

BHUTAN ECONOMICS

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A Supplementary Text for Class XII



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Royal Education Council
Royal Government of Bhutan
Paro

Published by

Royal Education Council (REC)
Royal Government of Bhutan
Paro, Bhutan

Tel: + 975-2-271226

Fax: + 975-2-271991

Website: www.rec.gov.bt

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ACKNOWLEDGEMENTS

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Provisional Edition 2006

Reprint 2021

ISBN 99936-0-219-1

FOREWORD

Education is the prerequisite to, and the central element of, the progress and development of a nation provided it is relevant and appropriate. Thus, our education system is moving forward and making all endeavours in fulfilling the directives issued by the Royal Government of Bhutan to make education meaningful and relevant to our children besides outlining the roles they are expected to play as the future citizens of the Country.

With the decision of the Ministry of Education to localize class XI and XII courses with Bhutan Higher Secondary Education Certificate examinations in Bhutan being conducted by the Bhutan Board of Examinations with effect from 2006, studies with Bhutanese contents will now be extended even in these classes. Therefore, the Bhutan Economics supplementary text for class XII has been developed to acquaint the Bhutanese youth to the important features of the Bhutanese economy. The course will help our children to explore the fast growing economy of Bhutan and learn the basic concepts and principles of commerce against this backdrop.

More still, the Bhutan Economics supplementary text will inform our children of the vibrant economic life of our country and the opportunities that lie ahead. In addition, it would also provide them with the necessary information that they will require when entering into the world of work, besides helping them to make sound decisions to become responsible and productive citizens who will be able to serve our *Tsawa Sum* with love, loyalty and dedication.

In conclusion, we hope our teachers and students will learn from this book and contribute individually and collectively towards fulfilling His Majesty's visions of a strong, prosperous and sovereign independent Bhutan for all times to come.

Trashi Delek.



Thinley Gyamtsho
MINISTER
Ministry of Education

Introduction

The study of economics at classes XI and XII levels have been localized, giving them the much required Bhutanese flavor. This step has been taken to make the subject of Economics more meaningful and relevant to our students, who are particularly interested in pursuing it at higher levels.

While retaining the general laws, theories and dynamics of this subject as they are, the much felt changes from Unit two to Unit Five have been done by inserting those topics that are more realistic and relevant to Bhutanese learners in particular and readers in general.

The topics covered in this text are *Gross National Happiness* in Unit Two, *The basis of trade in Bhutan* and *Balance of Payment* in Unit Three, *Types of taxes in Bhutan*, *Sources of government revenue*, *Reasons for the growth of public expenditure in recent times in Bhutan*, *Effects of borrowings on the Bhutanese economy*, *Effects of deficit financing in Bhutan* and *Budget* in Unit Four and the whole of Unit Five.

The topics in the supplementary text are to be inserted under relevant titles of the main text book. Thus, it is important to refer to the syllabus time and again so that some of the topics are not left out.

The main objective of reflecting Bhutanese chapters in this text is to re-orient Bhutanese children to our own country from the economic perspectives. The inclusion of Bhutanese topics in the text is also meant to make this interesting subject of economics as close as possible to the Bhutanese context. Further, the topics on Bhutan are expected to help our children as they join the world of work after Class XII.

Some of the topics need to be discussed in detail, making a way for our students to walk on the path of discovery learning.

Trashi Delek

Dr. Jagar Dorji
Chairperson
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UNIT TWO: NATIONAL INCOME

2.5. Gross National Happiness

2.5.1 Emergence:

The emergence of the concept of 'Gross National Happiness' dates back to the glorious reign of late King Jigme Dorji Wangchuck. The late King was of the view that the Bhutanese people should be "prosperous and happy" as a result of economic development programmes that he initiated. The emergence of the concept of Gross National Happiness is best explained in the box given below:

Box 1: Concept of GNH

In late 1960s, a period during which Bhutan's development policy is generally considered to have followed conventional patterns of rapid modernisation, late King Jigme Dorji Wangchuck expressed his view on the goal of development as making "the people prosperous and happy". Similarly, the prominence of "prosperity and happiness" is highlighted in the King's address on the occasion of Bhutan's admission to the UN in 1971, one of the most important events in the country's recent history. This vision, first articulated by the Late King was elaborated by the present King, Jigme Singye Wangchuck, who declared in the first years of his reign that "our country's policy is to consolidate our sovereignty to achieve economic self-reliance, prosperity and happiness for our country and people". While the emphasis is placed on both, prosperity and happiness, the latter is considered of more significance. For Bhutan "Gross National Happiness is more important than Gross National Product".

[Priesner, S., 1999: 28]

Student Activity

Predominance of "Prosperity and Happiness" has been the hallmark of our development efforts. How far, do you think, was this achieved during the reign of our beloved late King in the economic context?

2.5.2 Meaning:

According to the Annual Report, Royal Government of Bhutan, June 2004 presented by the Hon'ble Prime Minister Lyonchen Jigme Y. Thinley, the concept of Gross National Happiness is seen as a unique and primary development philosophy initiated by His Majesty, the King, Jigme Singye Wangchuck to bring about judicious balance between



spiritual and material advancement of the Bhutanese people and the country respectively. Further, the Hon'ble Prime Minister structured the “architecture of the Gross National Happiness” comprising four pillars, namely:

- i) Sustainable and equitable socio-economic development;
- ii) Conservation of our fragile Himalayan ecology;
- iii) Preservation and promotion of our culture; and
- iv) Enhancement of good governance.

Each of the pillars or the cornerstones of the Gross National Happiness is briefly discussed below:

i) Sustainable and equitable socio-economic development:

It reflects the concern of the government to improve the physical, intellectual, social and economic wellbeing of our people through the provision of health care, education, social and economic services. Further, the Royal Government is keen to distribute equally the rich benefits of the ongoing development programmes and make them accessible to the people. Besides, the Royal Government is also interested in making our country self-reliant and free it from excessive dependence on foreign development assistance to the extent of meeting all its developmental expenditures all by itself sustainably.

The determinants of Sustainable and equitable socio-economic development of our country are given below:

- Health
- Education
- Agriculture
- Energy
- Trade, Commerce and industries
- Road and bridges
- Urban Development and Housing
- Information and Communications
- Employment

ii) Conservation of our fragile Himalayan ecology:

Under the far-sighted leadership of His Majesty the King, conservation of environment continues to play a dominant and central role in our development efforts. In this regard, the Royal Government has formulated one of the most stringent set of policies and programmes to maintain harmony between human and nature, raise standards of our conservation practices on the face of rising pressures from urbanization, industrialization, and population growth. Having said this, our development processes are guided by the highest environmental ethics, forsaking the short-term benefits, to ensure sustainability in the long term.



iii) Preservation and promotion of our culture:

This third pillar of Gross National Happiness is said to be vital for the functioning of a harmonious and progressive society. By keeping in perspective, the serious social and political problems faced by the present day developed countries on the deterioration of their value systems, our government has taken the initiative to curb this erosion of value systems in Bhutanese people. To a small country like ours, it is felt important to ensure emotional and spiritual comforts simultaneously with the physical and economic well-being derived from its developmental strategy.

Given below are the components of the third pillar of GNH:

- National Identity
- Religion
- Language and Literature
- Art and Architecture
- Performing Arts
- Dress
- Driglam Namzha
- Sports and Recreation

iv. Enhancement of good governance:

The good governance consists of responsive needs, interests and aspirations of the people as envisioned by His Majesty the King. Hence, the good governance, at a broader paradigm, covers accountability, transparency, social justice, equality, empowerment and principles that form the essence of democracy. As of now, it has become the guiding concept of progress and development in our country. The following items are the essential components of good governance:

- Constitution
- Strengthening the government
- Decentralization support programme
- Public service - Backbone of good governance
- Auditing - Towards greater accountability
- Pension scheme
- Foreign Relations
- Judiciary
- National Security

(Source: Kuensel, Vol. XIX. No. 26, July 3, 2004: 1, 6-7).



Student Activity

1. The meaning of Gross National Happiness in the book is in detailed form. Can you define Gross National Happiness in three or four sentences of your own words. You can begin like this: Gross National Happiness is an unique and philosophical development concept... ..
... ..
2. Do you agree with the meaning of Gross National Happiness given in the book? Suggest an alternative definition that you can think of?

2.5.2 Significance:

As the concept of Gross National Happiness is philosophical in nature, its significance can be numerous and varied. Some of the likely significance of Gross National Happiness are given in the following box:

Box 2: Significance of GNH

To maximize the happiness of all Bhutanese and to enable them to achieve their full and innate potential as human beings:

- Should be achieved with traditional values and ethics with better quality of life and levels of well-being and welfare.
- It should also provide for expanded choices and opportunities with greater self reliance of the nation and of individuals.
- To recognize, promote and instill and appreciation and awareness of the importance of the nation's rich cultural heritage and its value.
- Value of our cultural heritage must be interpreted to maintain its relevance as a source of value.
- Benefits of development are shared equitably between different income groups and regions to promote social harmony, stability and unity and contribute to development.
- To develop institutions, human resources and system of governance that enable us to reduce our dependence on others, manage the process of development and enlarge opportunities for people at all levels.
- Institutional development must embody a commitment to the principles of morality in government and of ethical behaviour in the conduct of public affairs.
- Must promote transparency and accountability and be supported by law.
- The nation should maintain the principle of environmental sustainability. It should be regarded as a development asset with a global significance, to be promoted and conserved in the interests of the present and future generations.

[Source: Bhutan 2020, prosperity and happiness, page 47]

Student Activity

Can you think of at least three significance of Gross National Happiness other than the ones given in the box?



2.5.2 Difference between Gross National Happiness and Gross Domestic Product:

Both Gross National Happiness and Gross Domestic Product are the standard tools used to measure economic growth. While Gross Domestic Product emphasizes on material benefits of economic growth, Gross National Happiness tries to equate balance between the material gains and spiritual well-being as the outcome of economic growth. Some of the differences between the two are given in the following box.

Box 3: Differences between GDP and GNH

- The concept of GNH was articulated by His Majesty to indicate that development has many more dimensions than those associated with GDP and that development should be understood as a process that seeks to maximize happiness, rather than economic growth. The concept places the individual at the centre of all development efforts and it recognizes that the individual has material, spiritual and emotional needs. It asserts that spiritual development cannot and should not be defined exclusively in material terms of the increased consumption of goods and services.
- In our view, GDP is an inadequate indicator of development. Despite the importance accorded to it, it is nothing more than a measure of money that changes hands. It is insensitive to, for example, social problems and natural resource depletion. With this measure of 'development' it is possible for a nation's GDP to increase rapidly while its natural assets are rapidly exhausted, undermining sustainability and even the very survival of the nation. Similarly, a country can become 'richer' as a consequence of the money that has to be devoted to combating crime, drug addiction, marital breakdown and other social afflictions.
- It is our belief that many conventional economic indicators of development have little intrinsic interest. Very few Bhutanese, and very few people in other countries, have a direct interest in the precise level of the nation's GDP, its money supply or the prevailing exchange rate. However, all have an interest in the welfare and well-being of themselves and of their loved ones. While economic performance impacts on both welfare and well-being, its importance should be measured in terms of the extent to which it contributes directly to the promotion of both. This leads us to define economic growth not as an end in itself but rather as a potentially powerful means for achieving other goals.
- The key to the concept of GNH cannot be found in the conventional theories of development economics and in the application of such measures as utility functions, consumption preferences and propensities, and desire fulfillment. It resides in the belief that the key to happiness is to be found, once basic material needs have been met, in the satisfaction of non-material needs and in emotional and spiritual growth. The concept of GNH accordingly rejects the notion that there is direct and unambiguous relationship between wealth and happiness. If such a relationship existed, it would follow that those in the richest countries should be the happiest in the world. We know that this is not the case. This marginal increase has also been accompanied by the growth of many social problems as well as phenomena such as stress-related diseases as well as suicides, surely the very antithesis of happiness.

[Source: Bhutan 2020, 45-46]



Student Activity

1. Bring out some of the similarities and differences between Gross National Happiness and Gross Domestic Product.
2. Which measure, do you think, is the better measure? Give valid reasons to support your answer

UNIT THREE: TRADE

3.1.1 Need for Trade

[Refer to *Frank ISC Economics* by Sethi & Andrews, page 378 & 379]

3.1.2 Meaning of Trade

The term *trade* refers to the exchange of goods and services between people, regions and countries. Trade usually takes place for the mutual advantage of both buyers and sellers. Trade, in another word, can also be defined as interaction between producers and the consumers as long as each party has something to offer to the other. Trade can be of two types namely, internal and international trade.

3.1.3 Absolute Cost Theory and Comparative Cost Theory

According to a classical theory, each country will produce those goods for which it is best suited, on account of its resource endowments like natural resources, quality of people and the capital goods.

A country will always specialize in the production of those goods which can be produced at a cheaper cost, comparing with other countries. These products will be produced in excess and will be exchanged with other regions/countries. The per unit cost of production of goods decides on what goods to be produced by a country.

3.1.3.1 Absolute Cost Theory

According to Adam Smith, the fundamental basis of international trade is the difference in absolute cost. The Absolute Cost theory comes into existence when one country has an advantage in the production of one commodity. In other words, a country can produce some commodities at a lower cost of production comparing with the other countries. This occurs because some countries will have suitable soil, climate, resources and technology that can help them to specialize in the production of that commodity. All the countries will specialize in the production of that commodity in which they have an absolute advantage. Given below is an example in table 1 showing the absolute advantage:

Table 1

Product	Cost of Production in USD in:	
	Bhutan	Japan
Mushroom	1500	2000
Apples	2000	1000



In the above table, Bhutan has an absolute advantage in the production of mushroom and Japan in the production of apples. The cost of production of mushroom is lower in Bhutan compared with Japan and the cost of production of apples is lower in Japan compared with Bhutan.

3.1.3.2 Theory of Comparative costs

If one country can produce both the commodities at a lower cost than another country, then we can still have trade by applying the theory of Comparative Cost. The trade according to the theory of Comparative cost takes place when one country has a comparative advantage in the production of one commodity while it has less comparative advantage in the production of the other commodity. The country will specialize in the production of those goods in which it has a greater comparative advantage. This theory can be explained using the concept of both opportunity cost as well as the concept of Production Possibility Curve (PPC). Using the opportunity cost concept, the theory of comparative cost is being explained in three stages:

i) Before specialisation:

Before specialisation, Bhutan has an advantage in the production of both mushroom and apples. But still Bhutan can specialize in the production of one commodity and Japan in the production of other commodity. This is explained by the following example in table 2 and related calculation:

Table 2. Quantity of Mushroom and apples produced in Bhutan and Japan (in kgs).

Production	Bhutan	Japan
Mushroom	12,000	4,000
Apples	8,000	6,000

	Bhutan	:	Japan
<i>Mushroom</i>	12,000	:	4,000
	3	:	1

Bhutan needs to sacrifice 3 tonnes of mushroom to produce 1 ton by Japan.

	Bhutan	:	Japan
<i>Apples</i>	8,000	:	6,000
	4	:	3



Japan needs to sacrifice 3 tonnes of apples as against Bhutan's production of 4 tonnes. Here we find Bhutan comparatively better than Japan in the production of both the commodities. However, Bhutan would not like to produce both the commodities and would like to specialize in the production of one commodity i.e. mushroom.

ii) Specialisation:

During specialisation, Bhutan would specialize in the production of mushroom only as it is already producing more than its apple production. Similarly, Japan will specialize in the production of apples because its apple production is more than its mushroom production. This is shown by the example in the Table below:

Table 3: Specialization of production (in kgs).

Production	Bhutan	Japan
Mushroom	24,000	0
Apples	0	12,000

iii) After specialisation:

We can say from the table given above that Bhutan could produce 24 tonnes of mushroom when all its labour and other resources diverted from production of apples and used in producing mushroom. Japan could produce 12 tonnes of apples when all its labour and other resources are diverted from production of mushroom and used in producing apples. As a result, Bhutan would trade its mushroom with apples from Japan.

The comparative cost theory is explained, using the Production Possibility Curve approach:

(Refer to *ISC Frank Economics Cl-XII*, page 385-391)

Student Activity

1. How different is the theory of absolute cost from that of comparative cost?
2. Mention some commodities and services in which our country enjoys absolute advantage over the other countries in their production and specialization?
3. Can our country trade with other countries using the theory of comparative cost? List down some of the goods and services in which our country enjoys comparative advantage.
4. The theory of comparative cost can be explained using the concept of opportunity cost as well as the concept of Production Possibility Curve (PPC). Explain the theory of comparative cost using both the concepts



3.2 Internal and External Trade

3.2.1 Differences between Internal and External Trade

Internal trade is the exchange of goods and services between individuals or groups of individuals within the country. It is the trade taking place between different regions of a country. That is why it is called internal trade or domestic trade.

International trade is a trade when exchange of goods and services among the citizens of different countries take place. For example, when Bhutan exports potatoes to India and imports clothes and food items from it, there is international trade taking place between these two countries. In other words, Internal trade refers to exchange of goods and services within different regions (gewogs) or states (Dzongkhags) of a country. On the other hand, external trade refers to the exchange of goods and services between two or more countries. Countries obtain commodities which they themselves cannot produce or do not find it worthwhile to produce, through the medium of international trade.

Student Activity

1. Why do you think that international trade is very vital to a country like ours?
2. Do you foresee any problem that our country might have to face by engaging in the so called international trade?
3. Mention some of the possible goods and services that our country could readily sell in the international markets. Explain your argument.
4. Give your own definition of trade.
5. List down some similarities and differences between internal and external trade with the help of your textbook (Frank ISC Economics XII).

3.2.2 Merits and demerits of External Trade

[Refer to *Frank ISC Economics* on page pages 379-383 and do the following activity.]

Student Activity

Discuss and explain some of the merits and demerits of international trade in the context of Bhutanese economy.

3.3 Balance of Payment

3.3.1 Meaning

Balance of payments of a country refers to a systematic record of all economic transactions between the residents of the country in question (i.e. our country) and



residents of foreign countries during a specific period of time. In short, Balance of Payment as a statement of records of all economic transaction visible and invisible within a given period. In fact, Balance of Payment is the total transactions (visible and invisible items) between the two countries. Balance of Payment of any country at a given time may assume any one of the three positions; (i) balanced, (ii) negative (unfavourable) and (iii) positive (favourable). Similarly there are three forms of Balance of Payments. They are as follows:

i) Current Account:

It refers to all the current transactions that are concerned with exports or imports of goods and services. The export and import of the goods are called visible items while the export and import of services such as shipping, banking, insurance, government expenses, interest, profits on investment, gifts and grants are known as invisible items.

ii) Capital Account:

It includes both short term as well as long term capital transfers such as international borrowing and lending, gold transactions and foreign exchange.

iii) Overall Balance of Payment:

It is the total of a country's current account and capital account. In accounting sense, it is always balanced or in equilibrium. Hence, in the practical sense, Balance of Payment is either negative or positive.

Coming to our country, Balance of Payment has always remained negative due to the large imports of goods and services from other countries. We can say that due to the deficit in the current account, the Balance of Payment of our country has been affected adversely. For instance, the value of exports during 1999-2000, 2000-01 and 2001-02 were Nu. 4,455.6 million, Nu.4,615.8 million and Nu. 4,994.8 million respectively while the value of imports during these same years were Nu. 8,074.7 million, Nu, 9,106.3 million and Nu. 8,990.2 million respectively. However, the good thing is that the value of our exports are increasing steadily year by year and a time might come when we would have surplus in current account and Balance of Payment in turn.

Student Activity

1. How different is balance of payment from balance of trade?
2. Is Current Account same as the Balance of Trade? Give reasons in support of your answer.
3. Do you think that the deficit in balance of payment is necessarily bad for a country like ours? Give practical and valid reasons in support of your answer.

3.3.2 Causes of disequilibrium in balance of payment:

Let us now examine some of the causes of unfavorable Balance of Payment in our Country:

i) Development Activities of the government:

Due to the decades of planning and development schemes that our government initiated and undertook, the volume of imports in the form of machines, raw materials, and technical know-how increased over the years. Thus the value of imports exceeded the value of exports, making balance of payment unfavourable.

ii) Import of Services:

As a part of our development programmes, our country started importing capital and services from the developed countries. Consequently, our country had to pay huge amount of money as interest, salaries, profits for these services which in turn, led to the unfavourable balance of payment in our country.

iii) Fall in demand:

Sometimes the demand for our country's goods fall in the international markets. For instance, our exports of oranges and apples to Bangladesh at times fall due to the rising cost of production, natural factors and foreign competition. When the export falls, automatically the balance of payment position of our country becomes unfavourable.

iv) Natural Factors:

As of today, much of our exports are agro-based and are being influenced by natural factors like failure of rain, snowfalls, landslides, pests etc. This, again, lowers our exports and hence, Balance of Payment becomes unfavourable.

v) Demonstration Effect:

As many people of our country try to imitate the consumption pattern of the people of developed countries, our imports have increased, causing negative disequilibrium in our Balance of Payment.

As we know, adverse balance of payment is not healthy for a country like ours partly because it hampers the pace of our economic development and partly because it depletes our scarce foreign exchange reserve, which stood at US dollars 316. 9 millions in 2001—2002. Further, interference in our country's economic, social and political set-up by other countries also cannot be overruled. Therefore, we need to correct this negative disequilibrium in our Balance of Payment well in time.

Student Activity

1. List down all the causes of disequilibrium in Balance of Payment mentioned in your prescribed text (Frank ISC Economics, Cl-XII). Are all of them applicable to our country? Give reasons as to why some of them are applicable and why some of them are not?
2. “The changing consumption pattern of Bhutanese people is also responsible for deficit in our Balance of Payment”. Debate for or against this statement.

3.3.3 Measures to correct disequilibrium in Balance of Payment:

Given below are some of the measures which our country may use to rectify disequilibrium in our balance of payment:

i). Deflation:

To curb the rise in the price level, the volume of currency has to be reduced. The central bank of our country, Royal Monetary Authority, uses various qualitative and quantitative credit control policies to reduce the volume of credit and demand for imports. This method encourages exports and discourages imports to correct deficit in Balance of Payment.

ii) Depreciation:

It is an automatic reduction in the value of a currency due to market forces. Depreciation lowers the value of the local currencies against foreign currencies. When this happens, imports will become costlier and exports cheaper thereby achieving favourable balance of payment or correcting the balance of payment situation of a country like ours.

iii). Devaluation:

As the value of our currency ngultrum is being pegged with the Indian rupee, whenever the Indian rupee is being devalued by the Indian government, the effect is also being felt in our country too. Devaluation reduces imports and promotes exports and a trend towards favourable balance of payment is created.



iv) Exchange control:

The disequilibrium in balance of payment can also be rectified through the method of exchange control. According to this method, the central bank, Royal Monetary Authority of our country can direct all the exporters to surrender their foreign exchange earnings to it. Similarly, foreign exchange can be rationed out among the licensed importers. Thus, the balance of payment can be corrected by keeping export earning from the exporters.

v) External debt:

Our government can also correct its balance of payment position by securing loans from abroad or international financial organizations. However, this is neither advisable nor practical because our country would have to pay huge amounts of foreign exchange as interest for these loans in the long run.

vi) Discouraging imports and encouraging exports:

Our country, of late, has been making efforts to discourage imports by levying duties, tariffs and by fixing imports quotas. Similarly, our government has been encouraging export-oriented industries by reducing duties, giving subsidies and financial assistances. These measures undertaken by the government would lead to the correction of its balance of payment.

vii) Quota Restriction:

To limit the imports to the desired level, our government uses quota restrictions on certain imported durable consumer goods as and when felt necessary for the good of our country. This method would help our country to correct our balance of payment in a small, yet modest way.

viii) Tariff:

While the quota restriction does not bring any revenue for the government, tariff brings in lots of revenue for the government. Further, appropriate tariff on imports directed by our government has also helped in reducing demand for the imports thereby correcting the balance of payment position.

ix) Attraction of Foreign Tourists:

As our government is very keen on promoting eco-tourism based on the principle of “Low volume, High value”, we can see many tourists coming to our country. The table below shows tourist arrival by regions in our country during 2000, 2001 & 2002.



Table 4: Figures showing tourist visit and revenue generated.

Region	2000	2001	2002
America	3,024	2,367	2,142
Asia & Pacific	1,556	1,462	1,332
Europe	2,948	2,450	2,015
Africa	7	27	17
Others	24	87	93
All regions	7,559	6,393	5,599
Revenue earning (US \$ million)	11	9	8

[Source: Bhutan at a glance 2003: National Statistical Bureau. RGoB]

When the tourists come to our country, it is obvious from the table above that they bring in a large amount of foreign currency, which goes a long way in correcting our balance of payment.

To sum up, some of the measures to correct balance of payments are already in place in our country, while some of them are in the pipeline. Yet these are some methods by which our government can rectify disequilibrium in balance of payment in our context.

Student Activity

1. If you are entrusted with the responsibility of correcting the unfavourable balance of payment situation in our economy, which are some of the methods that you would like to adopt? And why?
2. What do you think would actually happen if we are not able to check or correct deficit in our Balance of Payment?
3. Can you make a possible forecast with regard to our country's Balance of Payment situation in the long run, say twenty years from now?

UNIT FOUR: PUBLIC FINANCE

4.1 Meaning of Public Revenue

[Refer to *Frank ISC Economics* by Sethi & Andrews, page 411 & 412]

4.1.1 Meaning of Tax

In our country, taxes were collected in kind and in the form of labour contribution before 1960. However, gradually taxes in kinds were phased out, which was replaced by nominal monetized tax on land, property, business income and consumption of goods and services.

The first major tax reform in our country took place in 1989 to take stock of various measures, to develop a coherent and rational tax system, to establish a system of tax in fair, equitable and efficient manner that minimizes the need for frequent change and to fully document the system in a way that promotes tax payer awareness. Similarly, in 1992, yet another tax reform was initiated by our government to rationalize and streamline the procedures with the development objectives enshrined in 7th Five Year Plan.

Coming to the definition of tax, according to the economist, Seligman, “A tax is compulsory payment from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefits conferred”. In other words, it is a compulsory payment made by the people to the government during a given period of time, without being entitled to any special return from the government.

Student Activity

1. Tax that we give usually is used to pay for the expenses incurred by the government “in the common interest of all”. What are some of these “common interest” that are taken care of by our government through tax?
2. Can you come up with a very suitable definition of Tax in your own words?
3. Prior to 1960, taxes in our country used to be paid in kind. List down some possible things that our forefathers might have paid as tax to our government?

4.1.2 Types of taxes in Bhutan:

Generally, taxes can be broadly categorized into two kinds, namely Direct Tax and Indirect Tax. Like almost all the countries of the world, our country, too collects these two types of taxes from the people every year.

4.1.2.1 Direct Taxes:

It refers to the type of tax in which impact and the incidence of the tax falls on the same person. To be precise, the burden of the tax falls on the person and it is that individual who actually pays the tax. Direct tax in our country consists of Urban Tax and Rural Tax. Some of the direct taxes collected in our country are as follows:

i) Corporate Income Tax (CIT)

Corporate Income tax is a corporation tax. It refers to the type of direct tax which is levied on the net profit of Companies. It is levied at 30% on the net profit and is payable by those entities registered under the Company's Act of the Kingdom of Bhutan 2000.

ii) Business Income Tax (BIT)

Business Income tax is a non-corporate tax. It is levied at 30% on the net profit. BIT is payable by all non-corporate business entities licensed by the Ministry of Trade and Industries. Incorporation of business with the Company's Act is not required in case of BIT.

iii) Personal Income Tax (PIT)

Personal Income Tax in our country is defined as a tax on the income derived from the following sources in each calendar year: (i) Salary income from employment and consultancy services, (ii) Rental income from real property, (iii) Dividend income from share holdings, (iv) Interest income from fixed deposits, (v) Cash crop income from apple/orange/cardamom orchards and (vi) Income from other sources like hire of privately owned vehicles, plants, machinery and from intellectual rights. This tax is paid by Bhutanese citizens, residents, and any other persons earning personal income from sources in Bhutan. PIT is levied at the following rates:

Up to Nu. 100000:	0
Nu. 100001 to Nu. 250000:	6%
Nu. 250001 to Nu. 500000:	9%
Nu. 500001 to Nu. 1000000:	12%
Nu. 1000000 and above:	15%

iv) Other Direct Taxes

Other direct taxes are also collected by the Royal Government yet they do not fall under the three main types of direct taxes like CIT, BIT and PIT. They are briefly discussed below:

- *Royalties:* This direct tax, royalty, is collected by our government from forestry products, mines & minerals and the Tourism sectors.
- *Rural Tax:* Rural Tax consists of Land tax, House tax, Cattle tax and Grazing License fee. The Dzongkhag and Dungkhag Authorities are made responsible for the assessment, collection and deposit of Rural tax. It is usually the Gups (village headman) who collect the rural tax, using rural tax receipts unlike the other revenue collection where revenue money receipt is being used. There are approximately 29 rural tax officials working in various Dzongkhags and Dungkhags at present, looking after 201 gewogs under 11 Dungkhags and 20 Dzongkhags (MoF, RGoB, 2002).
- *Motor vehicle Tax:* Motor Vehicle tax, yet another direct tax is collected on account of annual registration and 5 percent ownership transfer tax of motor vehicles. Some of the other types of direct taxes collected by our government are Business and Professional Licences, Municipal Tax (property registration and expansion of municipality with transfer of rural land under urban township) and Health Contribution.

Student Activity

1. Give at least two differences between tax and fee?
2. Write down one main difference between CIT and BIT?
3. The current slabs of Personal Income Tax in our country are 6%, 9%, 12% and 15% on the Net taxable income of Nu. 150,000, Nu.250,000, Nu.500,000 and Nu. 1000,001 respectively. Calculate the taxable income under various slabs according to the percentage given.

4.1.2.2 Indirect Taxes

Indirect tax as defined by J.S.Mill, “are those which are demanded from one person in the expectation and intention that he shall identify himself at the expense of another with each other”. In other words, this is a tax in which the burden of the tax can be shifted by a person to another. In short, it is a tax in which the impact and the incidence fall on different individuals.



In our country, there are many types of indirect taxes which are levied by the government to generate public revenue. Some of them are briefly explained below:

i) Sales Tax:

Sales tax is a tax imposed upon the sale and consumption of goods and services. It is imposed either as general tax on the retail price of all goods and services sold or as a tax on the sale of selected goods and services. In short, it is a tax on goods and services as a percentage of the retail price.

ii) Excise Duty

Excise Duty is an indirect tax levied and collected on the goods that are manufactured in our country. Rates vary, depending on the type of commodity, and even for the same type of commodity the rates often differ, depending on circumstances such as end-use and taxability of inputs. Presently in our country, excise duty is levied on alcoholic beverages only. The rate of duty ranges from 20 percent to 60 percent ad-valorem at ex-factory price.

iii) Export Tax

Usually, export tax is a tax levied on the goods that are exported to other countries by a country. In our country, export tax is levied on export of timber as of now.

iv) Customs Duty

It is a tax levied on the importation of goods and is payable to the government when the goods enter into a country's Customs boundaries. In our country, customs duty is levied only on goods imported from countries other than India. Since Royal Government of Bhutan has a Free Trade and Commerce Agreement with the Government of India, no customs duty is levied on the import of goods from India.

v) Other Indirect Taxes

The other indirect taxes that are collected by our government are taxes collected, for instance, through the sale of revenue stamps.

Student Activity

1. What do you mean by Impact of the tax, incidence of the tax and shifting of the tax?
2. How different is the Sales Tax from Excise Duty?
3. Differentiate between Export Tax and Import Duty.



4.1.2.3 Merits and Demerits of Direct Tax and Indirect Tax

[Refer to *Frank ISC Economics, Cl-XII*, page 421—425]

4.1.2.4 Progressive, Proportional, Regressive, Digressive taxes (meaning only)

[Refer to *Frank ISC Economics, Cl-XII*, page 425—426]

Student Activity

1. Mention some of the merits and demerits of Direct Tax.
2. Mention some of the merits and demerits of Indirect Tax.
3. Giving reasons, explain why direct tax is said to be better than Indirect Tax.
4. Give suitable definitions of Progressive, Proportional, Regressive and Digressive Taxes citing appropriate examples for each of them.

4.1.2.5 Sources of Government Revenue in Bhutan

In simple words, government revenue implies the revenue generated by the government from its people through taxes. However, taxes are not only the source of government revenue in most of the counties of the world like ours. The government revenue comes from sources such as Tax revenue, Non-tax revenue, Grants from multilateral and bilateral sources and Borrowings among many other sources.

• Tax revenue and non Tax Revenue

The tax revenue and non-tax revenue collected by our government during the 2002-2003 fiscal year are represented in the boxes below:

Box 4: Sources of Government revenue in Bhutan.

1. Overall Revenue performance

The revenue collection for the fiscal year has reached Nu. 4785.260 million, while the target set for the fiscal year (FY) stood at Nu. 5100. 215 million. The Revenue collected has fallen short of the target, showing shortfall of 6.1percent or Nu. 314.955 million. The decline as we see, are mostly as a result of the various policy changes announced by the government during the period and reduction of interest income from investment abroad due to sluggish performance of global economy post September 11. On the policy front, changes effected by the government that have had a negative impact on revenue are: developing of rural tax, abolishing export tax, corporatisation of Department of Power (DOP) and tax breaks, etc.

Further, outbreaks of SARS had an effect on royalty from tourism and CIT from travel industry. While tax revenue is short of the projected target by (-) 3.61%, it has achieved 11.93% growth from the previous fiscal year. Non tax revenue decreased, registering a shortfall of (-) 11.48% from the target or decrease of (-) 24.86% from the previous fiscal year.



2. Summary of National Revenue: FY 2002-2003

Nr. In Million

	Source of Revenue	2001-2002 (Net Revenue)	2002-2003 (Net Revenue)	(+) or (-) (Nu)	(+) or (-) %	% over Total revenue
A	Tax Revenue (I+II)	2628.849	2928.298	299.449	11.39	61.191
I	Direct Revenue	1712.600	1716.047	3.447	0.20	35.86
1	Corporate Income Tax	987.833	922.491	(65.342)	(6.61)	19.28
2	Business Income Tax	317.205	350.196	32.991	10.40	7.32
3	Personal Income Tax	73.618	100.463	26.845	36.47	2.10
4	Other tax revenue	333.944	342.897	8.953	2.68	7.17
4.1	Motor Vehicle Tax	53.181	62.602	9.421	17.71	1.31
4.2	Business & Prof. Licences	20.684	18.752	(1.932)	(9.34)	0.39
	Foreign Travel Tax (Airport)					
4.3	Municipal Tax	5.030	5.768	0.738	14.67	0.12
	Health Contribution					
4.4	Royalties	7.756	12.672	4.916	63.38	0.26
4.5	Rural Tax	23.444	26.853	3.409	14.54	0.56
4.6	Indirect Tax	214.261	214.738	0.477	0.22	4.49
4.7	Bhutan Sales Tax	9.588	1.512	(8.076)	(84.23)	0.03
II	Export Tax	916.249	1212.251	296.002	32.31	25.33
5	Excise Duty	360.017	435.015	74.998	20.83	9.09
6	Import Duty	12.294	0.763	(11.531)	(93.79)	0.02
7	Other Tax Revenue	444.897	657.831	212.934	47.86	13.75
8		94.520	115.159	20.639	21.84	2.41
9		4.521	3.483	(1.038)	(22.96)	0.07
B	Non-Tax Revenue	2471.177	1856.962	(614.215)	(24.86)	38.81
10	Adms. Fees & charges	137.003	162.754	25.751	18.80	3.40
11	Capital Revenue	34.665	25.012	(9.653)	(27.85)	0.52
12	Revenue from Govt. Depts.					
	Dividends	499.979	34.137	(465.842)	(93.17)	0.71
13	Transfer of Profits	1426.833	1288.091	(138.742)	(9.72)	26.92
14	Other Non-Tax Revenue	315.410	317.186	1.776	0.56	6.63
15		57.286	29.782	(27.505)	(48.01)	0.62
	Total Tax & Non-Tax Revenue (A+B)	5100.026	4785.260	(314.766)	(6.17)	100.00

2.1 Tax Revenue

Tax revenue represents 61.19% of the total revenue for the FY 2002-03. The collection also represents a milestone in the composition of tax to non-tax ratio. The new ratio shows a quantum leap in tax revenue as compared to 52.66% achieved in the previous year (highest ever achieved). However, we also at the same time witnessed a decline in terms of actual growth of revenue compared to the previous years. While the collection for FY 2001-2002 represent 22.05% increase from its previous year, we have an increase of only 11.39% for FY 2002-03.

To delve further into the composition of tax revenue, the collection from BIT, CIT and PIT for the fiscal year is recorded at Nu. 1,716.047 million while indirect tax collection is at Nu. 1,212.251 million. The figure represents 35.86% and 25.33% of the total revenue respectively. Taking a look at performance by tax type, Direct Tax has registered only 0.20% increase of 32.31 percent from the previous year. The increase in indirect tax is attributable to the improved collection from sales tax, import duty and excise duty refund from GOI.

2.1.1 Direct Taxes:

Direct tax collection during the year (2002-03) was Nu. 1,716.047 million, which is a net increase of Nu. 3.447 million from the previous year (2001-02) or an increase of 0.20 percent only. As a source of tax revenue, it constitutes 58.60 percent for the fiscal year as against 65.14 percent for the previous year, showing a decline of 6.5 percent. However, compared against the total revenue, it represents 35.86 percent as against 32.01 percent for the previous year, showing an increase of 3.85 percent.

Some of the direct taxes collected in our country are as follows:

Corporate Income Tax (CIT)

CIT still remains the major source of collection under direct tax. While its share of total revenue in the previous financial year (2002) was 19.44 percent, it has more or less maintained a status quo for the current fiscal year (2003) at 19.28 percent. Total collection for the year (2003) is Nu. 922.491 million, showing a decline of Nu. (-)65.342 or (-)6.61% from a collection of Nu. 987.833 million for the last fiscal year. The decrease in the collection has mainly come from Thimphu and Phuentsholing regions where most of the corporate entities are located. In particular the decline has come from the low performance of CHPC, AWP, BTCL, BNB, and other smaller corporate entities. Further, we note that forecast made for DOP amounting to Nu. 91.832 has added to the shortfall, as there is no remittance during the period.

Business Income Tax (BIT)

BIT is another major source of revenue under direct tax. Collection on this account has reached Nu. 350 million, showing a net increase of Nu.33 million during the year or 10.4% increase. It's a share to the national revenue has also touched an all time high of 7.32%. From our study of revenue has also touched on all time high of 7.32%. From our study of revenue performance, we attribute the increase in BIT to the collection effort of tax officers and also due to proliferation of business and the improved compliance of taxpayers. We observe that growth has come from collection from Thimphu, Phuentsholing, and Gelephu region for the fiscal year.

Personal Income Tax (PIT)

It is the first year of PIT in Bhutan and the total collection made on this account is Nu 100.436 million against a target of Nu. 110.00 million. The figure is short of target by (-)8.67%. From our observation, the shortfall has occurred not due to error in estimation or collection effort, but due to additional allowances such as children's education allowance, GIS contribution and provident fund being allowed as deductions. PIT constitutes a



modest 2.10% of the total revenue as of now. The first year of PIT implementation was very successful and the revenue from PIT will be quite substantial in the near future.

Other Direct Taxes

This is a new head under tax we are featuring in this year's report. Other direct taxes include taxes collected but not falling under the three main broad heads of CIT, BIT and PIT. Tax heads have been reclassified for presenting a correct picture of the national revenue performance.

Box 6

Other Direct Taxes	Percentage of Contribution
Royalties	63
Motor Vehicle Tax	18
Health Contribution	8
Business & Professional Licences	5
Municipal Tax	4
Airport Tax	2

Box 7

Royalties

- Royalty collection from Forestry products, Mines and Minerals and the Tourism Sector is recorded at Nu. 214.738 million for the fiscal year showing a very significant increase of Nu.o.4777 million or 0.22% increase. The collection represents 4.49% of the total revenue. The decline of the revenue under this source can be contributed to the tourism sector, which registered a shortfall of 44% from the target and the declining trend in the collection from forestry products, mines and minerals.

Rural Tax

- The total rural tax collection amounts to Nu. 2.512 million for the fiscal year and it constitutes 0.03% of the total revenue. It shows a decline of 84.23% from the previous year. All collection on this account for the fiscal year pertains to the past outstanding since Rural tax has been decentralised in line with the GYT Chhathrim 2002 to the respective Dzongkhags and Geogs.



Motor vehicle Tax

- Collection from Motor vehicle tax has been segregated in this year report and only collection on account of annual registration and 5% ownership transfer tax are shown under this head starting this fiscal year. Fees and charges related to other services provided by the RSTA has been moved under Administrative Fees and Charges in Non –Tax Revenue. On account of this there is a growth of 17.7% for the current fiscal year. MV Tax constitutes 1.3% to the total revenue

Business and Professional Licenses

- Business and Professional Licences have been reclassified from Indirect Tax to Direct Tax head. Collection for the fiscal year is Nu. 18.752 million, registering a decline of (-)0.39% from the previous year. It constitutes 0.39% to the national revenue.

Municipal Taxes

- Municipal tax has been classified under Direct Tax. The collection for the fiscal year is Nu. 12.672 million compared against Nu.7.756 million collected in the previous year. It shows a growth of 63.38% over the previous year. This is primarily due to increase in the property registration and the expansion of municipality with transfer of rural land under urban township. The collection constitutes 0.26% of the national revenue.

Health Contribution

- Health contribution, which is a nominal charge for the free health services availed in the country from all salaried employees, has made a collection of Nu. 26.853 million during the fiscal year. It constitutes 0.56% of the national revenue, registering an increase of 14.54%

Box 8

2.1.2 Indirect Taxes

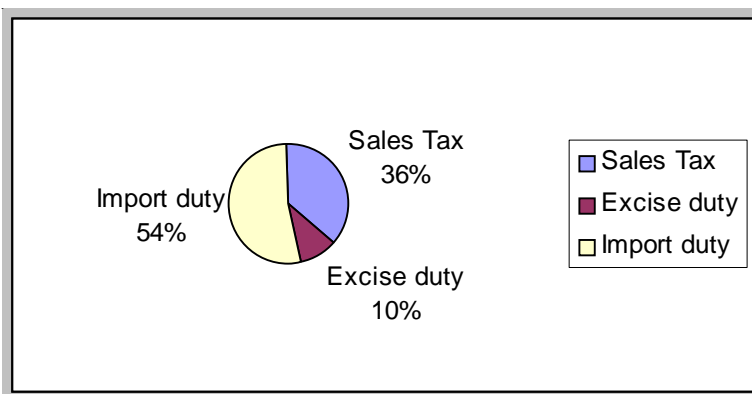
Indirect taxes include collection from BST, Excise Duty and Customs Duty. The total collection for the year is Nu. 1212.251 million against Nu. 1049.445 million for the last fiscal year, registering a growth of 32.31%. It constitutes 25.33% of the total revenue for the year. We attribute the increase in the collection of Indirect Tax to increasing imports, which has a direct bearing on Excise Duty Refund from Government of India (GOI) and a proactive tariff structure.

In the policy front, we note that starting 1996, there has been progressive liberalization of imports, quantitative restrictions replaced with tariffs, less restriction on foreign currency, etc. (refer to Table 1).

Table 5

Fiscal Year	Growth p.a.in %	As % to Total Revenue
1997-98	53.5%	19.4%
1998-99	5.51%	15.38%
1999-00	69.65%	21.14%
2000-01	27.89%	14.29%
2001-02	57.22%	20.66%
2002-03	32.31%	25.33%

Box 9



Sales Tax

BST collection increased to Nu. 435.015 million from last year's figure of Nu. 360.017 million, showing a growth of 20.83% during the year. This we observe is a result of increasing volume of trade and collection effort made by Customs Check-posts. It constitutes 9.09% of total Revenue.

Excise Duty

Excise duty collection for the fiscal year is Nu. 657.831 million, which is an increase of Nu. 212.934 million from the past year. It has registered a growth of 47.86% contributing 13.75% to the national revenue, while the performance of domestic excise collection has registered a decline in growth with falling sales of AWP products during the year. The scale of GO refund has however offset this decline.



Export Tax

Export Tax collection for the fiscal year is Nu. 0.763 million registering a decline of (-)93.79% over the past year's collection. Export tax constitutes collection on export of cash crops and timber. Export Tax on cash is no longer levied after the decision of the National Assembly to abolish it in 2002.

Import Duty

The collection on import duty amounted to Nu. 115.159 million for the fiscal year as against 94.520 million for the last fiscal year, recording an increase in revenue of Nu. 20.639 million or 21.84%. It constitutes about 1.8% of the total revenue. The increase in revenue is due to the increase in volume of third country imports.

Other Indirect Taxes

Collection on account of other indirect tax sources amount to Nu. 3.483 million, showing a decline of Nu. (-) 1.038 million or (-)22.96%. It constitute 0.07% to the total revenue. Sources under this head constitute, amusement tax and sale of revenue stamps.

2.2 Non- Tax Revenue

Non-Tax revenue collection is on account of: administrative fees & charges: Capital revenue from sale of government properties, revenue from the government departments: dividend receipts on the government investments: etc. Non-tax collections during the year amounted to Nu. 614.215 million against Nu.2471.1777 million for last fiscal year or a decrease of (-)24.86%. The collection during the year has also been adversely affected due to varied reasons like corporatisation of DOP, reduced profit/ dividend transfer from RMA, BOB and BNB, reduced dividend from CHPC due to the additional cost paid (wheeling charges) to BPC, etc. Non-tax revenue covers 38.81% of the total revenue for the year compared to 47.55 last year. Over the years, the ratio of non-tax to tax has also been steadily declining, from 30:70 in FY 1995-96 to 39:61 for FY 2002-03. With progressive divestment of government holdings, revenue from dividend is expected to progressively decline while short-term windfall gains are made temporarily from sale of government shares.

Revenue from Government Departments:

The collection from Government Departments for the year is a mere Nu.34.137 million compared to last year's collection of Nu.499.979 million. It shows a drastic decline of Nu. (-)465.842 million or (-)93.17%. We observe, while much of the decrease has come about due to corporatisation of DOP, the revenue is also affected by decrease in collection from agricultural, registration, roads, education, animal husbandry, etc. Windfall collection from Department of Survey last year from payment of excess land has also levelled off this year registering a decline under this head. Revenue from this source constitutes 0.71% for the fiscal year compared against 9.84% during the previous year.



Dividend

Receipts from Dividends from Government share holdings in corporations during the year decreased to Nu. 1288.091 million from Nu. 1426.833 million from the previous year, which is 9.72%. This is as reported above, mainly due to reduced profit from CHPC, BNB, RICBL, FDC, STCBL, BOB, etc. For instance, FDC has posted no dividend for the year. Proliferation of foreign car dealers in the country has affected sales of STCBL. We note that from CHPC alone there is a decline of Nu. 165 million, compared to dividend posted in the previous fiscal year. Due to the extra expense that CHPC has to bear as wheeling charges after BPC came into existence. However, on the other hand, Bhutan Telecom and BFAL have performed well.

Transfer of Profits

Revenue on accounts of Transfer of Profits from the Royal Monetary Authority, Bhutan Lottery and Basochhu Power Project for the year amounts to Nu. 317.186 million, or a marginal increase of Nu. 1.776 million or 0.56% over the last fiscal year. The low level of growth is mainly due to reduced remittances from RMA where returns on investment have been affected due to interest rate revision on the dollar during the year, which had hit an all time low of 1—0.9% from 6.85% around the year 2000. The decline amounts to Nu. 114.541 million or (-)55.54% on RMA's account alone. However, the decline has been offset with remittances from Bosochhu and Bhutan Lottery. It constitutes 6.63% of the total revenue.

Capital Revenue

Capital Revenue constitutes revenue from sale of government assets, proceeds of agricultural products, bid value from coal, gypsum and other minerals mines, etc. The collection for the year is Nu. 25.012 million, showing a drop of Nu. 9.653 million from Nu. 34.665 for the last fiscal year, registering a decline of 27.85%. Capital revenue covers 0.52% of the total revenue.

ADM Fees & Charges

Depot surcharge on petroleum products and motor vehicle fees and charges have been moved from tax revenue and reclassified under this head. Revenue collection under this head increased by Nu. 25.751 million or 18.80% during the fiscal year. Total collection made is Nu. 162.754 million. The increase is mostly due to collections from Judiciary fees and charges, which increased by 167.91% during the year. We attribute this to the effort made by the judiciary on clearing all backlog litigations in the past year. Revenue from hire charges follows next contributing Nu. 16.9 million to the total revenue. It has shown a growth of 103% over the previous year.

[Source for box 4 to box 9 : National Revenue Report, 2002-2003, DRC, MoF]

Student Activity

1. Represent Tax Revenue during the fiscal years of 2001-02 & 2002-03 in a paired bar graph from using the information provided in the boxes above.
2. Represent Non-Tax Revenue during the fiscal years of 2001-02 & 2002-03 in a paired bar graph using the information provided in the boxes above.
3. Differentiate between Tax Revenue and Non-Tax Revenue.
4. Which of the two, Tax Revenue or Non-Tax Revenue, contribute relatively larger amount of revenue to our government?

• Grants from multilateral and bilateral sources

Grants from multilateral and bilateral sources like the international financial organizations and a host of friendly nations of our country are other sources of government revenue. The projection of external resources (grants) during the 9th Five Year Plan is shown below:

Table 6: External resources for the 9th FYP (Nu. Million)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	Total
External Resource (Grants)	6,065	6,066	6,066	6,066	6,066	30,329

• Borrowings

Another source of government revenue is borrowings. Borrowing can be divided into two, subparts namely internal borrowing and external borrowing. Our government can usually resort to this source of government revenue when the total revenue fails to meet the projected public expenditures of the government. The projected project-related external borrowings during the 9th Five Year Plan is reflected below:

Table 7: External borrowings for 9th FYP (Nu. Million)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Project related External borrowings	1,003	1,003	1,003	1,003	1,003	5,015

Student Activity

1. What are some of the advantages and disadvantages of getting financial help from multilateral and bilateral sources and borrowings to our government as possible sources of government revenue?
2. As a student of economics, which kind of borrowings, internal or external, do you feel that our government should go for? Why?

4.1.2.6 Value Added Tax (VAT) and Modified Value Added Tax (MODVAT)

[Refer to *Frank ISC Economics, Cl-XII*, page 429-432]

4.2 Public Expenditure

4.2.1 Meaning of Public Expenditure

[Refer to *Frank ISC Economics, Cl-XII*, page 441-442]

4.2.2 Reasons for the Growth of Public Expenditure in recent times in Bhutan

After centuries of isolation, our country under the far-sighted leadership of His Majesty the late King Jigme Dorji Wangchuck, opened its door to the agents of change and modernization by undertaking first of its five year Development Programmes in 1961. Since then, there has been manifold increase in the public expenditure in our country. The total budget outlay of the First Five Year plan (1961-1966) was Nu. 174.7 million. This increased to about Nu. 70,000 million in the Ninth Five Year Plan (2002-2007) showing 400.7 times increase in the public expenditure of our country. The major part of this public expenditure till now as always has been on the development of necessary infrastructural facilities and human resource development. Some of the causes for this phenomenal increase in public expenditure in our country are given below:

i) *Expenditure on the Developmental activities*: Right from the inception of five year plans in 1961, our country has successfully implemented about nine plans as of today. During these forty four years of rigorous and effective planning, our country has seen unprecedented economic development, progress and prosperity taking place. The massive investment of our government has been on the promotion of agricultural development, industrial development, the improvement of infrastructural facilities, and the conservation of natural environment. This has resulted in huge increase in the public expenditure of our country.

ii) *Expenditure on the social services*: At the end of the first five year plan in 1966, there were 108 schools including two public schools with a total enrolment of 15000 students in our country. By the year 2003, the number of schools increased to 412, the number of training institutions to 14 along with 365 Non-Formal Education Centres with a total enrolment of about 145,079 students, trainees and learners. Similarly, at the beginning of Second Five Year Plan in 1966, there were three hospitals and forty new dispensaries to start with. By the year 2002, there were twenty-nine hospitals, 166 Basic Health Units, one indigenous hospital with a total health coverage of about 90%. As a result of the government's huge investment in providing education and health facilities, there has been sharp rise in the public expenditure of our country.



iii) *Population Growth*: While our country's population continues to remain small with about 7,34,340 (2003), the high growth rate of 2.6 percent during 1980s and 3.1 percent 1990s has increased the demand for various social services provided by our government. Besides this, there was need to provide this growing population with basic amenities, safe drinking water, electricity, transport and communication among many others. This, again, has greatly increased the public expenditure of our country.

iv) *Expenditure on Urbanization*: Because of rural-urban migration of people, the urban population of our country stood at 21 percent in 2003. Despite the efforts of the Royal Government to check this trend, people continue to move from rural areas to urban centres. This influx of people to the towns and cities has demanded increased expenditure of the government in maintaining law and order, providing health services, transport facilities and housing facilities. Consequently, the public expenditure has increased because of urbanization.

v) *Expenditure on increased Administrative Machinery*: Though the policy of our government is to keep its size "compact and efficient", the need is felt to increase the number of employees in the government to fill up newly created sections, divisions and ministries as demanded by the pace of our development. The public expenditure has increased as the government has to give its employees pay, Leave Travel Concession (LTC), leave encashments and many more.

Student Activity

1. Can you think of any other reasons than the ones given above to be the reasons for our country's rising public expenditures?
2. What are some of the possible methods that can be used by our government to curtail the growth of public expenditure in recent times?

4.3 Public Debt

4.3.1 Meaning of Public debt

[Refer to *Frank ISC Economics, Cl-XII*, page 451]

4.3.2 Reasons for external and internal borrowing by the government

[Refer to *Frank ISC Economics, Cl-XII*, page 453-454]

4.3.3 Methods of Debt Redemption

[Refer to *Frank ISC Economics, Cl-XII*, page 454-456]

4.3.4 Effects of Public Borrowing on the Bhutanese Economy

According to the National Budget (2003-04), at the end of 2002, the stock of external debt outstanding was \$ 331.7 million or around 58% of GDP. Out of this, convertible currency debt stock accounted for 45%. The debt service ratio for 2002 was 3.5%, reflecting the high nature of debt. In future, the external borrowings are expected to fund 15% of the total capital expenditure and the current expenditure from the domestic revenue.

Table 8: External borrowings

Debt outstanding	Amount (million in \$) 2003
Convertible currency loans	185.797
Indian Rupee Loans	286.396
Total	472.193

The effect of public borrowing on Bhutanese economy can be classified into positive and negative effects.

a) Positive effects (Role) of Public Debt

i) Public debt has helped in accelerating economic development by making proper use of the resources. The revenue collected from tax is not enough for the economic development of the country and therefore, the government has to depend on internal and external borrowings to mobilise the resources for financing its five year plans. During the budget estimate of 1995-96, about 50.4% of the capital expenditure is financed by external donors. For the 8th Five Year Plan, capital expenditure was projected to be Nu. 19,092.34 million, out of which 80% was expected to be financed by Donor countries/institutions.



ii) The Public Debt encourages more savings and investments. These funds are used for developing infrastructures like transport and communication, electricity, education, hospitals, agriculture and many others. This has promoted the economic development of our country.

iii) Public borrowings have been used to meet the public expenditures. This has expanded the productive capacity of our country as a whole and has increased the pace of economic prosperity of the Bhutanese people.

iv) For the economic development of our country, a lot of durable goods and capital equipment are necessary to be imported from other countries. As against this, Bhutan's export of apples and oranges are also increasing slowly. Yet, the foreign exchange required for acquiring these capital goods and equipment has not been sufficient. For these, a large amount of foreign exchange is collected by our government through external/foreign borrowings.

b) Negative Effects (costs) of Public Debt

[Refer to *Frank ISC Economics-CI XII*, page 458]

Student Activity

1. The external debt of our country stood at 58% of the GDP at the end of 2002. Mention some measures that our government could undertake to reduce the percentage of external debt.
2. Why do you think that our government is trying to use external borrowings to fund capital expenditure and not the current expenditure?
3. Discuss the negative effects of Public Debt mentioned in your text book(Frank ISC Economics, CI-XII) with their relevance to our economy.

4.4 Fiscal Policy in relation to the objectives of equality, stability and growth

[Refer to *Frank ISC Economics-CI XII*, page 463-469]

4.5 Deficit Financing

4.5.1 Deficit Financing in Bhutan

Deficit Financing in Bhutanese context means the resource gap that exists between the projected public expenditure and the revenue generated by our government. According to the year 2003-2004 budget, the resource gap was Nu. 735.364 millions as on April 30, 2004. As a result of incomplete negotiations with large donors, there was a shortfall of around Nu. 176 million which will be adding on to the deficit budget. The increasing expenditure and the shortfall will add upto a resource gap of Nu. 352 million over what was projected for the Ninth Plan. Some shortfall has to be met from domestic borrowings. Nevertheless, the resource gap for the Ninth Plan is less than that of the past years.

4.5.2 Reasons for deficit financing

[Refer to *Frank ISC Economics-CI XII*, page 470-471]

4.5.3 Methods of deficit financing in Bhutan

i) *Borrowing from the Central Bank (Royal Monetary Authority of Bhutan):*

If the government decides to borrow money from the Royal Monetary Authority (RMA), it will transfer its securities to the RMA and on the strength of these securities, the RMA issues currency notes to the government.

ii) *Withdrawal of its cash balances from the Central Bank (RMA):*

The RMA is the banker to our government. The Government deposits its money with the RMA and in times of deficit financing, the government can withdraw from the RMA.

iii) *Issuing New Currency:*

During the times of deficit financing, the RMA can issue new currency, influencing the circulation of money and at the same time checking inflation.

4.5.4 Effects of Deficit financing in Bhutan

Deficit financing can have both positive and negative effects on the economy like ours. However, the degree of effect, either good or bad solely depends on the amount of deficit financing that is being undertaken by the government of our country.

a) *Good Effects:*

i) *Best use of Resources:* Deficit financing makes the best use of resources and creates more funds for the promotion of developmental projects that our government has been initiating during the successive plans.

ii) *Increase in Demand:* Deficit financing increases the public expenditure, which, in turn, raises the aggregate demand in the market. This leads to higher employment opportunities and business activities in our country.

iii) *More saving:* Deficit financing encourages people to save more as the production, income and employment increase as a result of the increase in public expenditures. Simultaneously, deficit financing tends to increase the prices of commodities, thereby reducing the consumption and encouraging savings.



iv) Reduces Inequality: Deficit financing helps the government in carrying out various developmental projects, which increases the employment opportunities among the people. As a result, the income of the people increases, reducing income inequality among them.

b) Bad Effects:

i) Inflation: The increase in deficit financing results in increasing money supply and further leading to increasing demand for goods and services and increasing price (demand pull inflation). This causes a situation of glaring inflation.

ii) Distribution of Income: Because of deficit financing, price rises, increasing the profits of the producers. On the other hand, the purchasing power of the fixed income group, like salaried class, reduces in real terms. Thus, it leads to an unequal distribution of income among the various classes of people in the country.

iii) Change in the pattern on Investment: Deficit financing sometimes may lead to undesirable activities and investments like hoarding, speculation and black marketing, which is not good for a developing country like ours.

Thus, deficit financing is good for the development of a country but it has to be kept within limits and if it exceeds the limits, there can be a lot of harmful effects.

Student Activity

1. Issuing of New Currency is a solution to deficit financing. Is it advisable for a country like ours to go for this method? Why?
2. Deficit financing is both good and bad for our country. Discuss.
3. Can you think of any other negative effects of deficit financing?

4.6 Budget

4.6.1 Meaning of Budget

The term 'Budget' shall be the estimates of revenues and receipts, and expenditures. It shall be a comprehensive financial programme of the Government during a fixed period.

Objectives of the budget system:

The objectives of budget system are as follows:

- to provide a framework for the assessment and allocation of resources, execution, monitoring and evaluation of all government programmes/projects/activities under a comprehensive fiscal plan developed, authorized and executed in accordance with the laws, rules and regulations, and the principles of sound fiscal management;
- to provide for the budgetary status of the Government in such detail that persons entrusted by laws, rules and regulations with the responsibility can determine the adequacy of budget actions taken, authorized or proposed, as well as the true financial position of the Government; and
- to enforce effectively the various means of raising revenues and receipts, and the limitations on the expenditure of Government funds.

4.6.2 Need of Budget

[Refer to *Frank ISC Economics-CI XII*, page 477-479]

4.6.3 Types of Budget in the Bhutanese economy

There are different types of budgets as shown below:

i) Government Budget:

To achieve certain objectives of the Government like economic development, reduction of inequalities of income and wealth and the achievement of Gross National Happiness etc, the government will incur expenditures. To finance these expenditures, the government has to raise necessary revenues which can be through various sources like taxes, public borrowings and external assistance. Thus, the Government Budget is the budget for the whole country, describing in details the estimated receipts and proposed expenditures and disbursements of the government under various heads/agencies. This budget includes budget for agencies (Here *agency* is defined as an entity of the Government whose sources of funding is the Government).



ii) Supplementary Budget:

Owing to unforeseen circumstances during the formulation of the budget for the fiscal year, the government agencies often find that they need to spend more money than that projected in the original budget. This happens usually during the budget execution phase. This leads to supplementary budgets. Supplementary budgets can be classified into three categories:

- *New budgets:* Budget that are proposed during the course of the fiscal year and which are not part of the budget on the 1st of July. This is a budget for activities.
- *Additional budgets:* Sometimes, in order to meet the cost of activities outside the original scope of the program or project (e.g. changes in the scope of work/additional works), additional money is required to the budget already approved on the 1st of July of fiscal year. This is called additional budget.
- *Complementary budgets:* Sometimes, due to cost escalations, or inflation there will be a need for a budget, complementary to the budget approved on the 1st July for the cost of activities within the original scope of the programme or project.

iii) Rolling Budget

For funding gaps and expenditure trends, etc. an annual budget is supplemented by projections for the coming years. In this case, the Government introduces a three-year rolling budget as the Medium Term Framework for development planning and aid co-ordination. This means that the government's spending plans shall be spread over three years. On an annual basis, the projected spending plans shall be reviewed, adjusted and rolled over to include an additional year. For instance, the rolling budget starting in 2001 shall include allocations for 2001-2002 and projections for 2002-2003 and 2003-2004. However, only the current year's budget is authorized by the National Assembly and the remaining two years shall be indications of allocations.

4.6.4 Budgetary Policy of Bhutan

What is more important to Bhutan is to have a balance in Expenditure Outlay and Sources of Finance. The Expenditure outlay comprises Current Expenditure, Capital Expenditure, net lending and repayment while the Sources of Finance comprised of Domestic revenue, Other receipts, Grants (GoI projects grants & grants from other sources) and Financing, which includes Resource Gap. At present, the target is to meet the projected expenditures by generating the revenue. Royal Government will continue to ensure that domestic revenues continue to meet the recurrent expenditures and large portion of the capital expenditures are to be met by assistance from Bhutan's development partners. The main aim of the Royal Government is to contain expenditures while making

significant gains on the resources side, leading to the reduction of resource gap. Now, with the constitution of Bhutan expected to be in place, the ruling party of the government will decide the budgetary policy on the expected demand from the opposition party with regard to the sources of income/finance and expected expenditures.

4.6.5 Budgetary procedure in the preparation of budget in Bhutan (Budget Cycle)

The budgetary procedure/budget cycle consists of the following phases:

i) Budget Preparation:

An estimate of the expected receipts and a forecast of the expenditure shall be prepared by the Department of Revenue & Customs (DRC), the Department of Aid & Debt Management (DADM) and the Department of Budget & Accounts (DBA).

The DRC prepares an estimate of the internal receipts from tax and non-tax sources while the DADM shall prepare estimates of receipts of external grants and loans, loan recoveries and supplement it with estimates of mandatory counterpart contributions as well as the debt servicing requirements.

The DBA shall prepare a forecast of all the overall expenditures of the Government, taking into consideration the estimated amounts of counterpart contributions and debt servicing. The Budget Call issued by Ministry of Finance (MoF) to the agencies shall include financial policies and specific economic information such as the inflation rate. After hearing from the Ministry of Finance with regard to the budget call, agencies will prepare budgets for different programs and projects. The Policy and Planning Division of different agencies are responsible for the proposed budget estimates while Dzongkhags are responsible for submitting the different sectors' budget as per the sectors' plan objectives. Budget for activities at the gewog level are based on gewog plans.

Based on the external grants and loans, the DADM shall examine the items under external financing and give comments to the DBA on the expected receipts of external grants/loans. This is done after the DRC make available expected receipts to the BDA.

After receiving budget proposals and forecasts of revenue and receipts, the DBA calls meetings with all agencies to discuss the budget where the latter will be represented by the heads of agencies with the assistance from the Policy and Planning Division (PPD)/the Administration and Finance Division (AFD). Generally, no detailed discussion takes place except in the case of new activities (current expenditure estimates). Budget



discussions are to be at the activity level. Those activities recommended by the MoF are of highest priorities. For Gewog/Dzongkhag proposals, central agencies are consulted.

The finalization of budget report takes place when the DBA has compiled the Budget Estimates and has prepared a Budget Report based on the budget discussions and the forecast of resources.

ii) Budget Approval:

It is also Legislative authorization. Before submission to the National Assembly of Bhutan, the Ministry of Finance submits the budget report to the Cabinet for discussion and review.

On behalf of the Council of Ministries, the Minister of Finance presents the proposed budget to the National Assembly of Bhutan for legislative approval.

iii) Budget Execution (Release of Funds):

After the budget has been approved by the National Assembly, the DBA issues a Budget Notification to the agencies to provide with their approved details and timetable with dates for expected release and submitting reports. The release of funds through LC (Letter of Credit) system in the respective bank accounts maintained by agent bank is the start of budget execution. The DBA shall be empowered to fix time periods in the last quarter of the year to minimize the chances of idle funds getting lapsed at the year-end. The system of releases are subject to change, depending upon Government's cash flow situation and fund management policies.

a) Budgetary releases consist of the following three types:

- *Current Regular Releases:* Current Regular Releases made on quarterly basis are for the current expenditure of regular nature.
- *Current Ad Hoc Releases:* Current Ad Hoc releases shall refer to individual releases based on specific requests. Examples are bulk supplies.
- *Capital Releases:* Capital releases are of two categories: *Construction and non-construction*.

b) Budgetary Releases are made as follows:

- First Releases
- Subsequent Releases
- Non-Revenue Releases
- Refundable Deposit Account Releases
- Release for Uncashed Cheques
- Unauthorised Diversion of Funds
- Release of Fund is not Sanction for Payment etc.

iv) Budget Accountability and Reporting:

The budget accountability involves the following activities:

- Submission of Monthly Accounts: In respect of all bank accounts allotted to the agencies, the agencies are to prepare and submit monthly accounts on receipts, utilisation and disposition of the fund. The receipt of completed monthly accounts and prescribed schedules in time are pre-requisites for release of funds by the DBA.
- Submission of Financial and Physical Progress reports: The reporting by Agencies about their performance is an important basis of accountability. The report comprises the overview progress and forecast of likely position in the next periods and it should be clear whether programmes are on schedule, which may finish on time within budgets and set goals. The receiving of reports is a condition for the release of the funds. In cases of non-submission of progress reports over extended periods of time, the DBA may resort to freezing the operations of concerned bank accounts.
- Mid-Year Review of the Budget: To check whether the budget is still on tract, Ministry of Finance shall hold a Mid Year Review. This Review shall be based on the reports sent by the Agencies and monitoring reports by the Department of Budget and Accounts, the Department of Revenue and Customs and the Department of Aids, Debts and Management.
- Monitoring: The goal of the monitoring, to check the physical progress of capital expenditures is in compliance with the reports received from the project managers and the Heads of Agencies. During the Fiscal Year, the Department of Budget and Accounts and the Department of Planning shall be responsible for monitoring the performance.
- Audit: Periodic audit of accounts and operations by the Royal Audit Authority shall be an important part of the accountability process.



v) *Interim Revisions*: Generally, spending by Government agencies may not be more than what National Assembly has appropriated and these funds are expected to be used for purposes specified in the budget. During the fiscal year, a need for revisions may occur because of changing circumstances. Depending upon the delegation of financial powers at various levels in the Government, such revisions shall be submitted for approval to the Council of Ministers, the Ministry of Finance and the Heads of Agencies. Thus, the revisions undertaken can be incorporated in the Revised Estimates, which shall be presented to the subsequent National Assembly for ratification, along with the new budget.

Student Activity

1. Give your own definition of *budget* in the context of Bhutanese economy.
2. What are some of the reasons for preparing a budget in our country?
3. Differentiate between the Supplementary budget and the Rolling budget.
4. What do you think is the main difference between new budget and Additional budget.
5. Write a brief summary on the budgetary procedures followed by our government while preparing the budget.

UNIT FIVE: DEVELOPMENT PLANNING

5.1 Planning in Bhutan

5.1.1 Need and Objectives of Planning in Bhutan

After staying in isolation for a long period of time, Bhutan wanted to come out of it and expose itself to the open world. In order to come out of isolation and for more economic growth, the Bhutanese government thought for a need for the five year plans.

Therefore, under the great guidance and leadership of His Majesty the third King, Jigme Dorji Wangchuck, the country started its five year plans in 1961. In the same year, a draft of the five year plan for Bhutan with a total outlay of Rs. 175 million was prepared by the planning commission of India, and the government of India agreed to finance it.

The five year plans were started because of the following:

- To develop the social sector and infrastructure of the country.
- For the development and expansion of industries and mining region.
- To develop the agricultural sector and increase the productivity of agriculture.
- To preserve the unique culture and environment of the country.
- To develop the human resources of the country by providing basic education, health and trainings etc.
- For more privatization and private sector development.
- To strengthen the government administration and make it stronger with more people's participation.
- For the promotion of more hydro-electric power plants, which can help the country to generate more income.
- For a balanced development, which can give equal opportunities to all the Bhutanese living in different parts of the country.
- To improve the quality of life by improving access to basic services and equitable distribution of income.

[Source: Bhutan Swiss Cooperation in Development]

The objectives of all the five year plans are not the same. It varies depending upon the priorities set in different plans. A few of the objectives and priorities for different plans are given below:



For the First Five Year Plan, the highest priority was the ending of Bhutan's state of isolation and building transportation links. On this setting up of infrastructure was the main objective by having road sectors developed and also to provide modern education to build up national manpower by constructing schools.

For the Second Five Year Plan, the road sector still received the highest priority, followed by agriculture sector as 90 percent of the country's population was primarily dependent on agriculture.

For the Third Five Year Plan, the road sector priority declined giving more priority to social services sectors in health and education. Agriculture sector too became the area of priority. For the first time, emphasis was given to forestry, mining and tourism.

For the Fourth Five Year Plan, for the first time, revenue generating activities as the basis for 5th FYP was at high level by increasing large scale investment at the Chukha Hydro Project, the Penden Cement Plant and major irrigation schemes. The share of roads, education and health declined, giving the highest priority to agriculture, industries and forest for the first time.

For the Fifth Five Year Plan, with the onward march of development, Bhutan's traditional self-reliant society was in some ways disturbed overtime by developmental process, which leads to increasing reliance on external aid Bhutan for the first time prioritized economic self-reliance to continued progress in near future. Therefore, the top specific objectives for the Five Year Plan was (i) to attain over time, economic self-reliance and specifically in the Fifth Plan, to attain a level of internal resources generation, adequate to cover the normal maintenance expenditure of the Government, (ii) to achieve an acceptable and sustainable rate of growth of the economy, (iii) to achieve balanced regional development and growth and (iv) to involve the people directly in the planning and execution of development programmes (Decentralization).

For the Sixth Five Year Plan, power and trade and industries have recorded significant priority, followed by Public Works Department, Agriculture, Education and Health, Forestry and Animal Husbandry.

For objectives of 7FYP, 8FYP & 9FYP, refer to 5.2: *The last three Five Year Plan, 7th, 8th and 9th* given below.

5.2 The last three Five Year Plans (7th, 8th and 9th)

5.2.1 Seventh Five Year Plan

5.2.1.1 Introduction:




The 7th five year plan started in 1992 and ended in 1997. It was an ambitious plan of our government to reduce its activities in the productive fields and give way to the privatization of the economy. However, the Royal Government continued to play a substantial role through the following activities:

- Providing a framework of law and order, which fosters economic activity;
- Macroeconomic management, including regulation of the currency;
- Management of Bhutan's international economic relations, including aid and trade;
- Providing and maintaining basic economic infrastructure;
- Providing and maintaining basic social infrastructure (education and health services), and developing the country's human resources;
- Direct involvement in major enterprises (notably hydropower) where the Government is the custodian of the natural resources involved and/or the proposed development is on too large a scale to be accommodated by the indigenous private sector;
- Generally, seeking a national consensus on development objectives and strategy and acting as the custodian of national interests.

5.2.1.2 Objectives

The overall aim of development is to raise the living standards of all the population, with due emphasis given on the quality of life as well as increasing incomes. While this was the usual objective of the development pursued by all the developing countries, there were many means of achieving these goals. The government, in consultation with the people and all levels of government, developed an overall approach based on six principles:

- Self Reliance:* Self sufficiency in financing RGoB's activities, increasing domestic revenue, reducing dependence on aid, increasing domestic savings and investments, encouraging the production of those goods and services that could compete in export market, achieving food security and involving individuals and communities in identifying needs and priorities.
- Sustainability:* Sustainable utilization of natural resources with due consideration to the natural environment in the view of increasing population, increasing income and increasing production.

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- iii. *Efficiency and developmental of the private sector:* The effective utilization of the existing resources by improving the efficiency of both the private and the government sectors through the continuing privatization programmes and minimizing RGoB intervention in private sector decision making, when intervention is necessary, avoiding arbitrary administrative controls, making clear the rules that will be applied and relying more on tax and price incentives than on quantitative restrictions, promotion of appropriate technological innovations (in the country's internal and external telecommunications, for example), and human resources development programmes, which take account of private as well as public sector skill requirements.
- iv. *People's participation and decentralization:* Popular people's participation in planning and implementation of development, drawing on local knowledge and resources for development.
- v. *Development of Human Resource:* Provision of better health and education to the people as a means of increasing Bhutan's developmental potential through the widest possible access to basic health and education, investment in much more expensive development of higher skills and secondary level health facilities, giving equal status to women in the Bhutanese society.
- vi. *Regionally Balanced development:* To provide equal benefits to the whole population through the uniform spread of development in all parts of country by encouraging the establishment of industries in less developed areas, spending on communication and other infrastructural investments.

5.2.1.3 Plan Outlay:

The seventh Plan outlay was Nu. 15,590 million. Nu. 6,980 million was allocated for capital expenditure and Nu. 8,610 million for current expenditure. Since domestic revenue was insufficient, external assistance supported both recurrent and capital expenditures.

Box 10: Seventh Plan Outlay and Sectoral Allocations

Organisation	Outlay		Total	% of Total Plan Outlay
	Capital	Current		
His Majesty's Secretariat	0.00	27.33	27.33	0.2%
National Assembly of Bhutan	10.00	10.85	20.85	0.1%
Royal advisory Council	0.00	14.51	14.51	0.1%
Judiciary	0.00	76.83	76.83	0.5%
Royal Audit Authority	1.00	35.28	36.28	0.2%
Royal Bhutan police	0.00	376.54	376.54	2.4%
Central Monastic Affairs	0.00	183.64	183.64	1.2%
Special Commission for Cultural Affairs	38.99	85.29	124.28	0.8%
Planning Commission Secretariat	0.00	52.66	52.66	0.3%
Central Statistical Organization	27.56	2.04	29.60	0.2%
National Environment Secretariat	3.14	20.38	23.52	0.2%
Dzonghka Development Commission	0.00	9.20	19.20	0.1%
Royal Institute Of Management	63.00	32.71	95.71	0.6%
National Women's Association of Bhutan	21.30	25.78	47.08	0.3%
Royal Civil Service Commission	1300.0	23.27	1323.27	8.5%
a) RCSC Secretariat	0.00	23.27	23.27	0.1%
b)HRD Programme	1300.0	0.00	1300.00	8.4%
Ministry Of Finance	0.00	1978.55	1978.55	12.7%
a) Secretariat and department	0.00	756.64	756.64	4.9%
b) Debt servicing	0.00	1221.91	1221.91	7.9%
Ministry of Foreign Affairs	0.00	400.53	390.53	2.6%
Ministry of Home Affairs	119.78	190.93	310.70	2.0%
a)Secretariat	27.00	77.43	104.43	0.7%
b) Survey of Bhutan	92.78	113.50	206.27	1.3%
Ministry Of Social Services	1658.9	1867.33	3526.21	22.7%
a)Secretariat	0.00	43.29	43.29	0.3%
b)Dept of Education	683.00	1055.00	1738.00	11.2%
c)Dept of Health Services	475.88	559.63	1035.51	6.7%
d)Dept of Works & Housing	500.00	209.41	709.41	4.6%
Ministry of Agriculture	1275.6	1158.08	2433.64	15.7%
a)HRH Office	599.18	318.53	917.71	6.0%
b)Dept of Agriculture	333.32	375.69	709.01	4.6%
c)Dept of Animal Husbandry	97.57	230.32	327.89	2.0%
d)Dept of Forests	245.48	233.54	479.02	3.1%
Ministry of Trade& Industry	680.0	722.36	1402.36	9.0%
a)Secretariat	0.00	19.60	19.60	0.1%
b)Dept of Trade& Industry	580.00	258.92	838.92	5.4%
c)Dept of Geology& Mines	100.00	53.84	153.84	1.0%
d)Dept of Power	0.00	390.00	390.00	2.5%
Ministry of Communication	1675.7	1008.63	2684.31	17.3%
a)Secretariat	0.00	26.70	26.70	0.2%
b)Dept of post, telegraph & wireless	20.18	143.59	163.77	1.1%
c)Dept of Telecommunication	857.58	231.29	1088.87	7.0%
d)Dept of Information & broadcasting	31.03	64.99	96.02	0.6%
e)Dept of Civil Aviation &Transport	76.00	19.27	95.27	0.6%
f)Dept of Roads	690.89	522.79	1213.68	7.5%
District Administration	50.00	305.39	355.39	2.3%
a)Total for Zones & Dzongkhags	50.00	305.39	355.39	2.3%
Total for Central:	6930.4	8304.93	15235.5	97.7%
TOTAL PLAN EXPENDITURE	6930.4	8610.32	15590.7	100%

[Source: Seventh Five Year Plan(1992-1997), Vol 1. Main Plan Document, Planning Commission, p.42]

5.2.1.4 Achievements in the major sectors during 7th Five Year Plan (7FYP)

The achievements are reflected in the box given below:

Box 11: Achievements in major sectors during the 7th FYP

In line with the decentralization policy, implementation of almost all activities have been decentralized to the dzongkhags. Therefore, the sectoral review of the 7FYP is mainly based on the implementation at Dzongkhag level, up to the end of December 1995.

RNR Sector:

An outlay of Nu. 2433.63 million has been allocated to the RNR sector in the 7th FYP. The share of agriculture sub-sector was Nu. 709.010 million (29%) against which Nu. 1471.542 million (208%) was spent by the end of the Plan. Of this expenditure, Nu. 365.736 million (25%) was spent for Paro Valley Agriculture Development Project. 40,000 farmers were trained in different agricultural activities through demonstration and exhibitions, conducted to familiarize farmers in new cropping patterns and technologies.

The Crop and Livestock sub-sector was allocated Nu. 327.890 million (13%) of the RNR sector's total allocation. The expenditure against the allocation was about Nu. 654.316 million (200%). The emphasis was given to the livestock breed improvement, development of pasture and fodder, through the distribution of high-yielding livestock breed, vaccination and deworming against animal diseases and pests for better health of the livestock. 2,000 farmers were trained on various livestock activities and management.

The forestry sub-sector was allocated Nu. 479.020 million (20%) of RNR sector's total allocation. The expenditure was Nu. 501.695 million (105%). 5,000 acres of new plantation and 15,000 acres of maintenance of plantation was achieved against the target of 9000 acres and 16000 acres respectively. The preparation and implementation of the Management Plan in collaboration with the Bhutan Logging Corporation (BLC) was achieved. More than 500,000 trees were also planted through the Social Forestry Programme.

Social Sectors:

The Health and Education sectors together were allocated Nu. 2,816.80 million (18%) of the 7FYP total allocation.

Education Sector:

The Education sector received an allocation of Nu. 1,738.00 million (11%) of the total outlay. Out of this outlay, Nu. 1,544.686 million (89%) was allocated to the programmes to be implemented at the Dzongkhag level. Against the outlay of Nu. 1,738.00 million, the expenditure was Nu. 1,745.495 million (100%). Out of the proposed 27 new community schools to be established, 8 community schools (30%) were established with community participation. 5 new primary schools (42%) were constructed against the target of 12. In the secondary education, 6 Junior High School (JHS) were established. With the upgradation of 3 primary schools to JHS, the number of JHS increased from 14 in 1992 to 23 by the end of the Plan. With the establishment of Drugyel High School and upgradation of Jakar and Ha JHS to High Schools, the number of High Schools increased from 8 in 1992 to 10 at the end of the Plan.

The Sherubtse College was further strengthened with the construction of academic building, library, staff quarters, gymnasium and the introduction of honours courses in economics, commerce and phasing out the plus 2 courses.

National Institute of Education (NIE) and Teacher Training College (TTC) based in Samtse and Paro improved with the development of more facilities like hostels and academic building to increase the in-take capacity from 146 in 1992 to 189 in 1995.



Technical education received a high priority of the government in view of the acute shortage of national technical manpower. The Royal Bhutan Polytechnic (RBP) and Royal Technical Institute (RTI) were further strengthened with the completion of the workshops, supply of equipment, academic building and recreational facilities in these institutes. The proposal to establish two Trade schools during the plan period could not be materialized due to the lack of donor commitment to fund these institutions.

With the Royal Government's desire to increase the literary level of the people, the adult education was introduced during the 6FYP to impart the basic education to those who missed the opportunity to attend formal education. Over 4000 people, mostly women, attended this non-formal education till the end of 1995.

The "Rigney education" or traditional learning was given equal importance and in this effort, the government strengthened the existing Rigzhung school at Simtokha with provision of additional dormitories and dinning halls etc.

Health Sector

The Health sector was allocated Nu. 1,035.51 million (7%) of the total 7FYP outlay. Out of this Nu. 1006.599 million (97%) was allocated for programmes to be implemented in Dzongkhags. Against the outlay of Nu. 1035.510 million, the expenditure was Nu. 1614.594 million (156%).

In terms of the physical achievements out of the proposal to construct 5 new hospitals, only Punakha, Paro, Lhuntse and a part of Tashi Yangtse were completed. Works on Trongsa hospital could not be carried out due to the lack of funds. The upgradation of Mongar Hospital to a referral Hospital will spill over the 8th FYP. The construction of Pemagatshel and Riserboo Hospitals were completed during the 7th FYP which were spill over programmes of the 6FYP. The upgradation and consolidation works of Jigme Dorji Wangchuk Referral Hospital are in progress. The expansion of Yebilabcha hospital from 20 bed to 40 beds is completed. 21 dispensaries were upgraded to BHU II and 2 BHU II were relocated. 6 more BHU II are in the process of being upgraded to BHU I. The Outreach Clinics (ORC) have increased from 350 in 1992 to 466 in 1995, which have contributed to increasing the health coverage from 70% in 1992 to 90% during 7th FYP.

Communication Sector:

The communication sector allocation for the 7FYP was Nu. 3,393.720 million (22%). The Works and Housing sub-sector was allocated Nu. 709.41 million against which Nu. 795.255 million (112%) was spent during the Plan period.

Under the Rural Water and Sanitation Scheme (RWSS), only 139 number of schemes (42%) have been completed out of the proposed target of 330 new schemes. The low achievement is attributed to shortage of funds since the European Commission's (EC) assistance ended in 1994. 326 (48%) rehabilitation of RWSS have been achieved against a target of 680 schemes. In the rural health and sanitation programme, 3000 household latrines and over 300 institutional latrines/urinals were built and more than 2600 smokeless stoves were installed. In line with the government's policy of community participation, Water Users' Associations were formed and 1600 care takers were trained to maintain water supply schemes.

To improve and facilitate safe rural communication, out of the proposed 50 new suspension bridges, 26 (52%) have been constructed, while 107 existing suspension bridges were renovated. 26 bridges that were spill over works of the 6FYP. Improvement and construction of mule tracks were completed.



Telecommunication sector has been accorded high priority in the 7th FYP with an allocation of Nu. 1088.87 million (32%) of the Communication sector outlay. Nu. 1091.238 million was earmarked for the telecommunication activities in dzongkhags. The expenditure was Nu. 850.952 million during the Plan. The Digital Microwave Transmission Link to 13 Dzongkhags have been completed and the process to link with other 7 Dzongkhags have already been initiated and will be completed by mid-8th FYP. With the establishment of the latest state of the art telecommunication technology, communication in the Kingdom has been revolutionalized, thereby vastly improving accessibility to remote areas through the provision of telephones, facsimile and E-mail services. The rural telecom has seen major changes with 48 BHUs in the remote areas being connected with telephones, increasing the access to health and other facilities and also benefiting the communities in reaching out to the outside world.

Industry and Power Sector

Power sector being the most potential revenue generating sector of the economy was given the highest priority and accordingly Nu. 5688.091 million was allocated under the non-planned activity. Amongst the notable achievements under the power sector were the commissioning of Rangjung Hydel, the starting of construction works for Kurichu and Basochu Hydropower Projects and the preparation of a detailed project report (DPR) for the Bunakha reservoir Scheme. The rehabilitation of 4 mini hydels, construction of the trail race tunnel for Chhukha Hydel and the establishment of Small Transformer Production project at Begana were completed within the Plan period. Under the rural electrification programme 154 villages, benefiting about 5990 rural households, were electrified, achieving 80% of the plan target. Another major achievement under the power sector was the initiation of the works on the 1020 Megawatts Tala Hydro Power Project.

In the Trade and Industries sub-sector, the allocation was Nu. 838.920 million, excluding the outlay for major projects, and the expenditure was Nu. 206.835 million (25%). The major progress in the industrial sector was the commissioning of Bhutan Ferro Alloys Ltd (BFAL) and Bhutan Agro Industry Ltd. POL depots were established in Thimphu and Deothang to meet the fuel shortage during monsoon. The works on the Department of the Service centre at Thimphu was completed while the Gidakom industrial estate is under implementation. Another significance landmark of the 7FYP was the commencement of work on the 1500 TPD, Dungsum Cement Plant (DCP).

Source: 8FYP document, Ministry of Planning, RGoB

5.2.2 Eighth Five Year Plan (1997—2002)

5.2.2.1 Introduction

Our past plans guided and directed by the government largely focused on improving the living standards, including spiritual well-being, preservation of cultural values and the physical environment. In the Eight Five Year Plan (8FYP), the Royal Government wanted external aid to promote reliance on a sustainable basis, rather than dependence. Further, our country was also forced to go for the preservation of national security as a “pre-requisite for a meaningful development”.

The 8FYP is historic in the sense that a first attempt was made by our government to “include a larger 20 years perspective and a macro-economic outlook for the five years of the plan itself.”

5.2.2.2 Objectives of the eight Five year Plan

Given below are the broad objectives of the 8FYP:

- **National self Reliance:** By balancing investment in essential social services, and economic sectors of the economy (to increase GDP, personal incomes and government revenue) and by encouraging local community participation, selective privatization and decentralization.
- **Sustainability:** By selecting social and economic programmes and projects consistent with environmental conservation and cultural values, to achieve the goal of self-sufficiency by enhancing national revenue through tax and non-tax sources.
- **Preservation and Promotion of Cultural and Traditional Values:** By preserving nation's identity, by safeguarding the distinct cultural identity, by fostering rich spiritual and cultural heritage on the face of degradation brought about by modern development.
- **National Security:** By fostering valued relationships and collaborating with its friendly neighbours and donors to safeguard the country, its people and its governing body from unnecessary external interference.
- **Balanced Development:** By providing equal access to basic services and facilities of comparable quality to all Bhutanese wherever they reside in the Kingdom and by planning smaller industrial growth centres in various Dzongkhags as the government starts improving communication and expanding electrification.
- **Improving the quality of life:** By raising the income earning capacity of the Bhutanese people, by improving access to basic services such as education, health, and facilities like clean drinking water, sanitation and communications, by reducing the income inequality and by pursuing integrated rural development.
- **Institutional strengthening and Human Resource development:** By improving the management in both Public and Private sectors through the supply of skilled manpower short in supply. By improving manpower planning in the public sector and working on the needs of private sectors, by providing training in agriculture, trade and industry, construction and services, and for participatory involvement in health and education.
- **Decentralization and Community Participation:** By involving the community in development works such as on the construction of feeder and farm roads, schools, health clinics to limit the government's budgetary resources, by strengthening planning



and implementation capacity at the Gewog level for decentralization through the provision of in-country training programmes.

- Privatisation and Private Sector development: By promoting an enabling environment through selective direct support, by increasing training opportunities for entrepreneurs and personnel in the financial institution, by giving guidance on business management in the private sector.

5.2.2.3 Plan outlay:

The eighth five year plan stressed more upon achieving the objectives of self-reliance, equal distribution, presentation and promotion of values and culture and the promotion of privatization.

The expenditure for the 8th FYP was around Nu. 3516.28 million which was higher than that of the 7th FYP. Domestic revenue met the current expenditure while external assistance was used for capital expenditure.

Box 12: Eighth Five Year Plan Budget Outlay

(Nu. In million)

	ORGANIZATIONS	RECURRENT	CAPITAL	TOTAL	%
1	His Majesty's Secretariat	35.17	1.47	36.64	0.1
2	National Assembly of Bhutan	31.28	3.06	34.34	0.1
3	Royal Advisory Council	21.39	0.53	21.92	0.1
4	Council for Ecclesiastical Affairs	259.98	32.49	292.47	0.8
5	Special Commission for Cultural Affairs	81.63	207.99	289.62	0.8
6	Judiciary	123.16	118.19	241.35	0.8
7	Royal Audit Authority	61.78	21.02	82.80	0.7
8	Royal Civil Service Commission	40.79	2035.18	2075.97	5.9
9	Bhutan Olympic Committee	26.49	43.72	70.21	0.2
10	Dzongkha Development Commission	13.96	3.11	17.07	0.0
11	National Environment Commission	5.25	120.17	125.42	0.4
12	Police, Jail and Fire services	688.29	355.01	1043.30	2.9
13	<u>Ministry of Home Affairs</u>	<u>208.09</u>	<u>366.65</u>	<u>574.74</u>	<u>1.6</u>
	a. Secretariat	63.17	335.65	398.82	1.1
	b. Registration Division	36.32	0.00	36.32	0.1
	Survey and Land Record Division	108.60	31.00	139.60	0.4
14	<u>Ministry of Finance</u>	<u>5498.69</u>	<u>552.10</u>	<u>6050.79</u>	<u>17.2</u>
	a. Secretariat & Division	693.10	236.20	929.30	2.6
	b. Debt Servicing	2149.53	0.00	2149.53	6.1
	c. Common Public Services	406.06	315.90	721.96	2.0
	d. Reserve for Pay Revision	2250.00	0.00	2250.00	6.4
15	<u>Ministry of Foreign Affairs</u>	<u>734.04</u>	<u>22.42</u>	<u>756.43</u>	<u>2.1</u>
16	<u>Ministry of Health & Education</u>	<u>3662.79</u>	<u>2607.49</u>	<u>6270.28</u>	<u>17.8</u>
	a. Secretariat	49.70	0.45	50.15	0.1
	b. Education Services	2089.00	1203.65	3292.65	9.4
	c. Health Services	1524.09	1403.39	2927.48	8.3
17	<u>Royal Instt. of Management</u>	<u>50.41</u>	<u>137.08</u>	<u>187.49</u>	<u>0.5</u>
18	<u>Ministry of Agriculture</u>	<u>1453.98</u>	<u>2844.95</u>	<u>4298.93</u>	<u>12.2</u>
	a. Secretariat	163.39	137.05	300.44	0.8
	b. Research, Extension & Irrigation Div.	263.66	535.80	799.46	2.3
	c. Crop & Livestock services Division	226.16	420.87	647.03	1.8
	d. Forest Services	275.70	794.99	1070.69	3.0
	e. Area Development Projects	525.07	956.24	1481.31	4.2

19	<u>Ministry of Trade & Industry</u>	<u>1077.40</u>	<u>3638.12</u>	<u>4715.52</u>	<u>13.4</u>
	a. Secretariat	30.65	9.38	40.03	0.1
	b. Tourism Authority of Bhutan	12.29	24.50	36.79	0.1
	c. Trade Division	67.66	39.93	107.59	0.3
	d. Geology & Mines Services	70.37	40.49	110.86	0.3
	e. Power Services	896.43	3397.59	4294.02	12.2
	f. Industries Division	-	126.23	126.23	-
20	<u>Ministry of Communication</u>	<u>1451.09</u>	<u>5664.04</u>	<u>7115.13</u>	<u>20.2</u>
	a. Secretariat	55.34	16.84	72.18	0.2
	b. Postal Services	203.89	36.08	239.97	0.4
	c. Telecommunication services	273.14	1149.58	1422.72	4.3
	d. Road services	650.46	3218.26	3868.72	11.0
	e. Works & Housing services	228.38	1099.78	1328.16	3.5
	f. Civil Aviation	24.29	35.54	59.83	0.2
	g. Surface Transport	15.59	42.93	58.52	0.2
	h. Thimphu City Corporation	-	65.02	65.02	0.4
21	<u>Ministry of Planning</u>	<u>55.47</u>	<u>61.86</u>	<u>117.33</u>	<u>0.3</u>
22	<u>Dzongkhag Administrations (Civil)</u>	<u>495.84</u>	<u>255.69</u>	<u>751.53</u>	<u>2.1</u>
GRAND TOTAL		16076.94	19092.34	35169.28	100.00

[8 FYP, Budget Outlay, page 76]

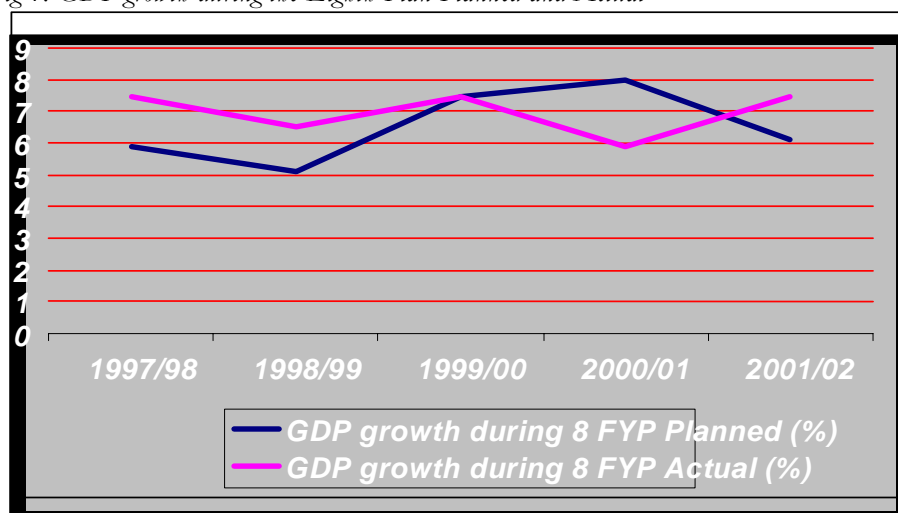
5.2.2.4 Achievements

The achievements are as follows:

Box 13: Achievements of the 8th FYP

The economy grew by 6.5 percent in the first four years of the 8th FYP. Including the final year, the growth was expected to exceed the projected rate of 6.5 percent over the plan period. While the growth of the economy as a whole exceeded the projections, the sector-wise performance was mixed. The economy experienced relatively steady performance during the first three years. The growth in the fourth year fell short by 2 percent due to the disruption caused by heavy monsoon. However, the economy is projected to grow by 7.3 percent during the last year of the Plan.

Fig 1: GDP growth during the Eighth Plan-Planned and Actual





Box 14: Continuation of Box 13

The construction sector, with an estimated growth rate of 17.3 percent, had a major influence on the

GDP growth rate. This was mainly due to the on-going construction of large hydropower projects such as Kurichu, Tala and Basochhu. The Agriculture sector as a whole performed well, exceeding the projected target by 1.3 percent over the plan period. The main impetus of growth in the sector came from the forestry and cash production.

Growth in other major sectors, which include mining, manufacturing, trade and commerce and finance etc., fell short of the targeted growth rates. In particular, mining and manufacturing sectors fell significantly short of their targets, mainly due to the suspension of Dungsam Cement Project.

..... The share of electricity, construction, trade and commerce and transport and communications sectors grew and exceeded the projected targets. Agriculture sector, however, continued to dominate the economy and still accounted for around 34 percent of the GDP at the end of the 8FYP.

Most of the growth in the GDP over the period 1993-2000 was used to increase private consumption, with public consumption and investment remaining moderate. Private investment dropped notably between 1995-97 but increased sharply in 1999.

Imports have grown faster than exports since 1995, as a consequence, the trade deficit increased from its lowest point of 4.8 percent in 1994 to 18.9 percent of the GDP in 1999. Imports durables, machinery and equipment saw a steep increase in 1996 on account of the investment in telecommunication and tripling of vehicle purchases. Since then, such imports have stabilized while imports of non-durable consumer goods continued to grow.

While non-durable consumer goods, machinery and transport equipment dominated imports, the sale of electricity to India dominated exports. The share of electricity to total exports grew from 27 percent in 1993 to 40.6 percent in 1999. The increase was mainly due to the rise in export price.

In addition to the trade deficits, the services and transport payments to the rest of the world exceeded to receipts, thereby widening the current account deficit from Nu. 1,900 million in 1993 to Nu. 6,800 million in 1999. Nevertheless, capital inflows, mainly in the form of grants and concessional loans, were not only sufficient to cover the current account deficit but also enabled the country to build up additional foreign exchange reserves.

The Royal Government pursued prudent fiscal management by meeting all recurrent expenditures out of current revenues and mobilizing external assistance for capital investment. Overall, the budget deficit during the 8th FYP remained under 1 percent of the GDP, with the exception of 1999/2000 when it increased to 4 percent.

The domestic revenue grew steadily over the period, accounting for 20 percent to 23 percent of GDP. A large part of the receipts continued to come from non-tax sources such as transfer of surpluses from the government corporations. Improvements in tax collection and administration have also contributed to the growth in revenue over the years.



During the 8th FYP, the monetary expansion measured by the growth in Broad Money Supply (M2) averaged 23 percent per annum, well in excess of the growth in nominal GDP. The development was mainly fueled by significant and sustained surpluses in the Balance of Payments. On an average, over the last five years, the growth in Net Foreign Assets contributed to about 32 percent of the monetary expansion. While the surpluses enabled the country to build up additional foreign currency reserves, it has created excess liquidity in the banking system due to the limited domestic absorptive capacity, particularly in the private sector. The Royal Government and the major corporations remained net creditors to the banking sector during the period. Despite the banking sector's move to reduce the interest rates on deposits by 1—2 percents and declining to accept deposits over six-months maturity, corporate deposits increased at a rapid rate. The position of the private companies and individuals was not very different with deposits outpacing the advances. However, from 2000—2001 onwards, the credit to private sector began to pick up, mainly due to the construction activities from large power projects and partly in response to the reduction in interest rates on some consumer-oriented financing schemes introduced by the financial institutions.

As part of the financial sector reforms, interest rates were deregulated in 1997. However, due to lack of competition in the financial sector, there was little change to the structure of interest rates in Bhutan. Inflation in 8 FYP period remained relatively low. The annual rate of inflation as measured by the Consumer Price Index averaged 6.5 percent during the plan period.

(Source: Ninth Plan document, Planning Commission, RGoB)

5.2.3 Ninth Five Year Plan (2002—2007):

5.2.3.1 Introduction

The Ninth Plan (2002) started off with some historic political and administrative reforms of the foundation of a dynamic development system of governance as commanded by our beloved King, His Majesty Jigme Singye Wangchuck. It was, rather, a plan formulated by the communities and elected representatives of 201 gewogs that the country is composed of. Further, this plan saw the devolution of executive powers from the throne to the elected Council of Ministers. Consequently, the Ninth Plan would go down in our history as a plan of phenomenal importance.

5.2.3.2 Objectives

The Royal Government have started the 9FYP in 2002 with the best and very ambitious objectives and targets for the Bhutanese people in general. These broad objectives were built on the guiding developmental philosophy of “Gross National Happiness” as envisioned by His Majesty the King, Jigme Singye Wangchuck. These are as follows:

- **Good Governance:** By undertaking legislative reforms, by bringing integrity, transparency and accountability in administration, decision making and administrative processes, by framing the written constitution of the Kingdom, by encouraging people's active participation in their own development through decentralization and devolution, by redefining the management of public services.



- Preservation and promotion of historical and cultural heritage: By identifying, declaring and maintaining traditional architectural that should be preserved as cultural heritage and sites, through the legislation to prevent encroachment to cultural and historical sites, by providing adequate provision for the safety of ancient Buddhist temples and monasteries, rare objects, ancient paintings, sculptures and unique manuscript, by regulating the strict norms for the restoration of ancient Buddhist temples and monasteries, including ancient artefacts, by providing necessary technical assistance in the restoration of cultural properties, by providing adequate provision to support Dzongkha and other traditional regional languages and dialects, in traditional arts and crafts and performing arts.
- Conservation of Environment: By preserving high level of bio-diversity in the country, by reducing land degradation in the country, by controlling air and water pollution, by promoting mechanized and environment-friendly road constructions, by framing environmental legislation based on environmental quality standard and by placing effective monitoring mechanisms and enforcement procedures.
- Reduction of Poverty: By undertaking comprehensive rural development supported by an emphasis on infrastructure including social infrastructure, private sector-led income and employment generation and good governance, by reviewing land-use policies and related legislation, by initiating systematic land distribution and resettlement of poor rural farmers supplemented with a range of subsidies and infrastructure to make the settlers self-reliant, by constructing more roads especially farm and feeder roads, by catering to remote areas through a combination of schools with boarding facilities and construction of new schools within 3 Km or one hour walking distance, by equipping selected schools with appropriate resources to enable disabled children to access education locally, by strengthening statistical, monitoring and evaluation capabilities to facilitate the impact of programmes and progress against long term goals and to foster better coordination amongst the main sectors, by launching urban poverty study, by raising the general standard of living throughout the country, by targeting one hundred percent provision of piped potable water supply by the end of the 9FYP.
- Generation of Employment: By equipping the new generation of labor force with the skills demanded by the labour market through skill development programmes, by creating additional employment opportunities through accelerated growth and development of the private sectors, by creating both on-farm and off-farm employment opportunities through appropriate policy interventions including land reforms, extension of credit facilities, crop diversification, rural infrastructure,



development of improved marketing facilities and promotion of cooperative organization, by establishing handicraft and small scale industries both in the rural and urban areas, by encouraging construction industries to adopt improved and labour saving technologies to attract the literate workforce into the industries as well as to enhance the quality of construction in the country, by promoting service industries such as tourism through tariffs, tourist destinations, infrastructural development, by improving employment and the working conditions in the private sectors through policy interventions and enactment and enforcement of laws, rules and regulations.

- **Promotion of Women, Children, and gender equality:** By committing resources and directing plans and programmes to improve mother and child health and the mainstream gender needs and interests to maintain family values as a core issue, by giving access to free potable water supply and sanitary facilities through the provision of quality service, by intensifying reproductive health services and family planning strategies, by reinvigorating multi-sectoral initiatives on health and nutrition, by strengthening surveillance system and prevention of STD/AIDS through education and advocacy, by encouraging the establishment of child care centres and nurseries, by equipping selected schools with appropriate resources to enable disabled children to access education locally, by strengthening counseling and guidance to cater to the special needs of students and girls in particular, by establishing more Non-formal education centres to cover half of the population by the end of 9FYP and by formulating favourable employment conditions to enable women to pursue their career and raise children.
- **Development of Private Sector:** By strengthening the legal and regulatory environment, by improving transport and communication infrastructure, by supporting the growth of small and micro industries, by enhancing partnership between the financial and the private sectors, by integrating regional markets with the global markets, by drawing human resource development plan for the private sector and by continuing privatization and disinvestment of the government.



5.2.3.3. Plan Outlay

The plan outlay for the 9th FYP is given below:

Box 15: Plan outlay for 9th FYP

The total 9FYP outlay is Nu. 70,000 million, of which Nu. 31,682 million is for current expenditures, Nu. 34,869 million is for capital investments and Nu. 3,449 million is earmarked for debt servicing. Major investment projects, such as the Tala, Mangdechhu and Punatsangchhu Hydroelectric Project and other major private investments have been kept outside the framework of the plan outlay.

While the Nu. 70,000 million plan outlay represents an increase of over 75 percent of the Eighth Plan expenditures, it is only about Nu. 54,000 million in real terms after allowing a projected 7 percent inflation rate over the Ninth Plan.

The estimated domestic revenue of about Nu. 32,000 million is expected to cover the current expenditure, while external assistance amounting to around Nu. 35,000 million would be necessary to meet the capital expenditure.

Bhutan received generous assistance during the Eighth Plan with over 60 percent of plan expenditures financed by external aid. Continued good will and assistance of the development partners will be necessary to successfully implement the Ninth Plan. As and when resources are forthcoming, additional programs which are proposed in the sectoral plans but could not be included within the resource allocation of Nu. 70,000 million, would be taken up. Moreover, the ceiling necessary to be applied on the annual expenditure shall not be applied on donor-funded programs.

The Ninth Plan accords priority to infrastructure and social sectors. Development of infrastructure is accorded priority to create productive capacity both in the economy and the people. In the social sector, focus will be on the consolidation and improvement of quality services. Hence proposals for expansion in this sector will be considered judiciously.

Box 16: Ninth Plan outlay and allocation (Nu. Million)

	ORGANIZATION	RECURRENT	CAPITAL	TOTAL	Percent
1	Autonomous Agencies	4649.248	4972.517	9621.765	13.7
a	His majesty's Secretariat	77.1720	3.950	81.122	0.1
b	National Assembly Secretariat	83.058	6.720	89.778	0.1
c	Royal Advisory Council	52.183	1.3	53.483	0.1
d	Council for Ecclesiastical Affairs	719.926	77.657	797.583	1.1
e	National Commission for Cultural Affairs	193.94	215.831	409.805	0.6
f	Judiciary	364.164	125.966	490.13	0.7
g	Royal Audit Authority	190.578	24.5	215.078	0.3
h	Royal Civil Service Commission	64.075	3,000.00	3,064.075	4.4
i	Bhutan Olympic Committee	166.483	43.720	210.203	0.3
j	Dzongkha Development Commission	48.464	10.00	58.464	0.1
k	National Environment Commission	29.240	31.728	60.968	0.1
l	Cabinet Secretariat	16.277	1.30	17.577	0.0
m	Bhutan Broadcasting Service	0.00	348.00	348.00	0.5



n	Planning Commission Secretariat	63.955	45.00	108.955	0.2
o	Police, Jail and Fire Services	2,064.353	355.010	2,419.363	3.5
p	Royal Institute of Management	156.345	149.00	305.345	0.4
q	National Technical Training Authority	335.925	500.00	835.925	1.2
r	Office of Legal Affairs	17.709	17.595	35.304	0.1
s	Centre for Bhutan Studies	5.367	15.240	20.607	0.0
2	Ministry of Home Affairs	486.384	130.569	66.953	0.9
a	Secretariat	230.469	30.661	261.13	0.4
b	Dept. of Survey & Land Records	183.647	22.845	206.492	0.3
c	Department of Registration	72.268	77.063	149.331	0.2
3	Ministry of Finance	1,257.252	354.865	1,612.117	2.3
a	Secretariat	675.892	27.5	703.392	1.0
b	Department of Budget and Accounts	44.263	17.80	62.063	0.1
c	Department of National Properties	150.992	25.330	176.322	0.3
d	Department of Revenue and Customs	357.346	257.535	614.881	0.9
e	Dept. of Aid & Debt Management	28.759	26.70	55.459	0.1
4	Ministry of Foreign Affairs	1,278.692	176.209	1,454.901	2.1
5	Ministry of Health and Education	4,581.093	2,893.409	7,474.502	10.7
a	Secretariat	129.076	0.00	129.076	0.2
b	Department of Health	2,802.426	1,703.409	4,505.835	6.4
c	Department of Education	1,598.485	998.476	2,596.961	3.7
d	Dept. of Employment & Labour	51.106	191.524	242.630	0.4
6	Ministry of Agriculture	2,548.361	2,000.00	4,548.361	6.5
a	Secretariat	435.063	-	435.063	0.6
b	RNR	2,113.298	2,000.00	4,113.298	5.9
7	Ministry of Trade and Industry	2,210.434	6,351.081	8,561.515	12.2
a	Secretariat	112.070	371.320	483.390	0.7
b	Department of Trade	73.129	384.252	457.381	0.7
c	Department of Industry	110.277	900.00	1,010.277	1.4
d	Department of Power	1,717.949	4,500.00	6,217.949	8.9
e	Department of Geology & Mines	138.846	70.00	208.846	0.3
f	Department of Tourism	58.163	125.509	183.672	0.3
8	Ministry of Communication	1,710.618	8,672.516	10,383.134	14.8
a	Secretariat	111.265	38.112	149.377	0.2
b	Department of Urban Development & Housing	187.379	2,400.00	2,587.379	3.7
c	Department of Roads	1,136.165	5,524.094	6,660.259	9.5
d	Department of Civil Aviation	127.206	403.920	531.126	0.8
e	Standard quality and Control Division	21.491	45.1	66.591	0.1
f	Road Safety and Transport Authority	89.666	162.112	251.778	0.4
g	Bhutan Telecom Authority	17.646	21.050	38.696	0.1
h	Division of Information Technology	19.80	60.00	79.80	0.1
i	Construction Development Board	-	18.128	18.128	0.00
9	Others	5,156.921	3,449.046	8,605.97	12.3
a	Debt Servicing	393.240	3,449.046	3,842.286	5.5
b	Common Public Expenditure	2,009.804	0.00	2,009.804	2.9
c	Contingency for Remuneration	2,753.877	0.00	2,753.877	3.9
I	Total (Central, Autonomous and Other)	23,879.003	29,000.212	52,879.215	75.5
10	Dzongkhags	7,655.281	7,224.734	14,880.015	21.3
11	Geogs	147.183	2,093.587	2,240.770	3.2
II	Total(Dzongkhags & Geogs)	7,802.464	9,318.321	17,120.785	24.5
III	Total Plan Outlay (I+II)	31,681.467	38,318.533	70,000.00	100.00

[Source: 9th Plan Document]

5.3.2.4 Targets

As Ninth plan has not been completed, the projected targets are as follows:

i) *Population Growth:*

- The projected target of population was to reduce population growth rate to 1.63 per annum.

ii) *Health and Education:*

- Achieve full enrollment at junior high school (class 8 level)
- Achieve full Bhutanization of secondary school curricula.
- Introduction of operational distance education programme.
- Reduce Infant Mortality Rate to current average for all developing countries.
- Reduce Maternal Mortality Rate to current average for all developing countries.
- Reduce under-5 Mortality rate to the current average.
- Introduction of operational system of private health care.
- Establishment of National University.

iii) *Economic Growth and Development:*

- Increase the value of horticultural exports by 200%.

iv) *Transport, communication and Heritage:*

- Upgrade current national trunk roads to take 30 ton trucks.
- Construction of second dry port at Gelephu.
- Construction of a third dry port at Samdrup Jongkhar.

v) *Culture and Heritage:*

- Inventorying of culture and Folklore of Bhutan.

vi) *Balanced and Equitable Socio Economic Development:*

- Provision of portable water supplies to 90% of the rural population.
- Provision of safe sanitation to 90% of the rural population.

vii) *Governance:*

- Enhanced capacity of the DYT's and the GYT's to prepare their own plans.
- Operationalize local development funds in 100 Geogs.

- Establishment of well equipped Gup offices in all Geogs.
- Financial practice and guidelines for Geog funds.

viii) *Human Resource Development :*

- Establishment of National University of Bhutan.
- Fully developed capacity of RIM for management training.

ix) *Environmentally Sustainable Development:*

- Preparation of master plans for other watershed areas.
- Introduction of EIAs for all physical infrastructure projects.
- Fully elaborated air quality standards.

[Source: Bhutan 2020]

Student Activity

1. How are the objectives of 7th FYP, 8th FYP and 9th FYP different from each other?
2. Imagine that you are given the responsibility of framing objectives for these three plans (7FYP, 8FYP and 9FYP). How different would be your objectives from the ones given in this chapter? Bring out and add some of your objectives to the ones mentioned, with valid reasons for doing so.
3. Some of the objectives are seen to be repeated in successive plans (7th FYP, 8th FYP and 9th FYP). List down some of the possible reasons for the repetition of some objectives.
4. Mention one objective each from all the three plans which you liked the most. Give valid reasons for choosing each.
5. Draw a pie diagram to show sector-wise plan outlay for all three plans (7th FYP, 8th FYP & 9th FYP).
6. Mention some of the significant achievements of our government during the 7th FYP?
7. What are some of the remarkable outcomes that our people saw at the end of 8th FYP.
8. Can you mention some of the achievable plan targets of our government at the end of 9th FYP in 2007?
9. The 9th FYP is already half way through. List down some of the plan targets which our government has already achieved.
10. Mention one achievement each from all the three plans which you feel has benefited Bhutanese tremendously. How?

5.3 Outcomes of Planning in Bhutan

5.3.1 First Five Year Plan (1961-1966):

The main outcomes of the first five year plan are as follows:

- 1770 Kms of roads were constructed, including the 208Kms high way which connected Phuentsholing on the Indian borders with Paro and Thimphu. Other roads constructed were from Paro to Haa, from Trashigang to Darrang, and from Sarpang and Gelephu to Tsirang and Trongsa.
- Improvements were effected in the road transport systems, and communication facilities on the modern lines began in the country.
- In the field of education, considerable progress was made. By 1966 there were 108 schools in Bhutan, including 2 public schools with a total enrolment of 15,000 students.
- A Public Health Department under a chief medical officer was set up at Thimphu . Steps were taken to eradicate malaria. 3 hospitals and 40 new dispensaries were established in different parts of the country.
- The Department of agriculture was established, which started a number of model agricultural farms, seeds multiplication farms, agricultural research stations and development of extension works. Efforts were made to increase the areas under the fruit and vegetable cultivation.
- A Department of Animal Husbandry was set up and many life stock and sheep breeding farms were established in different parts of the country.
- The Forest Department of Bhutan initiated many measures for conserving the forest wealth and the exploitation of the forest products.
- Steps were taken in consultation with the Geological Survey of India to discover deposits of coal, dolomite, graphite, gypsum and lime stone.
- The production capacities of the fruits preserving plants at Samtse and also a distillery were increased, and theirs sale and marketing was organized in the country and India. Trade relations with India improved.
- The Bhutan Government established a hydel directorate and two 400 KW Hydel Projects were constructed to serve the needs of Thimphu and Paro. By an agreement with India, Bhutan received 250 KW of power daily from the Jaldhaka river Hydel Electric project for its south western region.
- The outcomes of the first five year development plan satisfied both Bhutan and India, and in order to accomplish a continued advance towards modernization and economic development of the country the second Five Year Plan was launched in 1966.

5.3.2 Second Five year Plan (1966-1971):

The second plan represented a widening of priorities arising from a significant drop in the share of the roads sector to 40 percent of the over all outlay. Nevertheless, roads continue to receive the highest priority and for the first time agriculture became a priority area receiving 10 percent of the over all outlay.

5.3.3 Third Five year plan (1971-1976):

The third plan was the first implemented under the Planning Commission although its preparation preceded it. The share of the road sector further declined to 20 percent, however, more investment in roads took place outside the purview of the plan. Outlays for social services increased further in priority, with education at 19 percent and health at 8 percent. Agriculture, especially extension activities, became more important with an allocation of 17 percent of over all outlay. Other sectors emerged for the first time in some significance with 5 percent to 8 percent over all outlay being allocated to forestry, power, mining and tourism. This was possible because the expansion of infrastructure for the first time enabled the growth of economically viable activities.

5.3.4 The Fourth Five Year Plan (1976-1981):

The fourth plan reflected the first major shift from the earlier pattern of development expenditure. This was also the first plan in which the distribution of outlay was more balanced. Several large scale investments, some outside the plan, emerged such as the Chukha Hydel Project, the Penden Cement plant and a major irrigation scheme in Gelephu area. Agriculture and related activities were the first time the highest priority amounting for 29 percent of the total outlay. Industries also for the first time and forest as well, became significant priority area. The share of roads education and health declined indicating that the basic infrastructure was built up permitting investment in revenue generating activities although on a small scale. This forms the genesis of the fifth plan approach to increasing investments in revenue generating activities to a high level.

Time series data relating to basic macro economic variables production levels etc., are not generally available till 1980. It is, therefore, not easy to estimate the quantitative effects of the programmes either on the growth of output in the various sectors often accelerating the overall growth rate in national income. No data also exists whereby changes in the sectoral composition of output or investment/output ratios can be shifted. Therefore, an assessment of the changes achieved for the past 20 years has to be qualitative and can only be made by looking at the major developments in each sector of the economy.

5.3.5 The Fifth Five Year Plan (1981-1987):

The following are the outcomes of the fifth plan:

i) *Dzongkhag Self reliance:*

As self-reliance at the local and district levels is crucial to attaining self-reliance at the national level, Dzongkhag self-reliance was adopted as one of the important policy objectives and a strategy of the Fifth Plan.

There were numerous problems which needed to be addressed in order to implement this objective. The problems included, among others, low tax base, inadequate technical and managerial personnel, limited infrastructure and transportation difficulties in the dzongkhags. Various measures were adopted to overcome these constraints.

Dzongkhag administration was considerably strengthened. The technical staff of all operational departments – agriculture, animal husbandry, etc. were placed directly under the Dzongda. Accounting staff had also been provided and necessary administrative and financial powers delegated to the Dzongkhag level. A dzongda wogma was posted for each dzongkhag directly under the Dzongda and it was responsible for the entire development effort.

Dzongkhags are now in a much better position to implement the Sixth Plan. A certain degree of capacity for planning and implementation exists within the dzongkhags. The discussion of development activities in the Dzongkhag Yargey Tshogchung (DYT) and the production of the Dzongkhag Plan documents has also increased the awareness and understanding of the people, at least, at the Dzongkhag level.

ii) *Decentralization of development administration:*

While decentralized administration has been a traditional practice in Bhutan, the devolution of responsibilities of planning and implementation of development programmes to the local administration is new and was only introduced in the Fifth Plan. Before the Fifth Plan, the plans and programmes were implemented either directly by the central government functionaries or through regional offices, who had little systematic interaction with the local people. In contrast, in the Fifth Plan, the implementation of all rural development programmes and other programmes of local character, meant for the benefit of the local people, were entrusted to the Dzongkhag or gewog level functionaries. They have been brought under the administrative control of Dzongdas.



Fifth Plan documents had been prepared for individual dzaongkhags, each plan reflecting the needs and specific priorities of the dzongkhag concerned within the over-all national framework of priorities.

Dzongkhag plan formulation had been left to the DYT's; the Central Departments provided technical guidance only. Substantial portion of the Fifth Plan outlays (40 percent) were planned for by the Dzongkhags and their populace, and implemented with voluntary labour.

iii) People's Participation:

People's participation in community and public works is not a new practice in Bhutan; it has a long tradition. It was, however, recognized that this practice was being increasingly undermined and it needed to be restored in the interest of both the Government and the people.

The forum of the DYT for decision making has been successful not only in giving more articulation to rural problems and in bringing their concerns to decision makers, but it has also improved the perception of people toward participation. DYT's functions included:

- Formulation of the Dzongkhag Plan with the over-all framework provided by the Government;
- Supervision of plan implementation;
- Ensuring that plans prepared were in keeping with the capability of the people to provide voluntary labour, which form a major input both for execution of plan projects and maintaining them on completion.

The dzongkhag administration collected all requests emanating from the DYT members and others for local developmental works. Each request was examined from the viewpoint of technical capability for their implementation at the dzongkhag level. The schemes satisfying these criteria were included in the Dzongkhag plan proposals after obtaining the approval of the DYT. Their ultimate inclusion in the Dzongkhag plan depended on their being found suitable on the basis of the same criteria by the concerned Central Government Departments, and the Ministry of Finance allocating fund for their implementation.





The implementation of Shabtog Woola was fairly successful; but the implementation of Chunikang faced many difficulties. Chunikang mobilization for development activities was carried out satisfactorily only in a few Dzongkhags. In some others, although labour was contributed, the quality of work was not up to the standard. In many dzongkhags no activities under Chunikang were carried out at all. Many development programmes particularly in the road sector, were adversely affected by the problems faced in the mobilization of whoola labour. Nevertheless, Chunikang is likely to remain an important source of participatory labour and renewed emphasis must be placed on it both by the people and the Government.

iv) Mobilization of Internal Resources:

The actual revenue receipts for the Fifth Plan(1981-87) was Nu.1327.114 million. The revenue mobilization increased from Nu. 119.6 millions in 1981-82 to Nu. 340.1 million in 1986-87. It also included Nu. 22.706 million as receipts from Chukha Hydel Project in 1986-87. It can be seen that revenue realization increased every year except in 1985-86 when there was a slight drop to Nu. 257.5 (by Nu. 18.7 million) as compared to Nu. 276.153 million. This decrease was, inter-alia, due to partial remittance of profit by Penden Cement Authority and due to a fall in revenue from excise duty on account of the short supply of spirit from India.

The main instruments of tax policy through which the objectives of resource mobilisation sought were direct and indirect taxes. The major sources under the direct taxes were corporate taxes, business income taxes, rental income tax, contractor tax and tax on salary etc. The main contributor amongst indirect taxes were sale and excise duty including refund of excise duty from the Government of India.

There has been a steep rise in indirect taxes since 1982-83. This increase is attributed to the introduction of corporate tax of 30 percent on net profit of selected public undertakings, viz., Bank of Bhutan, Royal Insurance Corporation of Bhutan, Unit Trust of Bhutan, Bhutan Tourism Corporation and its hotels, Penden Cement Authority etc. in 1982. Besides, the rate of business income tax, was raised from 1 percent of the annual sales turnover to 2 percent of the annual sales turnover for all categories of traders.

The indirect tax registered only a modest increase during Fifth Plan. Revenue from indirect taxes increased from Nu. 54.0 million during 1981.82 to Nu. 109.3 million

during 1986-87. This was due to the increase in the collection of indirect taxes. The excise duty was imposed only on domestic distillery products and a few locally manufactured goods such as steel furniture, wooden furniture, jhari (tea balls), cement and forest products. There was no major change in the area of excise duty during Fifth Plan period.

In order to keep the prices of the goods competitive with Indian prices, the BST rates have been kept lower than the rates of Indian Sales Tax. The goods imported from third countries for Government requirements are free of customs duty and the revenue from customs duty has been negligible.

The resource mobilization under non-tax revenue was Nu. 493.530 million during Fifth Plan period rising from Nu. 23.7 million in 1981-82 to Nu. 491.6 in 1987-88, the latter included Nu. 22.706 million from CHPC during 1986-87. The increase is attributed to the revenue from Lotteries, Forest Royalties and Dividend from Bank of Bhutan and RICB.

v) Control of Maintenance Expenditure:

As a result of stringent financial and administrative measures to control civil service growth and consolidation of social services, the recurrent expenditure growth has been kept below 10 percent per annum. Some of the initiatives taken by the Royal Government to control unnecessary expenditure include: reorganization, merger of complementary departments, rationalization of government properties including pool vehicles, privatization and commercialization of certain government organizations such as the Druk Air, Bhutan Government Transport Service, Press, the Central Workshops and Tourism. Under the various retrenchment and reorganization exercise, the government has been able to reduce about 3427 employees from 1977-78 to date. While this is an encouraging outcome similar efforts must continue during the Sixth Plan.

Mobilization of internal resources was closely related to the objective of meeting recurrent cost and reducing government expenditure. The maintenance expenditure in the last year of the Fourth Plan in 1980-81 was NU. 169.5 million, while internal revenue generation in the same year was only of Nu. 161.6 million, leaving a gap of 7.9 million, which was covered from other resources.

5.3.6 Sixth Five Year Plan (1987-1992):

i) *Culture and Religion:*

During sixth plan, budgetary constraints prevented the National Museum and the National Library from acquiring new objects during the 6FYP period. However, the National Museum will have established a simple conservation laboratory. The Museum has also arranged several exhibitions abroad which received positive reviews.

With regard to the renovation of temples and monasteries, 64 temples and monasteries were renovated and work on 9 temples and monasteries were in progress. Subsidies amounting to approximately Nu. 0.67 million were provided for roofing and painting of private as well as public monasteries. In addition, the restoration of wall paintings in Paro Kichu Lhakhang and Dodedrak Lhakhang in Thimphu was completed. Antiques were recorded and documented in almost 400 temples and photographic records of antiques were made in about 200 temples during the plan period.

Three shedras were established during the 6th Plan. One Shedra was opened in Drametse in Trashigang with 100 lay priests. Nunneries were opened in Bjakchukama in Punakha and Kila Gonpa in Paro with the enrolment of 25 nuns in each nunnery.

Orientation in Driglam Namzha (Etiquette and manners) and Bhutanese culture was given in Junior schools, High Schools, Sherubtse College, Kanglung as well as other institutions. However, owing to the shortage of instructors in Driglam Namzha, not all institutions received such instruction.

A 13-member Dzongkha Advisory Board was instituted to take effective measures to develop Dzongkha as the national language and a Dzongkha Development Commission established to implement these activities. The immediate need in the 6FYP was to develop Dzongkha text books. The Dzongkha Development Commission revised the Dzongkha language school textbooks from Class II to VI and reference books from Class II to VIII. Other books prepared include a book for the Khaling Muenselling School, a Moral Science, Dzongkha grammar book, a draft Dzongkha dictionary, and a Dzongkha-English dictionary. The Dzongkha Development Commission also carried out a linguistic survey, organized Dzongkha classes for about 5,000 non-dzongkha speaking people and provided training in using Dzongkha typewriters and computer software.



ii) *Education:*

- *Primary Education:* In 1986, the enrolment level between pre-primary and Class VI was 49,485. By 1990, the enrolment in the primary education was 63,643. The primary school enrolment is higher as some of the junior schools have primary sections. The growth rate of enrolment thus exceeded the planned increases. The increase in enrolment in the 1987-88 and 1988-89 academic years were 8 percent and 11 percent respectively. The growth rates of enrolment were highest among the educationally underserved Dzongkhags and regions which made some impact on reducing the disparity in access to education.

In terms of physical development works, 49 community schools were planned, while a total of 84 community schools were established. A total of 12 primary schools were planned, and the primary schools to be constructed under the Royal Government's funding were completed. The 7 donor funded primary schools were still to be constructed at the end of the 6th FYP.

- *Secondary Education*

Nanglam Junior High School was opened in 1990 and Mongar Junior High School was upgraded into a High School. Many high schools which had primary sections which were beginning to be transferred to Primary Schools. Class XI-XII courses were introduced in Yangchenphug High School.

- *Higher Education:*

The enrolment in the degree course in Sherubtse College increased from 166 in 1986 to 200 in 1991 and Honours courses were introduced in the 1991 academic year. The enrolment at the National Institution of Education increased from 41 in 1986 to 74 in 1991. Class XI-XII courses have also been introduced in Simtokha Rigney School to prepare for its elevation to a degree level institution.

- *Curriculum Development:*

In the 6 FYP, the New Approach to Primary Education (NAPE) was introduced. It is a child-centred approach, using nationally developed and relevant curricula. For example, the teaching of science is based on learning from the immediate environment, through tending to the school kitchen gardens, through introduction of health, hygiene and population education. The subject was renamed "Environmental Science."



To nationalize the curriculum to Bhutan's needs and ethos, the Curriculum and Textbook development Division of the Department of Education has been strengthened with the recruitment of selected curriculum writers from the teaching force. The Division has re-written the English text and work books, simplified Dzongkha textbooks and produced teaching materials for NAPE. District Resource Teachers have been posted in each Dzongkhag to provide support to teachers in the introduction of NAPE.

- *Teacher Training:*
The output of primary school teachers from the 2 Teacher Training Institutions has increased from 46 in 1987 to 130 in 1991. The output of secondary teachers from National Institute of Education increased from 20 in 1987 to 27 in 1991. Nevertheless, there is a marked shortage of national teachers and many teachers have not had any training in the NAPE.
 - *Royal Institute of Management (RIM):*
Since the establishment of RIM, several programmes had been launched to fulfill its functional goals. A training plan was prepared for 1986-95. The Plan incorporated training programmes for all the five categories of civil servants: top, senior, middle level executives, supervisory and office support personnel. Of the 9 faculty members, 7 completed long courses abroad. A library Learning and Documentation Division was established and links forged with institutions in the region and Europe for the exchange of information.
 - *Non Formal Education:* There wasn't any significant programme introduced for non-formal and adult education. However, educational programmes are becoming a regular feature of Bhutan Broadcasting Services.
- iii) *Human Resource Development:*
The Royal Government introduced an integrated approach to planning, programming and implementation of manpower development or human resource development activities. In practical terms, this meant that the Royal Civil Service Commission was responsible for implementing all manpower training. This new approach has enabled more effective programming and re-programming of resources from UNDP and other sources for manpower development during the 6FYP and will be continued in the 7th FYP.

Institutional strengthening of the Royal Civil Service Commission was a major goal in the 6FYP. The activities included the following human resource management aspects:

- Enactment of Bhutan Civil Rules and Regulations
- Establishment of a comprehensive information system in the Royal Civil Service Secretariat covering various aspects of personnel management and human resource development
- Establishment of methodologies for proper evaluation and choice of appropriate training facilities
- Preparation of a proposal for the establishment of national planning capabilities.

From 1954 to 1991, a total of 4,545 training courses were funded. This included training both in and outside Bhutan. Training courses are of various duration ranging from one month to long term professional courses, lasting 5 years.

iv) Health Services:

As regards the expansion of infrastructure, the 6FYP target was to increase the number of beds from 922 to 1,130 and the number of BHUs from 68 to 90. As of 1991, the number of beds provided was 944 and the number of BHUs was 76.

- *Expanded Programme for Immunization:* Universal child immunization (84%) was achieved in 1990. In the same year, a survey revealed that 64 percent of pregnant women had been immunized with T.T.
- *Communicable Diseases:* Leprosy, which was a substantial threat, is now near eradication. The number of infectious causes was brought down from 300 in 1982 to 250 in 1991. On the negative side, it was not possible to prevent the spread of malaria nor to reduce the incidence of tuberculosis. Both are becoming major causes of morbidity and mortality. Short Chemo Therapy was introduced for all cases of TB. Malaria is now one of the major communicable diseases in Bhutan. In 1989, 19,162 positive cases were diagnosed. Malaria is spreading into formerly malaria free areas and the parasite is developing resistance to the existing drugs and the vector to DDT.

- *Health Education:* In order to educate the public on the need for improved health, hygiene and nutrition practices, the Information, Education, Communication for Health Bureau (IECH, B) was established. The Bureau began to work with other Departments and agencies, including National Women Association of Bhutan (NWAB) and the monk body.
- *Improved water and sanitation:* A Public Health Laboratory was established in Thimphu where 13 laboratory technicians received training to conduct tests on water samples.
- *Food and Nutrition:* High potency Vitamin A capsules were provided biannually to all the children under five, who were seen at BHUs and Hospital clinics and to all potential women seen at clinics after delivery. Vitamin A capsules were also distributed to patients with measles and all diagnosed cases of Vitamin A deficiency. Iron/folic tablets were given to those pregnant and lactating women attending clinics and those with the cases of iron deficiency. Iodised salt sales and monitoring was conducted through the IDD programmes. Iodine deficiency remained a serious problem but new occurrences of iodine deficiencies cases are very rare now.

v) *Human Settlements:*

- *Rural Water Supply:* Between 1974 and 1990, a total of 1,387 rural supply schemes were constructed in rural areas. The 6FYP set a target of constructing 600 new schemes but only 258 were completed as of January 1991. Construction of another 123 schemes was reported to be in progress. Beneficiary communities contributed labour for the construction and maintenance of water schemes. A total of 35,000 households (estimated total households number is 70,000) or 305,000 people would benefit from rural water supply programmes if all of them were functioning. However, many of the older schemes are no longer functioning. Thus the actual number of households benefiting in 1991 is estimated to be about 26,000 or 225,000 people. Services are evenly provided to all areas of the country.

Since the start of 6FYP in 1986, the rate of construction of water supply schemes was reduced substantially from 250 schemes to 150 schemes per year. This reflects a change in emphasis, from large numbers of schemes of poor quality to a smaller number of higher quality schemes. The quality of construction in

schemes has improved with the training of technical staff and standardization of designs in 1988. But the lack of technical staff in the districts remains a major constraint in improving the quality and scale of water and sanitation programmes.

A maintenance and operation policy was adopted by the Department of Works and Housing in 1990. This will ensure that timely repair works are undertaken by the users. However, much remains to be done in terms of organization and motivation of the communities in the maintenance of the schemes.

On an average, the beneficiary communities contribute 15 percent of the cost of the schemes in all the form of labour. Schemes are designed for a 20 year service period. In 1990, 17 of the 19 District Hospitals as well as Thimphu Public Health Laboratory were equipped to conduct water quality tests. Tests of water from 200 schemes have shown 60 percent of the samples with less than 10 faecal coliform per 100 ml at the source, which is the minimum acceptable standard. The chemical quality of the water is excellent.

A study undertaken in 1989 revealed that 21 out of 24 urban areas studied had a piped water supply and distribution system. At that time 5 urban centres had treatment plant and 4 centres had been provided with treatment plants that were no longer functioning. The survey established that in general, the water supplies were sufficient, but that only 5 systems were able to provide a 24 hour service. The distribution systems in Thimphu, Phuentsholing, Paro, Gelephu, Trashigang and Samdrupjongkhar have been repaired and extended during the 6FYP.

- *Rural Latrines Programme:* The Royal Government introduced sanitary latrines during 6FYP. Under this programme, priority was given to the construction of latrines for institutions such as schools, Basic Health Units, dispensaries and monasteries. In addition, 10 percent to 15 percent of the rural households had been benefited from this programme by 1990. However, more than half of these latrines were not up to a hygienic standard. As of January 1991, 1,768 latrines were established out of a total target of 6,211 in the 6FYP. Some 54,000 rural households (85%) and 2500 urban households (40%) do not have any kind of latrine. A large number of latrines constructed in institutions are also far from hygienic.

The Department of Works and Housing implements a construction programme of subsidized latrines for individual households but only 1-2 percent of all households were benefited from this programme. The value of in kind subsidy is not more than US \$ 15. The Department of Health Services has also promoted the construction of household latrines made out of local materials without any subsidies, in Mongar Dzongkhag.

Rural Water supply schemes have been implemented without developing complementary activities in latrine construction and hygienic promotion. There is, however, increasing coordination between sectors in the sanitation programme. In 1991, the Public Health Division (PHD) launched a national programme on Information, Education and Communication for Health. Its objective is to promote improved hygiene practices and to strengthen the delivery of primary health care. In addition to the Department of Health Services, monks, lay priests and the National Women's Association of Bhutan have become actively involved in the programme. The Department of Education has included health and hygiene in the school curriculum.

- *Urban Sanitation:* A study undertaken in 1989 revealed that sanitation facilities in 22 urban areas varied considerably. In some towns, the majority of the houses had flush toilets draining to septic tanks, while in some other areas open air latrines without any disposal facilities were predominant. Designs have been undertaken for the improvement of the sewerage networks in Thimphu and Phuentsholing.
- *Smokeless Stoves Programme:* Between 1981 and 1990 some 13,000 smokeless stoves were installed . However, only 9,000 were found to be in use in 1990. The programme was transferred from the National Women's Association of Bhutan to the Department of Works and Housing in 1998. Since then, there has been little construction activity, pending further impact evaluation of past investments.
- *Rural Housing:* The Royal Government has constructed 18 model houses in 18 Dzongkhags to demonstrate the benefits of new designs, building materials and construction methods. 300 carpenters and 171 masons from rural areas were trained in order to spread these new skills. Small subsidies of materials valued at Nu. 3,000 were provided to those who adopted the prototype specifications. The main thrust of the new initiative was not on Government investment in the construction of new rural houses but on redirecting the rural population's efforts



to construct functionally efficient, cost effective, comfortable, hygienic and durable house. As of April 1991, construction of 86 houses based on prototype designs were reported to be in progress. Thus, a little over 104 houses out of a target of 210 were to be constructed in the 6FYP. However, the number of houses constructed appears reasonable for 2 main reasons. Firstly, only a fraction—perhaps only about 3 percent—of the housing stock may be rebuilt every year. Secondly, within that small percentage of construction out of total housing stock, only those people who are near the motorable road show interest in the prototype specification.

- *Urban Development Planning:* Urban Development planning and a construction control system were introduced between 1983 and 1987. Rules for the control of urban development throughout the Kingdom included “Bhutan Building Rules” and complementary “Guidance Notes” and “Codes of Practice”. Urban plans were prepared for Thimphu, Phuentsholing, Gelephu, Samdrupjongkhar, Deothang, Pema gatshel, Kanglung, Mongar, Lhuntsi, Jakar, Punakha, Dampfu, Dagana, Ha and Gedu. Most of these urban plans were implemented due to delays in approval, and are serving only as building control guidelines.

Arrangements for refuse collection, transport and disposal are inadequate. The rapid expansion of population in all urban centres is placing increasing pressure on storm water channels, culverts and drains. Other major problems include disposal of sullage, vegetable waste and garbage in the drains which then empty into rivers. All of the above cause serious public health problems. However, compared to other developing countries, the general quality of housing and support services in the urban centres of Thimphu and Phuentsholing can be considered high. In the other municipalities, living conditions are considerably poorer.

Urban development planning in Bhutan has to take the fragile environment into account. As there is limited flat agricultural land available, the Royal Government has enacted stringent rules against residential development on farm and forest lands. The surrounding watersheds, geological stability, drainage and irrigation patterns also need to be considered in urban planning.

- *Survey of Bhutan:* The objectives for the Department for the 6FYP were to improve the efficiency of the Department through increasing the number of skilled personnel, training of existing manpower and introduction of new technologies. This was required to enable the Department to fulfill its functions of surveying (cadastral and topographic), updating of existing maps, introducing geodetic control for the whole country and to provide services to other user Ministries and agencies in Bhutan. In the 6FYP the Department was able to complete cadastral field surveys in 7 out of the 8 Dzongkhags planned for the period; to demarcate the boundary with India, using GPS technology, and to introduce the necessary new technology for photogrammetry and cartography. These activities will facilitate the work programmes of other Ministries such as the Ministry of Agriculture and Dzongkhag Administration etc. The Department also produced various maps, including a topographic map of Bhutan, an administrative map and more specific maps for departments showing health and education facilities, for example. The Department was to commercialize their activities in the 6FYP, with user agencies having to pay for the department's services. A pre-feasibility study of computerization of land records was undertaken and its recommendations will be implemented in the 7FYP.

i) *Transport Sector:*

- *Road Construction:* The broad objectives for the Road sector were to provide the most cost effective network of highways and feeder roads to facilitate overall socio-economic development.

The targets set for the Road Department for the 6FYP were 300 Km of formation cutting, 437 km of base course works and 379 km of bituminous sealing. The capacity for formation cutting depended on the number of mechanized construction units: 4 mechanized units were planned to be established although only 3 were formed. Each mechanized construction unit was anticipated to undertake 20 km of formation cutting per year. However, at the end of the 2nd FYP, only 86 kms of formation cutting had been completed. It is most likely that only about 186 km of formation cutting will be completed in the 6FYP, leaving a considerable amount of spillover works. Due to various reasons including delays in the arrival of bituminous sealing equipment and acute shortages of skilled and technical manpower, the achievement for activities related to bituminous sealing at the end of 2nd year of the 6FYP was also much lower than projected targets. Similarly, the achievement in base course works were lower than expected for the same period.



Privatization of road construction and maintenance was also a major objective in the road sector. Privatisation started in late 1989 and about 28 contractors have so far taken up work worth Nu. 47.25 million. Private contractors have purchased road construction equipment from the government valued at Nu. 21.77 million.

- *Suspension Bridge Construction:* A physical target to construct 120 suspension bridges was set for the 6FYP. Targets for constructing suspension bridges ranged from 12 for Trashigang Dzongkhags to 2 for Paro Valley. By the end of 1990, only 31 suspension bridges were completed and work on 15 more suspension bridges were in progress.
- *Civil Aviation:* Activities to be implemented in the 6FYP were: completion of Hanger construction; purchase of the new aircraft; the BAe-146; extension of the runway of Paro Airport; construction and equipping of a Terminal Building and Air Traffic Control Tower; construction of fuel depot for temporary refueling; replacement of crash fire tenders; survey of Gelephu Airport; training of technical personnel for the Druk-Air. Activities not implemented were: construction and equipping of the tower, terminal building, purchase of crash fire tenders and survey of Gelephu Airport.

The Transport Division of the Department of Civil Aviation and Transport continued to privatize all transport of passenger routes. At the beginning of 6FYP, 11 routes were privatized and operated by 6 entrepreneurs. By April 1990, 20 passenger routes were privatized and handed over to 18 operators.

ii) *Communication Sector:*

- *Print Media and Sound Broadcasting:* Transmissions hours and the Bhutan Broadcasting Service were increased in 1987. the clarity of reception was improved when Bhutan Broadcasting Service changed its frequency to 60 metre band or 5025 KHZ in 1989 and FM transmission was introduced in Thimphu. The main development in 6FYP was the opening of 50 KW broadcasting centre in 1991.

The Development Support Communication Division continued to provide assistance in developing communication services. It produced media material on environmental sanitation, health, nutrition, agricultural extension, education and animal diseases etc.

- *Telecommunication Services:* A detailed Telecommunication Development Plan was completed in 1989. In March 1990, a Satellite Earth Station and a digital telephone exchange was commissioned in Thimphu, which enabled an international direct dialing facility to be introduced for Thimphu telephone subscribers. The international subscriber dialing facility between India and Bhutan was introduced in August 1989. A direct microwave link between Thimphu and Phuentsholing was established in 1991.
- *Postal Services:* According to the 6th FYP targets, 10 new post offices were to be established and 45 post offices were to be upgraded/renovated. The actual implementation has been very low due to financial constraints, only 2 new post offices (Pasakha and Tashichodzong) were established and 2 post offices (Yongphula and Panbang) were upgraded. Of the 10 mail vans proposed, only 2 were purchased. The construction of Thimphu General Post Office Complex was completed and opened in 1988.
- *Telegraph and Civil Wireless Services:* International telegraph services have been introduced in all wireless stations in 1990. Fax machines were introduced in post offices in Thimphu, Paro, Chimakoti, Wangdiphodrang and Punakha in 1991. 8 new wireless stations were opened during the 6FYP period.

iii) *Renewable Natural Resources Sector:*

Agricultural statistics was collected on an annual basis, thus preventing an analysis of production trends during the 6FYP. However, a major agricultural survey was undertaken in 1988-89, which provided the following statistics. The growth of the agricultural sector was estimated at 5 percent between 1980-1989.

- (a). *Arable Subsector:* The strategies were implemented through the following programmes. Area Development Programmes were established and were successful in encouraging significant increases in the use of fertilizers and improved seeds. However, this approach raised some concerns. Firstly, the ADP's were provided with high levels of technical support, equipment and facilities to cover a small area, while the remaining areas had access to fewer manpower and financial resources, a situation that could lead to equity problems in the future.

Secondly, it would be impossible to sustain such high levels of assistance in the long run. The ADP strategy will therefore be revised in the 7FYP.

- *Research:* New high yielding varieties of rice were developed and released for the 5 agro ecological zones. Farmers were beginning to adopt the new varieties, particularly in the ADP's. New maize, wheat and oilseed varieties were also ready for release by the end of the 6FYP. Green manuring adaptive research also showed promise for enhancing soil fertility, particularly in Southern Bhutan. Research was also undertaken in mushroom propagation and essential oil production, two areas which appeared to have significant commercial potential.
- *Extension:* The extension capabilities of the technical units were strengthened and streamlined through the creation of Research and Extension Division. The staff of the Division provided regular support visits to the Dzongkhag staff, those skills were regularly improved through in-service training. An Extension Publication Unit was established to publish extension guidelines and technical information. The service continued to be handicapped by the shortage of qualified personnel, which the MOA took appropriate measures to address. A new diploma course for agricultural extension staff was introduced at the National Agriculture Training Institute.
- *Input Supply:* The MOA is responsible for the supply of agricultural inputs of which the following quantities were supplied in 1989-90:

Fertilisers- 1669 metric tonnes, Oil Seeds-11 metric tones, Cereal Seeds- 492 metric tones, Vegetable Seeds-1,409 metric tones, Temperate Fruit Plants-53,012, Sub Tropical Fruit Plants-28, 200. The input supply system was constrained by a lack of proper storage facilities, transport and access roads.

- *Conservation:* The Department of Forestry has the major responsibility for conservation activities, however the DOA has been involved in on-farm soil conservation programmes. These included contour bunding, terracing, and conservation of *tsberi* land to permanently cultivated land, which have been implemented in all Dzongkhags. New soil conservation techniques such as ditch and bund, vegetative bunding, and strip cropping have been tested in the Chirang Hill Irrigation Project (CHIP) and the Punakha Wangdi Valley development Project (PWVDP) areas. Watershed management programmes were also initiated in these project areas.

- *Marketing:* The 6FYP has seen the complete privatization of the FCB retail operations. Cash crop marketing was facilitated and increased significantly through the operation of auction yards. The operation of the Food Corporation of Bhutan was strengthened, resulting in improved financial performance. A major breakthrough was made in the marketing of apples and oranges to Bangladesh, indicating the potential of horticulture as a source of increased incomes and foreign exchange.

(b). *Livestock Sub-sector:*

- *Research:* New breeds have been identified for improving performance and productivity. These breeds were produced at the DAH farms and distributed to farmers. The adoption of the improved breeds was higher in the ADP areas, where the extension programme was more intensive. Research trials were also undertaken to identify suitable fodder species and develop improved pasture propagation. A Fodder Research Master Plan was developed to improve the coordination between fodder research stations.
- *Conservation:* The pasture and improved grazing management programmes were designed to reduce pressure on the grazing resources.
- *Marketing:* The poultry section of the Central Pig and Poultry Breeding centre, Wangchutaba was privatized. The milk distribution/marketing system in Thimphu was privatized, while the privatization of the regional Mithun Farm, Chukha and the Milk Processing Plant in Phuentsholing are under consideration. Several milk marketing cooperative societies are formed under the HLDP and the HAADP to increase the opportunities for marketing of milk in rural areas.

c) *Forestry Sub-sector:*

The Royal Government of Bhutan policy has been to put protection of forests as a higher priority to commercial exploitation and to deliberately slow the pace of development. This has involved laws and regulations restricting grazing in critical watersheds and protected forests, the banning of logging on steeper slopes, and restriction of the conversion of forest lands to other uses.



- *Area Development Projects:* The Bhutan Forestry Development Project Phases I and II integrated felling, extraction, plantation and nursery development, staff training and bark beetle control in Bumthang. This project developed the Departmental capacity in planning, logging, reforestation and disease control in both hardwood and softwood areas. The Integrated Forestry Development Project (IFDP) was initiated in the Bumthang Dzongkhag where 4 forestry units and a silviculture and training centre were developed. Results from these projects will be applied to other parts of the country where appropriate during the 7th FYP.
- *Research:* The main objective of forestry research has been to create a data base for the development of management plans and conservation activities. This was further through the creation of the Forestry Research Division in 1987. The research programme is problem oriented and directed towards 4 areas: forest management and silviculture, basic studies, forest protection, land use and agroforestry.
- *Conservation and Watershed Management:* Forestry development has been largely conservation oriented as suitable utilization was constrained by lack of accurate data. The Forestry Conservation and Management Project has been developing integrated approaches to forestry activities, including watershed management. The Department has also declared various catchment and forest areas as protected areas. An Inter Departmental Watershed Management Committee has been formed to coordinate watershed management programmes and activities being implemented by all 3 Departments. A draft Watershed Management Policy and Act has been formulated and should be in effect by the start of the 7FYP.
- *Social forestry and Afforestation:* Tree planting has been encouraged as early as 1979 in Bhutan by a Royal Decree. In the early years of the programme, seedlings were distributed free to farmers. In 1985 a Social Forestry day was initiated by the MOA, an annual event involving school children in planting trees. The active involvement of communities did not commence until 1987 in Chirang Hill Irrigation Project and 1988 Phuentsholing Forest Management and Conservation Project. The DoF has created an Afforestation Division to implement a large afforestation programme, covering 18,000 hectares by the end of the 6FYP and to encourage communities to plant trees to provide for fuelwood, fodder, construction materials and as part of conservation programmes.



iv) *Manufacturing and Trade:*

- *Manufacturing sector:* The share of manufacturing sector of total GDP remained small, although its contribution to the GDP has increased from about 3.2 percent in 1980 to 7.1 percent in 1989. The real rate of growth of the manufacturing sector was 15 percent in the 1980s.

Foreign trade as a proportion of the GDP increased over the period 1982-1988 from 53 percent in 1982 to 75 percent in 1988. The ratio of trade with India to GDP increased from 47 percent in 1982 to 56 percent in 1988, whilst the share of third country trade rose from 6 percent in 1980 to 19 percent in 1988.

Imports from both India and third countries are mainly manufactured foods and machinery and transport equipment. In terms of third country exports, the food and allied sectors accounts for the largest share, mainly because of the recent increase in export of fresh fruits (apples and oranges) to Bangladesh. Other important exports to third countries are cardamom (mainly to Singapore), broom handles (mainly to The Netherlands), and philatelic stamps and handicraft goods to various countries. The main exports to India are electric power, crude materials (agro, forestry and mineral) and some wood and mineral products.

The current account balance with India has improved as a result of the export of electricity and increases in the export of raw materials, including wood and mineral products. The share of exports (in the total trade with India) increased from 32 percent in 1985 to 89 percent in 1988. The manufacturing trade balance with the third countries worsened as a result of the combined increase in the import of capital goods and transport equipment and the slow growth of exports to these countries. The share of manufactured exports in the total trade with the third countries increased from 7 percent in 1985 to 9 percent in 1988. The proportion of third country exports in GDP was less than 1 percent in 1988, implying that the export trade has been overwhelmingly with India. Also evident from the above is the fact that there is high dependency of the export sector on Indian market and a consequent need for diversification.

New trade routes and transit points between India and Bhutan, and Bangladesh and Bhutan were opened in the 6FYP to facilitate increased trade.

The 6th FYP envisaged the establishment of the Dungsam Cement Project in Nanglam at an estimated cost of Nu. 848 million or 33.15 percent of 6FYP allocation for the Department of Trade and Industry. Funds were used for site development and pre-investment studies for the projects. However, the project was to start only in the 7FYP.

- *Industrial Activities:* Despite the delays in the implementation of the Dungsam Cement Project, which would have made significant difference to the manufacturing growth rate, other enterprises were initiated in the 6th FYP. The manufacturing sector stepped up its activities in many other areas. Bhutan Calcium Carbide Limited, Bhutan Polythene Pipe Company and Gedu Wood Manufacturing Centre started production during the 6FYP. Private sector and Government investment totaled Nu. 635 million in these three projects during the 6FYP. The Government also established a Furniture-cum-Training Unit in Thimphu at a cost of Nu.40 million. Thimphu Agro-Industry Project costing Nu. 70 million will be completed in December 1992.

Industries were also established by the private sector during the 6FYP. The most significant one are: Yangzom Cement Plant at Bhalujhora, Dralha Flour Mill in Phuentsholing, Lhaki Cement Plant at Gomtu, the Ferro-Silicon Project at Pasakha (production will start in 1992/93), a Furniture Unit at Bhalujhora, Biscuit Manufacturing Unit at Phuentsholing, Marble Mining and Processing at Gidgom and Integrated Wood Complex at Lobesa.

Several comprehensive sub-sectoral and project specific feasibility studies pertaining to the manufacturing and trade sector were carried out. Project specific studies were conducted for 12 medium and large scale projects in addition to the assistance provided to private sector entrepreneurs in financing 17 project studies in cottage and small scale industries.

- *Tourism performance:* The number of tourist arrivals had stagnated since 1987. However, the Bhutan Tourism Corporation has been able to maintain the revenue earnings at a steady level because of the increase in night halts in Bhutan. The flow of tourist is not expected to increase unless the necessary infrastructure is expanded and improved, and a vigorous marketing and publicity is undertaken.



- v) *Mineral Development:* In the current 1992-93 prices, mining and quarrying sector achieved a compound growth rate of 20 percent between 1980/89. However, the growth has slowed down and even declined after 1986. The GDP of the mining and quarrying was estimated at Nu. 37.4 million in 1986 and declined to Nu.35.7 million in 1989 with a 0.8 percent share of GDP in 1989. However, the fall in the progress product of mining and quarrying sector might not have actually occurred considering the expansion of activities over this period. The fall may be attributable to a lack of data on prices and output of mines.

In terms of the objectives of increasing self-sufficiency of the Department of Geology and Mines, achievements were not met largely due to financial constraints. The funds provided were absorbed by the recurrent expenditure of the Department, so that only 2 drilling machines could be purchased. Other activities such as manpower training and the construction programme to establish laboratory, geological museum and geological laboratories has to be postponed. (*Source: Seventh Five Year Plan (1992-1997)*)

5.3.7 Seventh Five Year Plan (1992-1997)

[Refer to achievement given in the topic under 7th FYP]

5.3.8 Eighth Five Year plan (1997-2002)

[Refer to achievement given in the topic under 8th FYP]

4.3.9 Ninth Five Year Plan (2002-2007)

[Refer to targets given in the topic under 9th FYP]

Student Activity

1. Compare and contrast the achievements of each plan starting with the First FYP to the Eighth FYP.
2. Bhutan of 2005 is very different from Bhutan of 1951. List down significant changes and achievements in support of this statement.
3. Imagine that you are the head of the Department of Planning (DOP), and frame some possible objectives that you would like to implement as the objectives for Tenth Five Year Plan.
4. Trace out the achievements of our government in the fields of Transport and Communication, Education, Agriculture, Health and Environment starting with the First FYP to the Eighth FYP.
5. Plot paired bar graph showing sectoral allocations during 8FYP and 9FYP.
6. The development strategy of 9FYP is drawn from the development philosophy of GNH. Debate for or against the statement.



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