits a wide range of Bhutanese goods destined for third-party markets to transit India without paying Indian duties.
- vii. Initiatives have been undertaken to improve trade links between Bhutan, India, Nepal and Bangladesh across the north-east of the Indian sub-continent. For example, Bhutan is a member of BIMSTEC (Bay of Bengal Initiative for Multi-sectoral Technical and Economic Co-operation), and has also signed a bilateral Trade and Economic Co-Operation Agreement with Nepal. Within the framework of BIMSTEC, members are working towards adoption of an Agreement on Cooperation and Mutual Assistance in Customs Matters for BIMSTEC.
- viii. Bhutan and Bangladesh signed an agreement on the use of inland waterways to transport bilateral trade and transit cargoes between the two countries following which the first consignment using inland waterways arrived from Bangladesh to Bhutan in July 2019²⁹.
- ix. Bhutan National Single Window for international trade has been identified as one of the key initiatives in the 12th FYP to provide seamless end to end facilitation of cross border trading. The online system will streamline procedures between traders and government agencies in order to reduce time and cost whilst enforcing required controls.
- x. Bhutan currently maintains observer status at the WTO to allow national stakeholders to gain better understanding of the multilateral trading system. Nonetheless as part of the accession process, four Working Party Meetings were held followed by two subsequent informal meetings. Efforts to create awareness on WTO for the benefit of the businesses and general public, including NGOs continue to be made.

3.4 Private Sector Development

Bhutan recognizes the importance of private sector development as driver of growth and source of employment generation. The growth of private sector firms particularly in manufacturing and services has been inhibited by the small domestic market, high trade costs and investment climate imperfections³⁰. This has had direct implications on economy's ability to create productive employment for the growing youth population of Bhutan. The latest Economic Census of Bhutan (2018-19) reports a high level of concentration of single proprietorship and partnership establishments. These establishments constitute more than 90 percent of all establishments and provide employment to only 49 percent of the total workers. Private limited companies, state-owned companies and project authorities represent only 1.4 percent of the total establishments but provide employment to 39 percent of all workers. Some of the common

²⁹ The executive report- 1 year in Office -Cabinet

³⁰ Investment Climate Assessment of Bhutan, September 2017, Asian Development Bank.

business obstacles reported were access to finance, rent payment, competition from informal sector, electricity supply, access to raw materials and level of education (skills) of employees.

3.4.1 Major Initiatives

- i. The implementation of Economic Development Policy (EDP) 2016 was one of the most important policy enablers that has been instituted to provide the overall enabling environment for conducive economic development and lay out clear strategies ranging from incentives to policies and financing to enable private sector growth in sectors of high potential.
- ii. Other policy instruments to facilitate private sector development in Bhutan have been put in place such as the Fiscal incentives 2010 & 2016, Licensing Policy 2015 and Public Private Partnership Policy 2016.
- iii. Better Business Council was established in June 2014 to provide a platform for promoting better public-private dialogue to strengthen business environment. The council is tasked with the objective of encouraging entrepreneurship, improve access to finance and skilled labor, FDI and enhance ease of doing business.
- iv. An Economic Stimulus Plan with a budget of Nu.5 billion, equivalent to USD 86.2 million, was instituted to stimulate investment and promote priority sector lending to enhance production, generate employment, increase exports and substitute imports.
- v. To foster non-formal rural economic growth, the Government instituted Rural Enterprise Development Corporation Limited to provide collateral free loan. As of May, 2018 a total of 3,828 projects worth USD 1.6 million (Nu.1117.49 million)³¹ was approved.
- vi. Priority Sector Lending scheme was introduced in 2017 to improve access to finance to cottage and small industries (CSI) and agriculture. Under the Scheme, financial institutions are mandated to meet their annual incremental priority sector lending targets and allocate at least 1 percent of their total lending portfolio for the scheme. The Scheme provides an integrated platform that coordinates interventions from several government agencies to stimulate the CSI sector growth. Since its launch in 2017, approximately USD 5.9 million (Nu.413.62 million) has been collectively sanctioned by Bhutanese financial institutions to support projects³².
- vii. In order to increase access to finance, a Credit Information Bureau and three new commercial banks were established. Bhutan's Central Bank, the Royal Monetary Authority also introduced a minimum reference rate for lending in 2016 encourage competition and professionalism among the financial institutions.
- viii. To make employment in private sector more attractive, the provisions of the Labour and Employment Act 2007 and its Regulations are being implemented in the private sector.
- ix. Several employment and skills development programmes were initiated which led to employment of more than 12,000 youth. The Entrepreneurship Development Program was provided to more than 3,000 youth and a Revolving Fund for New Startups was also created in 2016.
- x. In the 11th FYP, around 8,200 jobs were created in the Districts mainly by establishing small and cottage industries.

³¹ 11th FYP 2013-18 Final Report, GNH Commission

³² PSL Quarterly Report Q2-2019 Report, Royal Monetary Authority

- xi. The 12th FYP also focuses on ‘Creation of Productive and Gainful Employment’ as one of the NKRA. A target of 26,600 new jobs in the various economic sectors has been set. A total of 12,000 additional jobs has been targeted in the tourism sector through the Tourism Flagship Programme and 2570 jobs through the CSI programme.

Table: 12th FYP Sector-wise Employment Projection

Sl. No	Sector	Employment Projection
1	RNR	1748
2	Tourism	12,144
3	Mining	204
4	Cottage and Small Industries	2,570
5	Hydropower and Power Systems	1898
6	IT and IT Enabled Services	509
7	Construction	970
8	Medium and Large Industries	1200
9	Trading	5,366
	Total	26,609

- xii. FDI and CSI policies were also revised to create a more business friendly environment for investors. A PPP Policy was also launched. The National Competition Policy and Mines & Minerals Bill are also being drafted.

3.5 Human and Social Development

Bhutan has made significant progress in human development and poverty reduction since the initiation of its Five Year Plans in 1960s. Income poverty has been reduced from 23 percent in 2007 to 8 percent in 2017 and multidimensional poverty has been reduced from 12.7 percent in 2012 to 5.8 percent in 2017 with rural and urban poverty rates at 8.1 percent and 1.2 percent³³ respectively.

3.5.1 Education

Education plays a crucial role in accelerating economic growth through creating a productive national workforce and in advancing socio-economic development. The commitment to education of citizens has been enshrined in Bhutan’s Constitution, which mandates that ‘The State shall provide free education to all children of school going age up to tenth standard and ensure that technical and professional education is made generally available and that higher education is equally accessible to all on the basis of merit’. Accordingly, Bhutan has invested heavily in education with the sector receiving the highest share of the capital allocation in both the 11th and 12th FYP period. Expenditure on education as a percent of GDP stood at approximately 6 percent.

Bhutan has made great strides in improving access to education and is close to achieving the

³³ Bhutan Poverty Analysis Report 2017 & Bhutan Multidimensional Poverty Index, National Statistics Bureau

goal of Universal Primary Education. As of 2019, the Adjusted Net Primary Enrolment Rate (ANER) is 96.5 percent constituting 96.1 percent boys and 96.9 percent girls. Similarly, the Gross Enrolment Ratio (GER) for basic (Class PP-X) is 100.3 percent and GER for secondary (Class VII-XII) is 93.3 percent for the same year. The key education indicators disaggregated by gender is presented in the Table 1 below.

Table 1: Key Education Indicators, 2019

Indicators	Male	Female	Total
Net enrolment in ECCD	20.5%	20.6%	20.5%
Gross enrolment in ECCD	25.3%	25.4%	25.3%
Net enrolment ratio (NER) Primary	90.3%	92.2%	91.2%
Adjusted NER Primary	96.1%	96.9%	96.5%
NER Basic	87.6%	92.1%	89.8%
NER Secondary (Class VII-XII)	68.9%	79.4%	74.1%
Gross enrolment Ratio (GER) Basic	97.9%	102.8%	100.3%
GER Secondary (VII-XII)	88.5%	98.2%	93.3%
GER Tertiary within Bhutan (19-23 years)	17.0%	16.6%	16.8%
GER Tertiary within and outside Bhutan (19-23 years)	25.6%	24.1%	24.9%
Youth Literacy Rate (15-24 years)	94.8%	91.6%	93.1%
Adult Literacy Rate (15 years and above)	75.0%	57.1%	66.6%
General Literacy Rate	78.1%	63.9%	71.4%
Gender Parity Index (GPI) Tertiary within Bhutan	0.89		

Source: Annual Education Statistics 2019, Ministry of Education

These successes have been made possible through consistent investment in the education sector over the years since the advent of modern education in 1960s. Strategic education-focused frameworks (e.g., Bhutan Education Blueprint 2014-2024 and the draft National Education Policy) were developed to improve the universal access to free and equitable quality education.

Challenges continue to remain in providing access to hard to reach areas, providing inclusive education, improving the quality of education and improving gender parity at the tertiary level. These represent the last mile challenges in the education sector which will be the focus of the 12th FYP.

3.5.1.1 Access to Education

- i. Commendable progress has been made in tertiary education. The Gross Enrolment Ratio (GER) Tertiary within and outside Bhutan for age 19-23 years as of 2019 stands at 24.9 percent. Currently, there are 18 Tertiary Education Institutes (TEIs) offering various higher education courses in healthcare, medicine, law, language, management, natural resource, education and technology courses in the country. In 2014, the Government instituted Students Loan Scheme for Tertiary Education to provide opportunities for students from economically disadvantaged families to continue tertiary education.
- ii. Recognizing the importance of ECCD programme in laying foundation of human

development and lifelong learning, there has been an expansion of ECCD programmes. As of 2019, a total 379 ECCD Centers were in operation as compared to 165 in 2013. The GER for ECCD has increased from 7 percent in 2013 to 25.3 percent in 2019³⁴. Going forward, the 12th FYP aims to enroll at least 50 percent of children aged 3 to 5 years in ECCD Centres.

- iii. Ensuring continuity and access to affordable and quality technical, vocational and tertiary education is an important element of the overall education system framework in Bhutan. Currently, there are five Technical Training Institutes, one institute for Tourism and Hospitality, one institute for Power Training and 2 Institutes for *Zorig Chusum* (13 Traditional Arts & Crafts) in the country with a total of 1793 trainees and 161 instructors. While efforts have been made to enhance access to and quality of TVET education, it remains an unpopular option for many students due to the low status and poor working conditions associated with blue-collar jobs. To enhance quality and relevance of TVET education, a Technical and Vocational Education and Training (TVET) Blueprint that outlines reforms has been developed. A national level reform of the TVET sector is currently underway under the auspices of the Prime Minister's Office to spearhead the growth of a vibrant TVET system in the country.
- iv. Non-Formal Education (NFE) and Continuing Education (CE) programme continue to serve as an effective lifelong learning programme in providing basic literacy and functional skills to those who have not attended formal schooling. In 2019, there were 5,539 NFE learners attending basic literacy and post literacy courses in 482 NFE centres. The participation of females has always been higher than males in NFE programme. The NFE programme is being continually strengthened to achieve higher adult literacy rate. Owing to such interventions, the literacy rate in Bhutan has improved from 55.3 percent in 2005 to 66.6 in 2017.
- v. In terms of gender equality in education, impressive achievements have been made with Adjusted Net Primary Enrolment Rate of 96.9 percent for girls compared to 96.1 percent for boys. In 2019, girls make up 50.8 percent of the total school enrolment in school education system (Class PP-XII). The gender parity index at primary, basic and secondary levels (VII-XII), stand at 0.98, 1.03, 1.10 respectively, while at tertiary education level, gender parity index is only 0.86. Enrolment in vocational and technical education is also dominated by male with female enrolment at 33 percent.
- vi. Establishment of Central Schools to improve the quality and access to education particularly for children from rural communities. The schools are located in convenient catchment areas, integrated and resourced-based with residential facilities. They are empowered with autonomy in their operations. Students are provided free uniform, sportswear, shoes, beddings, stationery and three meals a day. These schools also are placed with caregivers, school guidance and counsellors, wardens and matrons to ensure the welfare of the resident students. Currently, there are 63 Central Schools benefiting around 27 percent of the total students.
- vii. The Central School Programme was reviewed to further improve facilities, provide adequate infrastructure and human resources, and to ensure sustainability of the programme. Some of the key outcomes of the review include rationalization of free

³⁴ 11th FYP 2013-18 Final Report, GNH Commission

- provisions and segregation of primary divisions from central schools where possible.
- viii. Earlier, access to public higher secondary school was based on the performance of students in board level exams i.e. Bhutan Certificate of Secondary Examination at class X. From 2019, the Government removed the “cut-off point system” for admission to class XI in government schools there by giving access to all class X passed students to study in Class XI in government and private schools.

3.5.1.2 Quality of Education

- i. The first National Curriculum Conference in 2017 was organized to review the national curriculum, the recommendations of which are under implementation.
- ii. Greater autonomy was granted to select secondary schools to improve educational practices and student learning outcomes. As of today, there are 104 autonomous schools including 64 central schools.
- iii. About 50 large boarding primary schools (with more than 100 students) in rural areas is planned to be established within the 12th FYP period as part of strengthening the primary education system.
- iv. Beginning 2020 academic year, the assessment system at the primary level will be shifted from examination based to continuous formative assessment system for a strong foundation.
- v. The Education ICT Master Plan-2 (2019-2023) was developed in 2019 to leverage ICT as an enabling tool to enhance equitable quality education. The ICT master plan focuses on competency development of educators and learners, content development, and infrastructure development.
- vi. Teacher Human Resource (HR) Policy was developed in 2014 to address needs and concerns associated with teaching professionals from recruitment to deployment, performance management and career advancement. It stipulates the need for teaching professionals to acquire 80 hours of professional development in a year. Teacher HR Policy will be reviewed to adapt to emerging needs and challenges.
- vii. The Bhutan Professional Standards for Teachers (BPST) was launched in May, 2019 to define work of teachers and highlight the elements of high quality and effective teaching. It is expected to provide clear professional knowledge, skills, values and engagement required across teachers’ careers.
- viii. In order to improve the quality of teaching professionals, the Government endorsed a pay revision package whereby teaching professionals became the highest paid civil servants in Bhutan with effect from July, 2019. This is expected to not only motivate teachers but also attract the best and brightest into teaching and retain qualified and experienced teachers in the system in the long run.

3.5.2 Population and Primary Health

Bhutan has made significant investments to develop its health system and has achieved remarkable progress in key health outcomes over the past several decades. Bhutan’s total health expenditure is at 3.8 percent of GDP, which is predominantly government financed (approximately 75 percent). Household out-of-pocket expenditure is relatively low (estimated at 25 percent of the total health expenditure), implying fair level of equity and financial protection. Coverage of health facilities is also extensive with 94.8 percent of the population living within 3

hours walk from the nearest health facility, which is commendable for a country challenged with difficult terrain and scattered remote populations.

Mandated by the Constitution (Article 9, Section 21), the State has 'to provide free basic public health services in both traditional and modern medicines'. Consistent efforts and investment in healthcare have resulted in the increased life expectancy 66.1 years in 2000 to 70.2 years in 2017³⁵. Bhutan eliminated iodine deficiency in 2003, was declared polio free in 2014, and achieved measles elimination status in 2017. The infant mortality rate decreased from 47 deaths per 1000 live births in 2010 to 30 in 2012³⁶. The maternal mortality rate also significantly dropped from 255 deaths per 100,000 live births in 2000 to 86 in 2012.

3.5.2.1 Major Initiatives

- i. A National Health Policy was approved in 2011 which provides a roadmap for achieving national health goals.
- ii. A National Population Policy 2018 has been drafted to strengthen positive synergies amongst the key related sectors and address emerging population and development challenges in the country.
- iii. Prevalence of HIV in Bhutan was estimated at 0.3 percent among adults aged 15-49 years in 2018. In order to prevent and reduce the incidence of HIV, various methods have been adopted such as the revision of the HIV treatment guideline in 2016; hepatitis surveillance in 2017; provision of fixed-dose combination therapy; targeting zero mother-to-child transmission by introducing voluntary counseling and testing for HIV/hepatitis B/syphilis to all Antenatal Care (ANC) attendees, and monitoring of CD4 count and viral load.
- iv. Extensive awareness and advocacy campaigns on the use of contraceptives have resulted in increased contraceptive prevalence rate from 30.7 percent in 2000 to 65.5 percent in 2019.
- v. Bhutan has remarkably reduced the cases of malaria from 39,852 in 1994 to 34 in 2015, and aims to eliminate indigenous cases by 2020. The Bhutan One Health Strategic Plan 2017-21 and the WASH program are key priority programmes that are being implemented to prevent and minimize/control of zoonotic and infectious diseases.
- vi. An emerging cause of concern is the increasing incidences of non-communicable diseases (NCD). Cardiovascular, respiratory and alcohol related diseases, cancer and diabetes have risen considerably causing 53 percent of deaths in 2016. Among these, alcohol liver diseases is a major cause of death. To address these issues, the government adopted a five-year multi-sector national action plan for prevention and control of NCDs and the National Policy and Strategic Framework to Reduce Harmful Use of Alcohol in 2015.
- vii. To ensure sustainability of primary healthcare services in Bhutan, the Bhutan Health Trust Fund (BHTF) was established in 1998 through a Royal Charter. It is an innovative sustainable health care financing mechanism designed as an

³⁵ Population & Housing Census of Bhutan 2017, National Statistics Bureau

³⁶ Annual Health Bulletin 2018, Ministry of Health

endowment fund to generate sufficient return on investments to cover all annual expenditures on vaccines and essential medicines.

- viii. In order to improve the nutrition and care for newborns, the three-month paid maternity leave has been extended to six months and paternity leave from 5 to 10 working days for public service agencies. The private sector has been encouraged to extend similar benefits to their employees. The change was introduced bearing in mind the National Policy on breastfeeding which recommends breastfeeding for the first six months of the “1000 golden days”.
- ix. In order to support working parents to continue with optimal care and development for their child, workplace crèches have been established.
- x. Mother and children’s health programme which includes implementation of Child Development Screening Tool and Child for Care and Development (C4CD) and C4CD Plus, one stop child center and baby-friendly hospitals have been initiated. To further improve mother and child care, the 150-bedded Gyaltsuen Jetsun Pema Mother and Child care hospital is under construction.
- xi. To expand and improve referral services delivery, Government granted additional autonomy to JDW National Referral Hospital in lieu of growing numbers of patients visiting the hospital.
- xii. Improvement of ambulances (around 118 nos) services and helicopter (2 nos) services to cater to medical emergencies and evacuations of people particularly living in difficult and remote places were introduced.
- xiii. Targeted interventions are planned in the 12th FYP to enhance health outcomes for mother and child including web-based mother and child tracking system to track pregnant women and child (till the child attains 5 years of age) for greater care and attention. Modified delivery of health services such as medical camps and outreach clinics are used to reach remote settlements will also be strengthened.
- xiv. The Government is working on a health flagship programme to address the gap between primary and secondary health system in the country focusing on prevention, early screening and treatment of 3 cancers(cervical, gastric and breast). The government aims to take the basic diagnostic services to people at regular intervals right to their doorsteps.

3.5.3 Youth Development

Bhutan’s population today is increasingly urbanized, young, educated and online. The youth literacy rate has reached 93 percent in 2017. The size of Bhutan’s young working age population is increasing and presents an opportunity for Bhutan to reap the benefits of a demographic dividend. Therefore creating more jobs, accelerating youth entrepreneurship and improving the productive capacity of the economy is a national priority. To this effect, CSI development, tourism, organic agriculture, rural enterprise development, and business start-ups have been identified as key initiatives of the 12th FYP.

While overall unemployment in 2017 was 3 percent³⁷, youth unemployment remains a concern. Despite putting in place various policy instruments and strategies such as Guaranteed

³⁷ Labour Force Survey 2018, National Statistics Bureau

Employment Scheme (GES), employment services including entrepreneurship trainings and critical skills development programme, youth unemployment increased from 9.2 percent in 2011 to 15.7 percent in 2018, with a minimal difference in unemployment rates between males (15.4 percent) and females (16.1 percent)³⁸.

3.5.3.1 Major Initiatives

- i. The Government is supporting 1,800 youth who have taken up farming in their communities. Through the Land Use Rights system, 52 youth are currently cultivating 60 acres of land.
- ii. A Task Force on Employment Creation was formed in 2015 to propose strategic responses to promote job creation and economic growth.
- iii. To make employment in private sector more attractive, the provisions of the Labour and Employment Act 2007 and its Regulations are being implemented in the private sector.
- iv. The RGoB initiated several employments and skills development programmes which led to employment of more than 12,000 youth. The Entrepreneurship Development Program was provided to more than 3,000 youth and a Revolving Fund for New Startups was created in 2016.
- v. MoLHR directly facilitated employment of 32,000 youth, around Nu 1.2 billion (approximately USD 17 million) was spent to support various employment schemes such as the direct employment scheme, apprenticeship training program, university graduates internship program, pre-employment engagement program and overseas employment scheme that benefited 27,000 youth.
- vi. A Youth Action for 4Rs (reduce, reuse, recycle and recovery) programme was launched to build a lasting and sustainable partnership in waste management with the schools; establish a conducive environment for fostering environmentally friendly thinking in our youth; and instill civic responsibility and good ethics in waste management in families and society by making our youth goodwill ambassadors in waste management.
- vii. The Youth Development and Rehabilitation Centre added a girls' dormitory to address the needs of young girls in conflict with the law. A family and children bench was established under the Thimphu Dzongkhag Court; and several police-youth partnership programmes have been initiated since 2008 to promote social responsibility in children.
- viii. The Bhutan Education Blueprint (2014-2024) highlights that 20 percent of the higher secondary school leavers should have access to Technical and Vocational Education Training (TVET) by 2024. The Government has targeted the absorption of 20 percent of school leavers into the TVET system in the 12th FYP through the expansion of the TVET sector. The TVET Policy and the National Employment Policy 2013 will be reviewed during the 12th FYP.
- ix. The 12th FYP also focuses on 'Creation of Productive and Gainful Employment' as one of the NKRA. A target of 26,600 new jobs in the various economic sectors has been set.
- x. Within the 12th FYP, TVET sector will be delinked from Civil Service to form a National TVET Council, an autonomous agency to look after all TVET sectors in the country.

³⁸ Labour Force Survey Report 2018, National Statistics Bureau

Youth Engagement for Livelihood Programme (YELP) will be implemented to engage unemployed job seekers and equip them with necessary skills for employment. The government will also continue to implement critical skills development programmes to provide quality and relevant skilling opportunities to young jobseekers in transition for gainful employment in the private sector.

3.5.4 Water and Sanitation

99.5 percent of the households in Bhutan have access to improved water sources, with 46 percent piped water in dwellings, 50 percent piped water in compounds and 63 percent of the households have 24 hours access to drinking water³⁹. Notwithstanding that, timely and continuous water supply remains a top priority for both rural and urban households, suggesting that physical access to infrastructure does not necessarily mean having access to water 24/7.

Agriculture is the mainstay for the majority of the population for which water remains critical. Just over 23 percent of agricultural land is irrigated, and mostly for cultivation of paddy⁴⁰, of which 21 percent of the irrigation schemes have scarce or inadequate water supply. Agriculture therefore is largely dependent on monsoon rain, which affects the overall productivity of crops and livestock.

According to the Bhutan Water Security Index (BWSI) 2016, the environmental water security index was highest at 4, followed by rural drinking water and sanitation at 3.5, urban water security at 2.8, resilience at 3 and economy at only 2. The scenario is likely to deteriorate in the future, as the demand for water increases in the consumptive category. While the demand for municipal and rural drinking water is expected to increase to 37M³ and 20M³ per year respectively from the baseline of 10 M³ and 11 M³ per year (2002), irrigation water requirement is expected to increase to more than 472 M³ per year by 2022⁴¹ from 393 M³ per year.

Some of the key challenges include drying up of water sources; growing urban population putting pressure on demand for water; flooding due to expansion of non-permeable surfaces and poorly planned drainage systems and pollution from sewerage and waste; and increased seasonal variation in rainfall due to climate change affecting crop cultivation.

Ensuring access to improved sanitation facilities is a continuing priority and more Bhutanese now have access to improved sanitation across the nation. About 92 percent of households have access to improved sanitation facilities with the proportion higher in urban areas (97.6 percent) than in rural areas (88.1 percent)⁴². 82 percent of households have access to a flush toilet, while water, sanitation, and hygiene (WASH) campaigns have been successfully implemented in schools and communities. Approximately six percent of under-five deaths are caused by diarrhea. The Child Multidimensional Poverty Index report (2016) found a high correlation between child poverty and deprivations in improved sanitation. Student toilet ratios show that girls' toilets in lower, middle and higher secondary schools do not meet the national standard of

³⁹ Bhutan Living Standards Survey 2017, National Statistics Bureau

⁴⁰ National Irrigation Master Plan 2016, Department of Agriculture, Ministry of Agriculture & Forests

⁴¹ Water Resources Management Plan and Update of the Power System Masterplan, Bhutan 2003, Ministry of Economic Affairs

⁴² Bhutan Living Standards Survey 2017, National Statistics Bureau.

one toilet for every 25 girls. Safe drinking water and sanitation is still an issue in monastic institutions, including nunneries.

The priority going forward will be to target rural and poor households with children for interventions; strengthen the Rural Sanitation and Hygiene Programme; expand access to improved water and sanitation in all monastic institutions, including nunneries; and promote access to and use of improved sanitation facilities and safe disposal of child faeces in homes.

3.5.4.1 Major Initiatives

- i. Recognizing the importance of managing water resources for a secure future, Bhutan adopted Bhutan Water Policy 2008, the Bhutan Water Act in 2011, and the National Integrated Water Resource Management Plan (IWRMP) in 2016. In addition to these, Water Regulation 2014 was approved and Water Safety Plan for 22 municipalities have been developed. 10,707 households also benefitted from the WASH system piloted through Community Health Pilot Project.
- ii. Bhutan Water security index was developed as a tool to quantify water security at national and basin levels to manage the water resources.
- iii. To secure water for drinking and other economic needs, water security has been prioritized as one of the national key result areas in both the 11th and 12th FYPs. The targeted efforts have led to the doubling of proportion of people with access to safe water. In the 12th FYP, a dedicated flagship programme to ensure 24/7 drinking and irrigation water will be implemented.
- iv. As a result of NAPA interventions to date, over 1,000 households in 4 districts have improved access to water, leading to reduced travel time of women to fetch water, a decrease in water borne diseases and an increase in school attendance⁴³; weather forecasting and flood warning systems are improved with the installations of 99 automatic hydromet stations; the water level of Thorthomi Glacial lake was successfully lowered to reduce the risk of glacial lake outburst floods (GLOF), and critical landslides caused by increasing intensity and frequency of rainfall were stabilized, particularly along the 'lifeline' highway between Phuntsholing and Thimphu, through which Bhutan imports all essential items.
- v. Bhutan Glacier Inventory 2018 and list of potentially dangerous glacial lakes has been re-assessed and updated. GLOF EWS for Chamkhar Chu, Mangdechu and Punatsangchu Basin are also in place.
- vi. Bhutan is now working on its National Adaptation Plan (NAP), which is slated to focus significantly on the climate water impact. The Government has also put in place a National Action Program to combat Land Degradation, and the National Biodiversity Action Program. To provide better sectoral focus in terms of adaptation actions, the Ministry of Agriculture and Forests developed Sectoral Adaptation Plan of Action (SAPA) to guide its project, program and activity alignment.
- vii. The Water Safety Plan was implemented in over 300 water schemes to improve the safety of drinking water through community engagement. This will be further enhanced through water flagship program in the 12th FYP.

⁴³ National Adaptation Programme of Action II, UNDP-GEF, Impact Assessment of Community Water Harvesting Interventions 2016.

- viii. To address the issues on sanitation and hygiene, the Government approved the National Sanitation and Hygiene Policy in October 2019 and Water and Wastewater Master Plan for 3 districts and 1 municipality. In addition, water and sanitation has been identified as a NKRA in the 12th FYP.

3.5.5 Gender and Empowerment of Women

Bhutan has made significant progress in closing gender gaps in education, health, labour force and decision-making. Female literacy rate improved from 55 percent in 2012 to 59 percent⁴⁴ in 2017, and gender parity in primary enrolment has been achieved. Girls' enrolment at the tertiary level has also improved from 35 percent in 2005 to about 46 percent in 2018 with gender parity at 0.82. Maternal mortality rate has dropped from 255 in 2000 to 89 per 100,000 in 2017⁴⁵. Composition of women in civil service has increased from 32.4 percent in 2012 to 35.9 percent.

One of the key challenges is achieving gender parity in tertiary education where female enrolment continues to be lower with 85 girls for every 100 boys within Bhutan. Similarly, female enrolment in STEM fields and vocational education is low compared to male.

While the total labour force participation rate increased from 60.4 percent in 2005 to 63.3 percent in 2017, the labour force participation rate is significantly higher among males at 73.1 percent compared to 52.2 percent for female. As per PHCB 2017, 59 percent of employed women are working in agriculture sector compared to 34 percent male.

Women's representation at decision-making level is comparatively lower than male counterparts in the Parliament with only 13 percent and 11.6 percent at the LG. Similarly, women comprise of only 11.2 percent at executive and specialist level in the civil service.

Gender based-violence against women also remains one of the impediments to the realization of gender equality and women's empowerment. While Bhutan has made significant achievements to eliminate violence against women, studies have revealed high levels of tolerance of violence against women

3.5.5.1 Major Initiatives

- i. Significant effort has been made to enhance the policy and legislative environment for gender equality. Legal frameworks to empower women and girls such as Child Care and Protection Act of Bhutan 2011; Child Adoption Act 2011 and Domestic Violence Prevention Act 2013 have been adopted.
- ii. The FYPs, which provide the framework to formulate and implement all developmental activities in the country, have, since the early eighties, articulated the importance of women in development, and the 11th FYP has 'Gender Friendly Environment for Women's Participation' as a NKRA out of its 16 NKRA's. Similarly, the 12th FYP sets out 'Gender Equality Promoted, Women and Girls Empowered' as a NKRA.
- iii. The nation's first Gender Equality Policy has been drafted, and gender responsive budgeting has been initiated. A Gender Equality Diagnostic study of selected sectors

⁴⁴ Bhutan Living Standards Survey 2017, National Statistics Bureau

⁴⁵ Population & Housing Census of Bhutan Report 2017, National Statistics Bureau

- has been carried out to provide updated baseline information on the situation of women and men, as well as the gender analyses of selected sectors to facilitate gender mainstreaming.
- iv. Bhutan also considers generating gender disaggregated data in the 12th FYP, and towards this effort, a review of the data ecosystem has been carried out to assess data needs, gaps, processes including gender disaggregated data generation, analysis and dissemination for decision-making.
 - v. A gender indicator handbook has been developed for all sectors on how to identify and work with indicators for improved gender mainstreaming.
 - vi. Recognizing the importance of having effective institutional mechanisms to enforce the enabling legislations and implement policies and programmes, the Government upgraded the National Commission for Women and Children (NCWC) to a fully autonomous agency from its previous role as an agency under the Ministry of Health in 2004. The members of the Commission comprise of Government Secretaries, the Judiciary, Local Government, Royal Bhutan Police, Parliament, Civil Society Organizations and the Private Sector with the first female Minister of Bhutan, as the Chairperson. The Commission is supported by a full-time Secretariat staffed with civil servants headed by a Director. In addition, the NCWC has a network of trained Gender Focal Persons (GFP) in all the Government Agencies
 - vii. The first nationwide survey on violence against women was completed in 2018 which the findings of which provides the evidence and analysis necessary to determine how to address gender-based violence going forward, including on how to provide universal access to sexual and reproductive health through child friendly and gender-sensitive approaches, and how to strengthen gender-based violence care and support.
 - viii. Initiatives such as awareness creation and capacity building for women at the grassroots have been implemented to provide platforms to encourage women to participate in political office and decision making.
 - ix. A number of civil society organizations (CSOs) play a critical role on gender equality and women and girls' empowerment in Bhutan, The Civil Society Organizations Act of 2007, implemented by the Civil Society Organizations Authority, provides the framework for registration, functioning, funding and monitoring of CSOs. The Tarayana Foundation, the Bhutan Association of Women Entrepreneurs (BAOWE), the SAARC Business Association of Home Based Workers (SABAH), the Bhutan and the Bhutan Network for Empowerment of Women (BNEW), the Youth Development Fund (YDF), and Respect, Educate Nurture Educate Women (RENEW) respectively work on women's and youths economic empowerment and advancement, women's participation in the workforce and public life, and on issues of violence against women and children. Their work is complemented by agencies like the Bhutan Nuns Foundations (BNF) and community-based groups working for women and girls empowerment.
 - x. While the GPI at the tertiary level is still in favour of boys, it has increased to 0.86 in 2019 from 0.78 in 2014 due to interventions such as provision of boarding facilities, feeding programmes, life skills education and adolescent sexual reproductive health education programmes in educational institutes. The Government is encouraging girls to take up STEM subjects at the higher secondary level through counselling and

- advocacy.
- xi. To encourage higher attendance and retention of girls in schools, provision of free sanitary napkins as well as separate water and sanitation facilities for girls has been introduced.
 - xii. The Bhutan National Legal Institute (BNLI) has taken initiatives to improve access to justice by training law enforcement agencies on procedures for dealing with violence against women (VAW) cases, creating awareness on their rights, integrating women's rights into Alternative Dispute Resolution (ADR) trainings and training local women leaders on ADR. It also conducts regular trainings for judges on Acts that impact women and children.

3.5.6 Social Protection

Bhutanese enjoy a relatively high level of social security stemming from the availability of free access to basic social services such as health care and education and the traditional community based social support that has been in existence. The Government is committed to address the needs of vulnerable groups and ensure that no one is left behind. Accordingly, "Needs of the vulnerable groups addressed" was identified as one of the 16 NKRA of the 11th FYP to address social issues related to vulnerable groups.

3.5.6.1 Major Initiatives

- i. The first Vulnerability Baseline Assessment (VBA) for Bhutan was completed in 2016 which identified 14 socio-economic vulnerable groups in Bhutan. The VBA assessed the vulnerabilities related to each group, identified causes, reviewed current policy and program landscape, and how it enables these groups to deal with their vulnerabilities, while also identifying opportunities for further improvement. The recommendations of this assessment has been incorporated into the 12th FYP programmes.
- ii. A National Pension and Provident Fund Policy has been drafted and will be submitted to the Government for approval. A notable feature of the policy is the introduction of the non-contributory scheme to cover those who cannot afford to contribute, and the voluntary contribution scheme to provide option for those who are in the informal sector.
- iii. In accordance with the Labour and Employment Act of Bhutan 2007, a provident fund scheme for employees in the private and corporate sector was instituted. As of June 2018, there were 57,194 employees enrolled under the scheme.
- iv. The minimum National Workforce Wage was revised from the range of Nu 165-240 per day to Nu 215-324 per day. Life and house insurance are mandatory and these are subsidized by the Government.
- v. The Government approved the National Policy for Persons with Disabilities 2019 which seeks to improve the lives of the persons living with disabilities and outlines interventions in a comprehensive range of areas.
- vi. One of the best practices of Bhutan, apart from free healthcare and education, is the *Kidu*⁴⁶ system, a social safety net instituted by the Monarchs to address the needs of

⁴⁶ Kidu loosely defined as "benefits" that can be exercised only by His Majesty the King as part of the Royal Prerogatives.

the vulnerable groups including elderly people⁴⁷. Under this system, His Majesty the King initiated a land reform exercise in 2007 to eliminate larger disparity in the society. To date, 131,801 beneficiaries across Bhutan have been granted a total of over 137,745 acres of land tenure-ship and rights.⁴⁸ 71 percent of households in the country now own land tenure-ship and rights.

- vii. A National Rehabilitation Program was initiated in 2009 by the Office of the Gyalpo Zimpon (Royal Chamberlain) under which land 'Kidu' is granted to the landless, near landless and households' dependent on shifting cultivation. Recognizing the linkages between land and poverty, the main objective of the programme is to reduce poverty through enhancement of sustainable rural livelihoods of the landless and socioeconomically disadvantaged/marginalized communities. The implementation of the programme is being spearheaded and coordinated by the National Land Commission (NLC) guided by the Rehabilitation Strategy Document formulated by NLC Secretariat. More than 6,536 landless households who are socio-economically disadvantaged have been benefited from the secured tenure rights with the allotment of 23,800 acres (3.6 percent of total arable land) of farming land, mostly aided with inclusive resettlement package.
- viii. The Royal Society for Senior Citizens established in 2012 under Royal patronage is one of the few Civil Society Organization (CSO) working with the elderly. It has been setup to engage the elderly (especially retired Government officers) in social work, using their experience to support the growth and prosperity of Bhutan.
- ix. Under His Majesty's Senior Citizens Programme, senior citizens are granted a monthly allowance to meet their basic needs.
- x. A monastic home for retired monks was established in 2016.
- xi. A Geriatric Care Program to promote productivity, vitality, and happiness among elderly citizens has also been introduced by the Government.

3.6 Multiple Crisis and other emerging challenges

3.6.1 Climate Change

As a landlocked least developed country located in a fragile mountainous environment, the impacts of climate change are often more severe than anywhere else in the world. The Himalayan region's glaciers have been melting at alarming rates, and experiencing increasingly intense rainstorms that activate damaging floods and landslides. About 50 percent of the geographical area of Bhutan comprises slopes greater than 50 percent and about 53 percent of the land area lies 2600 meters above mean sea level⁴⁹ with elevations ranging from 100m to 7570. The mountainous terrain and rapid variation in agro-ecological zone renders Bhutan highly vulnerable to climate change, climate variability and its impacts.

Bhutan's Second National Communication (SNC) indicate that temperatures are increasing and are projected to increase. Warming is observed and predicted to be more rapid in the high mountain areas than at lower elevations, with areas higher than 4000 m experiencing the highest

⁴⁷ UPR.(2014). National report submitted in accordance with paragraph 5 of the annex to Human Rights Council resolution 16/21

⁴⁸ <http://www.kuenselonline.com/their-majesties-visit-japan/>

⁴⁹ Bhutan RNR Statistics, 2015

warming rates⁵⁰. Similarly, the annual precipitation is also expected to increase with the monsoon season predicted to become wetter, while the winters will become drier. Studies indicate that climatic range of many species will move upward in elevation from their current locations. Species will be affected differently by climate change; some will migrate through fragmented landscapes whilst others may not be able to do so⁵¹.

According to the second national Green House Gas (GHG) inventory, Bhutan is a net sink, and the forest cover which stands at 71 percent⁵² has the estimated sequestration capacity of 6.3 million tonnes of CO₂, compared to the total emission of only 1.6 million tonnes in 2000⁵³. Consequent to the importance of adapting to climate change impacts, Bhutan ratified all the three Rio Conventions. At the COP 15 in 2009 in Copenhagen, Bhutan declared a bold commitment to remain “carbon neutral” and ratified Paris Agreement on climate accord in 2016⁵⁴ as stated in Nationally Determined Contribution (NDC). The country has also developed draft climate change policy. The country has also put in place a number relevant policies, regulations, strategies and action plans. The constitutional mandate to maintain a minimum of 60 percent of total land under forest cover in perpetuity demonstrates clearly the core value of environmental conservation and climate change action. In the recent past, following the various conventions, Bhutan has prepared and implemented its National Adaptation Program of Action (NAPA) to strong effect.

Bhutan is now working on its National Adaptation Plan (NAP), which is slated to focus significantly on the climate water impact. The Government has also put in place a National Action Program to combat Land Degradation, and the National Biodiversity Action Program. To provide better sectoral focus in terms of adaptation actions, the Ministry of Agriculture and Forests developed Sectoral Adaptation Plan of Action (SAPA)⁵⁵ to guide its project, program and activity alignment. Bhutan is also preparing its Third National Communication.

Keeping with the commitment of “carbon neutral” development, Bhutan developed sectoral strategies on waste, transport, industry and the elaboration of GHG mitigation measures in three sectors of human settlement, industry and energy efficiency.

In 2017, the Government established Bhutan for Life (BFL) raising a USD 43 million transition fund to secure the permanent maintenance of Bhutan’s protected areas, using Project Finance for Permanence Model and funded through multilateral and private donors and government.

Bhutan in partnership with UNDP has accessed USD 25.3 million under GCF which approved the financing in July 2019, to support Bhutan’s efforts to prepare and adapt to climate change and

⁵⁰ Observation from Climate Change Impacts and Vulnerability in the Eastern Himalayas, ICIMOD, 2009 (Eklabya Sharma, Nakul Chettri, Karma Tse-ring, Arun B Shrestha, Fang Jing, Pradeep Mool and Mats Eriksson)

⁵¹ Report prepared by the Ad Hoc Technical Expert Group on Biodiversity and Climate Change established under the Convention on Biological Diversity, a UNEP publication

⁵² <http://www.dofps.gov.bt/wp-content/uploads/2017/07/ForestBookletFinal.pdf>

⁵³ 2nd GHG Inventory, National Environment Commission Secretariat (<http://www.nec.gov.bt/>)

⁵⁴ <http://www.kuenselonline.com/bhutan-signs-paris-agreement-on-climate-change/>

⁵⁵ <https://www.google.bt/search?q=sapa+bhutan&oq=SAPA+&aqs=chrome.2.69i57j0j35i39j0l3.6108j0j4&sourceid=chrome&ie=UTF-8>

ensure that Bhutan is heading towards low carbon and climate-resilient development. The project would primarily benefit the rural communities through provision of sustainable land and water management, more climate-resilient irrigation and agriculture, and climate-resilient roads. By the end of the project, it is anticipated that over 400km of roads will be climate-proofed, 8,000 hectares of farmland will have reliable climate-resilient irrigation schemes, and crop yields would be increased by 30 percent. The project implementation is expected to begin from January 2020 and complete by 31st December, 2025.

The impacts of global warming are resulting in losses and damages of crops, assets, properties and even lives, which is likely to increase in the future. There are increasing incidences of forest fires, GLOF, drying up of water sources, outbreak of crop diseases, wind storms, erratic and high intensity rainfall. Bhutan therefore needs substantial investment to adapt to these changing situations. Climate change threat presents the single greatest risk of derailing decades of development gains achieved in Bhutan. There is a need to build national capacity to understand the climate change pathways more intricately among the sectors, build innovative capacity to develop local solutions and, above all the investments required are huge to deal with the climate change problem and to remain carbon neutral.

3.6.2 Managing Public Debt

Bhutan's public debt has been increasing over the years in conjunction with the commencement of hydropower projects, increased financing needs for socio-economic development and increasing preferences of the development partners for softer loans over grants. A debt-sustainability analysis conducted by IMF noted that Bhutan has managed its debt level both in terms of stock and proportion to GDP relatively well and categorized the debt distress as moderate⁵⁶.

As of June, 2019 Bhutan's public debt stood at 114 percent of GDP. Of the total debt, about 74 percent is comprised of Indian Rupee debt with, hydropower loan accounting for more than 95 percent of the portfolio⁵⁷. As the debt being incurred is mostly on account of hydro power developments it may not therefore be necessarily interpreted only in terms of 'concerns' but also in terms of 'opportunities' since hydro debts are denominated in Indian Rupee. Thus, Bhutan's external debt of USD 2.65 billion as of the FY 2017/18 can be considered manageable because 74 percent constitutes Rupee denominated debt in which the liabilities are not subject to valuation changes from the fluctuations of the exchange rate. Within the Rupee debt, about 90 percent constitute hydro power debt from the Government of India, which are considered self-liquidating thereby reducing the risks associated with debt distress⁵⁸. However, the concerns on the delay in hydro power construction and prolonged debt servicing must not impose burden on future generations.

The total debt stock is expected to gradually decline over the 12th FYP period with debt to GDP falling from 93 percent to 54 percent, mainly due to reduction in hydropower investments. The

⁵⁶ IMF 2016

⁵⁷ Monthly Statistical Bulletin for November 2019, Royal Monetary Authority of Bhutan

⁵⁸ Annual Report 2018, Royal Monetary Authority of Bhutan

Government needs to redouble efforts towards earning hard currency to sustain external debt service and also enhance socio-economic development. Initiatives for capital market development will be key for mobilizing internal resources to finance development needs

Mindful of the rising level of debt, the Royal Government adopted a comprehensive Public Debt Policy in 2016 to proactively guide its investment and ensure that financing decisions are prudent and public debt is maintained at a sustainable level. The need to have a Public Debt Policy is also underscored as the country is graduating from LDC status. Effective debt management is of paramount importance in ensuring that debt financing is sustainable and contributes to the economic growth of Bhutan.

The Government is cognizant of the need to properly manage hydropower investment and revenue inflows to avoid threats to macroeconomic stability which could result in overheating and external imbalances similar to that experienced in 2012-13. To this end, The Bhutan Economic Stabilization Fund with an initial seed capital of approximately USD 1.6 million was established in 2017. The Fund was set up to insulate the economy from commodity price volatility and external shocks.

3.7 Mobilizing financial resources for development and capacity building

3.7.1 Domestic resource mobilization

Bhutan's five-year plan financing thus far have been sourced mainly through ODA and domestic resources. With prudent fiscal management, the Bhutan is able to finance up to 64 percent of development expenditure through domestic revenue. Domestic resource mobilization was given the highest priority as manifested through the 11th FYP's objective of self-reliance. Self-reliance is interpreted as 'the ability to meet all our national development needs as articulated through five year plans by 2020'. Some of the efforts put in place to mobilize resources from domestic sources are broadening the tax base including green tax and sales tax on vehicles and fuels, rationalization of recurrent expenditure, enhancing efficiency of state owned enterprises and fostering public private partnerships. Bhutan is also implementing the Bhutan for Life program, an innovative green financing mechanism to augment its resource requirements for conservation.

The fiscal projections for the 12th FYP shows a fiscal gap of around 2 percent of GDP⁵⁹. Domestic revenue is estimated to fully meet the current expenditure and finance at least 21 percent of the capital expenditure required for the 12th FYP. In order to strengthen domestic revenue mobilization, a medium-term revenue strategy has been adopted, which outlines measures to broaden tax base to maintain tax to GDP ratio above 12 percent. Replacing the sales tax regime with a modern GST will be critical to achieve the fiscal targets besides introducing new taxes and revising existing tax rates. Preparatory works to introduce GST were initiated towards the end of 11th FYP. In addition, the existing fiscal incentives and tax exemptions will be reviewed and rationalized.

⁵⁹ 12th Five Year Plan: Volume I, GNH Commission

3.7.2 Official development assistance

ODA funds about 34 percent of Bhutan's development programmes, and Bhutan has been effectively utilizing ODA. With sound governance and conservation policies in place, Bhutan has been successfully implementing international finance. The 12th FYP, as the transition plan for graduation will require continued ODA. Bhutan also needs to develop a clear strategy for mobilizing ODA after 2023 in order to keep up its effort towards ensure that graduation is irreversible and further realize the SDGs.

3.7.3 Foreign direct investment

Despite enormous efforts made in attracting FDIs through policy reforms and provision of incentives, Bhutan has not been very successful in attracting global investors. In 2017, the FDI net inflow into Bhutan was reported to be only 0.3 percent of GDP⁶⁰. The net FDI inflow per capita in Bhutan is even further behind the average level of South Asian countries, LDCs and Asian LDCs. However, efforts are underway to improve ease of doing business and creating a favorable investment climate by investing heavily on infrastructure, energy, transportation and G2B services.

3.7.4 Remittances

The Government recognizes the important role played by inward remittances on the country's economic growth. However, remittances have been a negligible source of resources. In order to increase the inflow of remittances, the Royal Monetary Authority of Bhutan launched RemitBhutan in September, 2016 to provide a platform for Non-Resident Bhutanese to remit their savings and earnings to Bhutan through the formal banking channel. A benchmark target to reach a USD 1 million mark within one year of its formal launch in September 2016 was set which was achieved within 8 months. The inward remittance as of September 2018 was USD 9.6 million⁶¹. Between 2016 and 2017, inward remittances grew by nearly 55 percent⁶². The Government and RMA remain committed to continuously improving the Remit Bhutan services.

3.8 Good governance at all levels

Bhutan peacefully transitioned to a democratic constitutional monarchy in 2008 with the adoption of the Constitution of the Kingdom of Bhutan, separating the executive, legislative and judicial powers. The Constitution guarantees judicial independence, two houses of Parliament, the Office of the Attorney General, and a system of mediation at the local level. Bhutan held three national elections and it enjoys a harmonious and peaceful society reinforced by policy and legislation such as the Child Care and Protection Act (CCPA), Domestic Violence Prevention Act 2013 (DVPA) and the Penal Code Act of Bhutan 2011. Public hearings are now a routine feature in Bhutan's Parliamentary affairs, with a system of virtual zomdu in place to better connect Members of Parliament with remote communities through video conferencing facilities.

Bhutan was ranked 25th out of 180 countries and territories in the 2018 Transparency International Corruption Perception Index. To counter money laundering and financing of terrorism, the Government adopted the Anti-Money Laundering and Countering Financing of

⁶⁰ FDI Annual Report 2018, Department of Industry, Ministry of Economic Affairs

⁶¹ Annual Report 2018, Royal Monetary Authority of Bhutan

⁶² Monthly Statistical Bulletin November 2019, Royal Monetary Authority of Bhutan

Terrorism Act in 2017.

A Government Performance Management System is in place to enhance accountability at all levels of the government and help ensure the effective and efficient delivery of public services and achieve desired developmental outcomes by the civil service. Bhutan's Government-to-Citizen Project, under the direction of the Prime Minister's Office, is designed to harness technologies and innovation to enhance access to services, with 155 services now online and 19 mobile applications in place.

The Government is increasingly adopting technological interventions to strengthen good governance. With the Government Performance Management System in place, a proper planning, monitoring and evaluation process of plans and programs has been instituted. The digitization of public services has improved the access to public services and strengthened collaborative efforts among entities.

The Government has always prioritized strengthening Bhutan's democracy through increasing active participation of people in decision-making. In the 12th FYP, the Government aims to bring effective governance 'closer to the people' with the objective of the Plan as "Just, Harmonious, Sustainable Society through Enhanced Decentralization".

The role of civil society in advancing a rights-based approach, improving services, and encouraging participation and accountability is increasingly understood, however the perception is that their capacities, while promising, are still weak⁶³. The Government partners with national Civil Society Organisations (CSOs) to implement activities targeted at vulnerable groups of the society. The capacity of the CSOs need to be strengthened to further enhance their effectiveness.

Gaps remain in the legal and policy framework to fully protect and promote the rights of women and children, and of vulnerable groups. Steps are underway to address this, in line with 2014 recommendations of the Universal Period Review, for example on advancing the rights of people with disabilities. The National Policy for Persons with Disability has been approved, with efforts being made to explore ratification of the Convention on the Rights of Persons with Disabilities. In addition, institutional and socio-cultural barriers to women's full participation in society are being addressed through the formulation of the Gender Equality Policy and the nation-wide Violence against Women and Children studies.

The study on Violence against Children conducted in 2016 sheds light on the situation of children and their vulnerability to violence, exploitation, and abuse. Children are still vulnerable to violence and abuse. This is particularly true for children with disabilities, children from broken homes or living with extended families, and children from low economic backgrounds. The establishment of Law clubs in schools and promotion of legal knowledge under the "Know the Law- to protect your rights" series has increased awareness on legal rights of children. The Royal Bhutan Police (RBP) has established three Women and Child Protection Units (WCPU) in the country.

⁶³ Perception Study of Civil Society, Bhutan Centre for Media and Democracy, Royal Institute of Management, 2017

Further specialization and regulation of the growing legal profession and the establishment of a legal aid system are among the priorities of the Justice sector. At the same time, the results of the 2017 Population and Housing Census will help improve data baselining to know who is being left behind.

In Parliament, the two Houses have set Strategic Plans with the vision of the National Assembly “to achieve the Kingdom of Bhutan’s overarching goal of Gross National Happiness enshrined in the Constitution through an inclusive and a vibrant democracy,” and for the National Council “to effectively carry out legislative, scrutiny, oversight and representational functions to fulfill the aspirations of the Bhutanese people”. In addition, the two Houses identified areas for further investment in strengthening institutional and management capacities of their respective Secretariats, improving Members’ legislative capacities with the continued strengthening of parliamentary Committees for an open and transparent legislative process, and enhancing their capacities to represent and effectively communicate with the public and constituencies; and for the National Council, strengthening its image as a non-partisan chamber.

3.9 Progress towards graduation

Bhutan looks forward to graduate from the UN’s list of Least Developed Countries in 2023. The decision on Bhutan’s graduation was formally endorsed during the 73rd session of the United National General Assembly held in December, 2018. Bhutan fulfilled the threshold levels for the Gross National Income (GNI) per capita and Human Asset Indicator (HAI) criteria during the 2015 and 2018 triennial reviews. It did not meet the threshold for the Economic Vulnerability Indicator (EVI) both times. This reflects the persistent economic vulnerabilities, structural impediments and emerging challenges such as climate change, which the country is confronted with.

In December 2018, the General Assembly decided to align the effective date of Bhutan’s graduation with the conclusion of its ongoing National Development Plan, which is the 12th FYP. Graduation is being approached in the context of achieving the IPoA, the VPoA and the ambitious 2030 Agenda. At the national level, Bhutan is taking ownership of the graduation process as reflected in its national development strategy and plan. The 12th FYP aims to address the last mile challenges in all sectors and ensure that Bhutan graduates with a strong resilient economy. Priority areas identified are economic diversification, job creation and addressing climate related vulnerabilities. As the 12th FYP will be Bhutan’s last plan as an LDC, accelerated support of all development partners for the implementation of the 12th FYP will be crucial to ensure that graduation is sustainable and irreversible.

At the global level, development partners’ commitments must be translated into concrete international support measures. Predictability in international support measures needs to be based on country specific- situations and vulnerabilities, and should be the basis in the preparation of frameworks for graduation and smooth transition, and sustainability after graduation.

4. Coherence and linkages with the 2030 Agenda and other global processes

The social, economic, and environmental dimensions of sustainable development were integral

elements of Bhutan's development framework well before the inception of Agenda 2030 and the SDGs. Bhutan's development philosophy of GNH, which consists of nine domains is encompassing of these three dimensions as well as new elements captured by Agenda 2030 – including an increased focus on qualitative understanding and on the importance of good governance as an end in itself and a means to achieving all other domains or goals. The nine domains of GNH are as follows:

- I. Psychological wellbeing: The domain attempts to understand how people experience the quality of their lives. It includes reflective cognitive evaluations such as life satisfaction; affective reactions to life events such as positive and negative emotions and spirituality.
- II. Health: The domain comprises of conditions of the human body and mind and thereby attempts to characterize health by including both physical and mental states.
- III. Time use: The domain attempts to analyze the nature of time spent on work, non-work and sleep, and highlights the importance of maintaining a harmonious work-life balance.
- IV. Education: Besides incorporating formal and informal education, the domain also tries to assess different types of knowledge, values and skills, which are mostly acquired informally.
- V. Cultural diversity and resilience: The culture domain looks at the diversity and strength of cultural traditions including festivals, norms, and the creative arts.
- VI. Community vitality: The domain attempts to focus on the strengths and weaknesses of relationships and interaction within communities. The domain gathers information on social cohesion among family members and neighbors, and on practices like volunteering.
- VII. Good Governance: The domain of good governance evaluates how people perceive various governmental functions in terms of their efficacy, honesty and quality. Indicators help to evaluate the level of participation in government decisions at the local level and the presence of various right and freedoms.
- VIII. Ecological diversity and resilience: The domain encompasses indicators that measure people's perceptions and evaluations of the environmental conditions of their neighborhood and assess ecofriendly behavior pattern. It also covers hazards such as forest fires and earthquakes.
- IX. Living standards: This domain refers to the level of material comfort as measured by income, conditions of financial security, housing and asset ownership.

Guided by these nine domains, public policy formulation goes through rigorous social, economic, environmental and cultural impact assessment to minimize or mitigate any adverse effects of proposed policies on Bhutan's sustainable development trajectory. All proposed policies in Bhutan are screened through a GNH Policy Screening tool. Twenty-two variables are assessed to determine if the proposed policies align with sustainable development. If they do not meet the threshold – with 66 out of 88 points as the pass mark - they are sent back to the drawing board. Given the correlation between GNH and the SDGs, this screening mechanism effectively ensures the formulation of policies that will enable the achievement of the SDGs.

In 2015, a Rapid Integrated Assessment of Bhutan's 11th FYP Plan illustrated that of 143 relevant SDG targets, 134 were aligned with the indicators of the 11th FYP. While all the 17 SDGs were considered important from the outset, Bhutan prioritized three SDGs (Goal 1 – No Poverty; Goal 13- Climate Action; and Goal 15 – Life on Land) for immediate implementation in the 11th FYP. This was done on the basis of: the urgency of people's needs in Bhutan (No Poverty); Bhutan's commitment to the global community to remain carbon neutral for all times (Climate Action); and the desire to be a global champion of biodiversity, and support other countries in the pursuit of the same (Life on Land).

Under the 11th FYP, Bhutan saw great progress in reducing multidimensional poverty from 12.7 to 5.2 percent, improving access to water and sanitation to 99 and 66 percent respectively, clean energy with 99.9 percent of households electrified, and near 100 percent school enrolment with gender parity in secondary level. Bhutan's current national development plan, the 12th FYP focuses on "consolidation, coordination and collaboration" to solidify such results and ensure a strong basis for the continued pursuit of GNH and the SDGs. With "a Just, Harmonious and Sustainable Society with enhanced Decentralization" as the overarching goal, the 12th FYP's 17 National Key Result Areas (NKRAs) and Key Performance Indicators (KPIs) are strongly aligned to the 17 SDGs.

An in-depth examination of all the indicators of 17 goals reveals mixed results on indicator adoption status and data availability. Data are available for most indicators related to health, poverty, education and employment; but for other goal areas such as energy, infrastructure and governance data is scarce. Of the 244 indicators, 64 indicators (26 percent) are fully adopted and 32 (13 percent) partially adopted. About 104 (43 percent) of indicators are relevant but not adopted and rest 44 indicators (18 percent) are not relevant to Bhutan's context. In terms of data availability for SDGs, data is available for 84 indicators (34 percent), partially available for 66 indicators (27 percent), and there is no data for the rest 94 (39 percent) of the indicators.

A data ecosystem review carried out in 2016 and 2017 established immediate needs of Bhutan's statistical system to meet the data expectations of the SDGs. As elaborated under Goal 17: Means of Implementation, raising the quality, frequency, disaggregation, utility and analysis of critical data in Bhutan requires investment in human resource capacity, institutional arrangements, and an enabling legal and policy environment.

Efforts are underway between the GNHCS and the National Statistics Bureau (NSB) to incorporate relevant SDG indicators into the National Statistical System. GNHCS, NSB with technical support of PARIS21 have begun assessing the statistical system of the Government agencies, which is expected to draw insights on the data availability, sources, collection methods and standardization to monitor the 12th Plan key results areas and measure SDG progress. Works to develop an integrated dashboard that will be a consolidated central repository of GNH, 12th FYP and SDG related data from various national data sources have begun. The dashboard will aid the Government in implementation of the 2030 Agenda and track progress of GNH and national plan priorities.

5. Towards the next LDC agenda

In order to eradicate poverty, achieve sustainable development and the targets set out in the 2030 Global Agenda by LDCs, following recommendations are put forward:

- i. Expanding productive capacity of the economy will be the basis on which countries can achieve meaningful structural transformation and a diversified economy. This will need to continue to be a priority given that current experience in most small LDCs including Bhutan has seen limited progress in this area.
- ii. Science, technology and innovation are important means of achieving larger development goals. Addressing the limited capacity within LDCs to harness the benefits of science and technology must feature prominently in the next development agenda.
- iii. Assistance in the formulation of strategies required to accelerate the process of structural transformation suited to each country's development context and development of appropriate policy responses that address the special development needs must be made available.
- iv. At the global level, support measures for LDCs and newly graduated LDCs must continue. Additional investments will be necessary to sustain the progress made so far. All commitments made to LDCs in the 2030 Global Agenda, the Addis Ababa Action Agenda and the IPOA must be operationalized.
- v. Support to enhance national capacity to access complex international financing mechanisms and innovation and technology transfers will be crucial to accelerate and sustain graduation.
- vi. At the national level, LDCs must commit to building institutional and entrepreneurial capabilities. LDCs will need to continue to strengthen regional and international partnerships through North-South, South-South and triangular cooperation, particularly in exchanging good practices and technical assistance.
- vii. Annual progress reports could be submitted to OHRLLS by the member states that are structured along one theme every year to ensure in-depth progress reporting and more effective monitoring. Specific outcome of the mid-term and terminal reviews could be the development of an annual progress report format to ensure successful monitoring and implementation of the future programmes of action.
