



# **THE STATE OF THE NATION**

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**19 JUNE, 2017**  
**THIMPHU, BHUTAN**



## Article 10, Section 10 of the Constitution

“The Prime Minister shall present an Annual Report on the state of the nation, including legislative plans and the annual plans and priorities of the Government, to the Druk Gyalpo and to a joint sitting of Parliament.”



**Year of the Fire Male  
Monkey year**



**Year of the Fire Female  
Bird Year**

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## INTRODUCTION

Your Majesty the King,  
Speaker of the National Assembly,  
Chairman of the National Council,  
Leader of the Opposition Party,  
Members of Parliament, and  
Fellow citizens.

Today is an important occasion; it is a gathering of the *Tsa-Wa-Sum*, symbolized by His Majesty the King, the government and the people represented by the elected members of parliament.

I would like to thank the Speaker, Leader of Opposition Party, Parliamentarians, all guests who are present here today, and all those who are watching the proceedings on television.

Our Kings are truly visionary, whose wise guidance have brought our nation to the juncture where we stand today. Their far-reaching vision is also manifest in Article 10, Section 10 of the Constitution, which states that the Prime Minister shall present an annual report on the state of the nation, including legislative plans and the annual plans and priorities of the Government, to the *Druk Gyalpo* and to a joint sitting of Parliament. This ensures that a core tenet of Good Governance – accountability – is upheld.

Bhutan has always been a proud sovereign nation with the blessings of *Guru Rimpoche, Zhabdrung Ngawang Namgyel* and our protecting deities. Under the noble initiative of His Holiness the *Je Khenpo*, our people across the country continue to receive *Moenlam Chenmo* prayers and blessings. Several *Kurims* and *Ku-choe Bumdeys* are initiated under the precedence of His Holiness the *Je Khenpo, Zhung Dratshang, Lams, Truelkus* and *Rinpoches*. This has led to the accumulation of collective merits, which further strengthen our country.

Our country and its peoples are blessed with the good fortune under the benevolent leadership of our Kings, which further emboldens our nation. The happiness and peace we enjoy in our country today is a direct result of the selfless and tireless actions of His Majesty the King.



This is an occasion for us to reflect on our achievements and the challenges we have faced as a nation. It is most important to reflect collectively on what we need to do towards nation building, as aspired by His Majesty the King. We must all work together and strive to bring this to fruition. There will be differences but as one nation one people, we should realize that we have one mission, guided by His Majesty's Vision – to ensure the happiness and security of our people for all times to come.

I take the opportunity to present the state of our great country as State of the *Tsa-wa-sum*.



Our King







## I. Our King

It has been unprecedented in our history that people witnessed such convergence of the past, present and future; in His Majesty the Fourth *Druk Gyalpo*, His Majesty the King and His Royal Highness our beloved *Gyalsey*. We feel fortunate and our hearts are filled with joy. Our unwavering loyalty to our Monarchs has ensured that we remain united as a sovereign nation. The sacrosanct bond between the King and His people remain inviolable and precious. This is how we have been able to strengthen our sovereignty, accelerate development and live in peace and harmony.

### 1. Security and sovereignty

Our geo-political location presents great challenges to our security and sovereignty. However, Bhutanese people have been most blessed to have His Majesty the King protecting these tenets through nation building, upholding our democracy, preserving our culture and strengthening good governance.

Similarly, as the Supreme Commander-in-Chief of the armed forces His Majesty the King has always been at the forefront in protecting our geographical territories. I would like to thank our armed forces for serving His Majesty the King in guarding our country's borders even in the most difficult terrain and harsh weather conditions.

The government and the people of Bhutan offer our gratitude to His Majesty the King for increasing their salaries, gratuity and provident fund.

Such *Kidu* from His Majesty the King will not only benefit them and their families but will go a long way in motivating our armed forces.

### 2. Disasters

During the past one year, our country faced several disasters:

- All southern *Dzongkhags* were affected by floods in July, with *Sarpang Dzongkhag* being the worst hit;
- Fire incidents in *Bumthang, Chukha, Haa, Mongar, Pemagatshel, Samdrupjongkhar, Samtse, Trashiyangtse, Thimphu, Trashigang, and*



*Zhemgang Dzongkhags; and*

- *Windstorms in Bumthang, Chukha, Dagana, Gasa, Mongar, Pemagatshel, Punakha, Trashigang, Thimphu, Trongsa, Tsirang, Wangdiphodrang and Zhemgang Dzongkhags.*

In times of disaster and tragedy, our people have always placed faith and hope in His Majesty the King as the ultimate protector. As in the past, His Majesty personally visited each of the disaster affected sites and supervised relief efforts. Furthermore, His Majesty the King has personally guided the government and people in the post disaster reconstruction works.

Here, I would like to thank the De-suups who are always ready to follow His Majesty the King in both relief and reconstruction efforts. As Guardians of Peace, De-Suung was conceived by His Majesty the King to revive the Bhutanese spirit of volunteerism, valor, community vitality, and discipline.

Her Majesty the *Gyaltsuen* continues to work tirelessly alongside His Majesty the King to support His Majesty's vision in service of our country. Her Majesty has established the Bhutan Red Cross Society (BRCS). With Her Majesty the *Gyaltsuen* as the President, our country is already benefiting from the BRCS and this will complement our relief efforts during disasters.

### **3. *Kidu***

*Kidu* is sacred and unique to our country. Under His Majesty's reign, the Royal Prerogative of *Kidu* has benefited many Bhutanese, especially the beneficiaries of Land *Kidu*. As of December 11, 2016, His Majesty the King has granted over 132,177 acres of land to 112,749 people, recognizing land as the greatest asset for people living in the rural areas.

His Majesty's boundless compassion has translated to numerous initiatives for the people over the years. To ensure that the underprivileged are not deprived of education due to economic reasons, many children are brought under the umbrella of the *Gyalpoi Tozey*. The entire education expenses for these children are borne by the *Kidu* Foundation. As of today, about 2,675 have benefited from the program. At the tertiary level, scholarships such as the *Trongsa Penlop* scholarship and the King's scholarships continue to provide opportunities for education.

In addition to medical and disaster *kidus*, His Majesty the King also grants citizenship *kidu*. His Majesty continues to ensure that every Bhutanese seeking *kidu* has an opportunity to personally submit their grievance to the King. His Majesty personally visits every corner of our country to make sure everyone's need is heard.

Reimagining policies and reforms is the hallmark of a truly great leader. I am honoured to present here that the establishment of the National Rehabilitation Program (NRP), under the aegis of the National Land Commission (NLC), as commanded by His Majesty the King, has transformed lives of hundreds of our people.

Revered as People's King, there will not be a single citizen who has not been recipient of His Majesty the King's *kidu*. For this, I would like to take this opportunity to thank His Majesty the King for the continued boundless compassion.

#### **4. Gross National Happiness (GNH)**

GNH is the "*gongter*" of His Majesty the Fourth *Druk Gyalpo*, which His Majesty the King has further strengthened. Today, GNH is increasingly seen as an alternate model for development. People are reaching out to Bhutan to learn how we are being able to uphold GNH.

It has been possible because His Majesty the King has been the conscience of GNH. His Majesty has graciously provided constant guidance to the government and the people.

I am pleased to report that the Center for Bhutan Studies (CBS) & GNH Research will hold the 7<sup>th</sup> International GNH Conference this year in *Thimphu*. I am also honoured to submit that as commanded by His Majesty the King, "GNH for Business" will be launched on 11<sup>th</sup> November this year, coinciding with the Birth Anniversary of His Majesty the Fourth *Druk Gyalpo*. It is our sincere hope that this will impart GNH values in the business world and subsequently promote it to a wider global audience.





Her Majesty the Gyaltshen





## **5. Her Majesty the *Gyaltsuen***

The government and people of Bhutan offer our most sincere gratitude to Her Majesty the *Gyaltsuen* for serving His Majesty the King in carrying forward the noble initiatives. It is heartening to see Her Majesty always beside His Majesty the King offering support and complementing in nation building.

As the patron of Ability Bhutan Society (ABS), Her Majesty is deeply involved in working for the welfare of differently abled people and is a source of immense strength and comfort for their families. As the Ambassador of the United Nations Environment Protection for Ozone (UNEP), and Patron of the Royal Society for Protection of Nature (RSPN), Her Majesty is the guardian of our environment; Her Majesty's services transcend Bhutan, to impact the entire world.





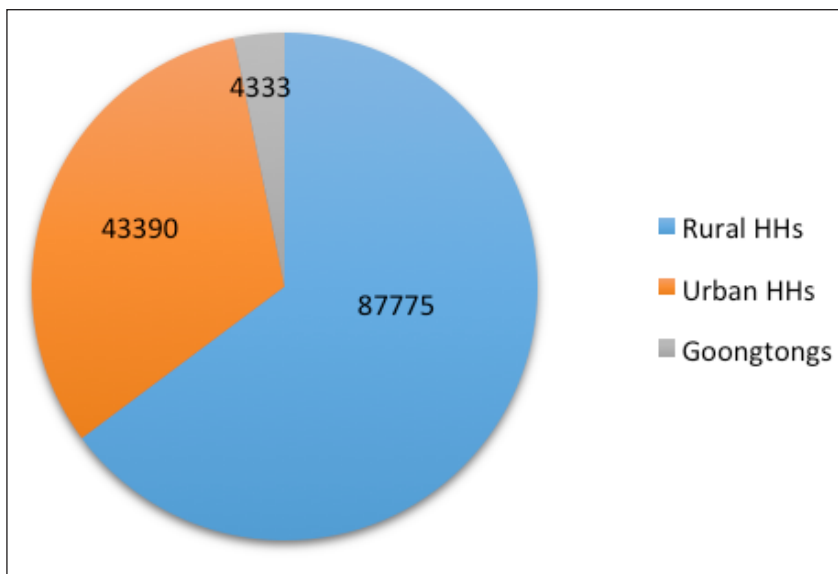
## II. Our Country

Our country has progressed further in the last one year under the stewardship of His Majesty the King. This progress is manifest in the form of new infrastructures, technologies and services availed by the people.

### 1 Habitation

#### Rural Bhutan

Bhutan is largely an agrarian country with 64 percent of our people still living in the rural villages. Today, there are a total of 87,775 rural households in 20 *Dzongkhags*. However, 4,333 of these are *goong-tongs* (*empty households or households without resident*), which is almost five percent of the total. The government is seriously concerned that rural-urban migration will continue to increase if the living conditions in the rural areas are not improved. Therefore, with the objective of improving rural livelihood, the government has taken many initiatives:



**Figure 1: Rural, Urban HHs and Goongtongs**

## **Water**

In rural parts of our country, water availability for both drinking and irrigation is a continuing problem. Last year 75.86km of new irrigation channels were constructed and 109.9km renovated benefitting 5,824 households with an area coverage of 9,262 acres. With this, the total length of irrigation channel will reach 680.33km in the 11<sup>th</sup> Five Year Plan (FYP). This year Nu 342.440m has been budgeted for irrigation and Nu 358.439m for safe drinking water.

## **Security**

Incidences of crime in rural areas have been on a rise, especially with development and an increasing rural population. To address this emerging issue, the Royal Bhutan Police (RBP) has set up four outposts (Gagdeys) in the rural areas. This year six more outposts will be constructed.

## **Gewog Centre (GC) Roads**

The GC roads are vital for rural Bhutan as they reduce drudgery and the cost of transportation, apart from facilitating market accessibility. They also open avenues for more visitors, government officials and families to visit their villages.

The government is taking concerted effort to blacktop all the GC roads. So far, 89 *gewogs* have black-topped GC roads, while 66 GC roads are being blacktopped. We have five GC roads being constructed for those *gewogs* which did not have roads. Further, black-topping of 24 roads will be taken up this year. Black-topped GC roads will improve connectivity which will motivate people to work harder in contributing towards overall socio-economic development. Today, we have 143 *Gewogs* connected with public transportation system.

## **Farm Roads**

In addition to the GC roads, farm roads are also key to improving rural livelihood. In the last four years, 2,766 km of farm roads have been built and 1,146.29km renovated. Almost every village in Bhutan is now connected with farm roads. This year, Nu 815 m has been budgeted for building additional farm roads. In total, 3,566km of farm roads will be constructed in the 11<sup>th</sup> FYP across the country.



Constructing farm roads is not an issue. However, maintenance of farm roads is difficult and expensive. During my *gewog* visits, people have repeatedly requested for excavators which are useful in maintaining farm roads. Therefore, the government has decided to provide one excavator and one backhoe to every *Dzongkhag*. This will enable local governments to build, upgrade and maintain the farm roads.

Increased road connectivity has allowed the rural households to own utility vehicles. I am delighted to inform that 3,239 boleros were bought in the last four years. This is an indication of improvement in rural livelihood.

### **Electricity**

The government has achieved 99.8 percent rural electrification. As of February 2017, 46,578 households (44,903 households through grid extension and 1,675 households through off-grid options) were electrified. From July, 2013 to April, 2017, a total of 11,597 households have been electrified through on-grid extension alone.

130 households will be electrified by June 2018 covering 24 households in *Jigmecholing gewog* under *Sarpang Dzongkhag* and 106 households under *Soe* and *Lingshi gewogs*.

Rural residents enjoy 100 units of free electricity each month. During my *gewog* visits, people have informed me that the 100 units is more than enough to cover the basic uses for rice cooker, curry cooker and water boiler. The increasing usage of electrical appliances in rural households is not only good for the environment and health but is also a sign of rural prosperity.

### **Telecom**

I am happy to report that 94 percent of rural Bhutan has mobile connection. In the past four years, 126 villages have been connected with mobile services. This year, 64 more villages will be connected achieving almost 100 percent cellular coverage in the country. This will not only enable efficient communication but would also facilitate other services such as mobile banking.

Along with increased mobile connectivity, internet connection to the rural

areas will improve communications and enable enhanced service delivery. Under the “Government Intranet Project - Government Network” 156 *gewogs* and *dungkhags* are connected with Intranet and Internet. With the completion of optical fiber rectification work, by the end of 11<sup>th</sup> FYP, 197 *gewogs* and 12 *dungkhags* will be connected.

Local area network installation in 199 *gewogs* and 12 *Dungkhags* have been completed. A total of 199 Community Centers are connected to Internet/ Government Intranet. To meet the growing bandwidth demand and provide high speed accessibility to services hosted in Government Data Center, Thimphu wide area network capacity has been upgraded with equipment and network redundancy.

### **Farm Shop**

Farm shops, in addition to providing immediate market for the agricultural produce, have been able to provide basic agricultural inputs and essential groceries.

During my *gewog* visits people have emphasized the benefits of farm shops. They can buy rice, cooking oil and powdered milk at much cheaper rates than regular shops. So far, the government has built 119 Farm Shops and 35 are under construction. This year, 51 Farm Shops will be built so that all *gewogs* will have these shops.

From this year, farm shops will start selling agriculture, horticulture and livestock produce of the local farmers. Farm shops benefit farmers and also civil servants residing around the locality, in addition to generating employment opportunities. By the end of 11<sup>th</sup> FFYP, every *gewog* in the country will have a farm shop each. Coinciding with the Birth Anniversary of HRH the *Gyalsey*, the 100<sup>th</sup> farm shop was inaugurated at *Sakteng* under *Trashigang Dzongkhag*.

### **Fuel Stations**

With the increase in traffic due to improved road connectivity in the rural areas, it is important to have easy access to fuel. Currently 65 *gewogs* have access to fuel outlets. This year, fuel outlets will be built in 140 more *gewogs*. These fuel outlets will also sell LPG cylinders which will increase access to alternate cooking methods for the rural residents

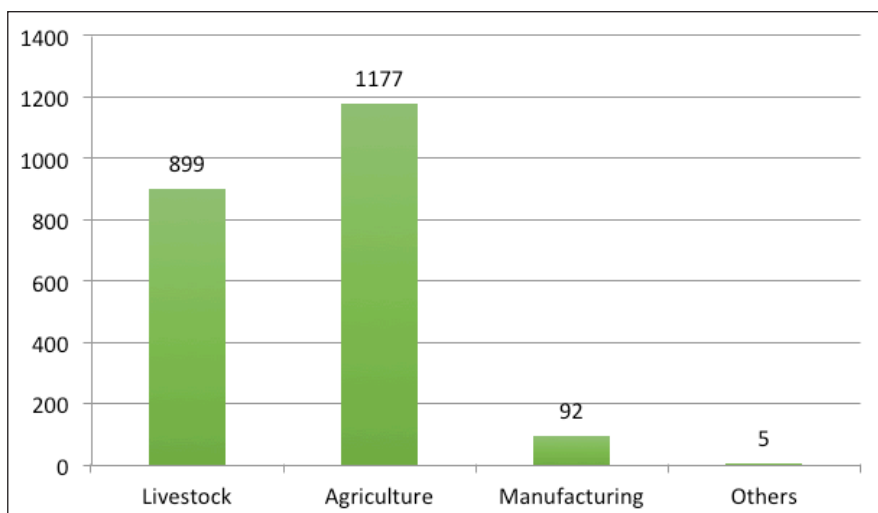


## Gewog Banks

To provide easy access to banking and to encourage savings, the government started *gewog* banking. So far, 198 *gewogs* banks have been established with 11,697 account holders. A total transaction of Nu 272m and savings of Nu 75 m was registered last year. We encourage all people in rural areas to open bank accounts.

## REDC Loans

Rural Enterprise and Development Corporation Limited (REDCL) loans provide an alternate opportunity especially for the rural entrepreneurs. It has approved loans totaling Nu 726m to farmers, youth cooperatives and to start cottage and small industries. REDCL is an opportunity that should be seized for economic development. However, many are not aware of the REDCL loans, others want an increase in the loan ceiling. Thus, REDCL RF-II loan ceiling has been increased from Nu 0.1m to Nu 0.5m. Additionally, all *Dzongkhags* have REDCL offices and an official each who are responsible for informing and guiding people on availing the loans.



**Figure 2: REDCL Loans breakdown for different sectors**

In addition to such loans, the government has granted tax exemptions to about 12,000 shops amounting to Nu 68m. This will encourage and promote rural enterprise development

## **Rural Life Insurance**

Due to development and inflation, the costs of funeral and religious rites have increased substantially. The first rural life insurance was started in the 1980s by Royal Decree at a premium of Nu 30 and payout of Nu 10,000. In 2009, the premium was revised to Nu 45 and the payout to Nu 15,000.

Understanding the expenses incurred when a life is lost, the Government in May, 2017, approved the revised rural life insurance with effect from 1<sup>st</sup> July, 2017. Under the new scheme the insurance cover has increased from Nu 15,000 to Nu 30,000. Furthermore, the insurer is required to pay Nu 87 and the government provides premium subsidy of Nu 108.

## **2 Urban Bhutan**

### **Water**

Water problem has worsened over the years in the urban areas due to increasing number of people and infrastructure development. The adverse effect of building new infrastructure and climate change over the years affected our access to water. We have also not been able to take care and maintain our water sources.

In the past four years, the government spent Nu 464.69m in *Thimphu* alone. This year, Nu 85.7m has been budgeted to improve water supply. The government will work closely with *Thimphu Thromde* to solve water problems in *Thimphu*.

The government is concerned and takes this issue seriously. Therefore, a Water Commission will be instituted which will develop a comprehensive plan to address the problems related to water.

### **Roads**

*Thimphu Thromde's* roads are in need of urgent repair. About 32.99km of roads in *Thimphu* are riddled with potholes. This year, all roads in *Thimphu* will be repaired or resurfaced. Government will provide Nu 350m for this urgent work.



## Security

Crime rates in the urban areas have increased in the recent years. To address this, RBP has taken many measures. A Safe City Project is being piloted in *Thimphu*. 23 CCTV cameras costing Nu 64m has been installed around *Thimphu*. The project has been successful in curbing crime incidences. Therefore, the government will be installing more cameras around *Thimphu* this year and will look into the possibilities of implementing Safe City Projects in *Phuntsholing*, *Samdrupjongkhar* and *Gelephu Thromdes* as well.

Further, Automatic Biometric Identification System (ABIS) has been introduced to deliver fast and reliable investigative results from deployment. A total of five finger prints enrollment stations have been established in *Thimphu* and other regional stations in *Thimphu*, *Phuentsholing*, *Samdrupjongkhar* and *Gelephu* with a total budget of Nu 24.217 m.

Zero tolerance checking was introduced and highway checks intensified in all the *Dzongkhags* to reduce traffic accidents and violations. Many speed control and awareness signboards were erected along the National Highways to instill a sense of safe driving and to prevent road crashes due to speeding.

The Traffic Division has collected a sum of Nu 50.77m fines imposed through issue of Transport Infringement Notice (TIN), which is a result of high vigilance and firm action by the RBP in 2016.

### ***Dzongkhag Thromdes***

Although the establishment of *Dzongkhag Thromdes* in 16 *Dzongkhags* has been deferred until the task force set up by the Supreme Court completes its study, the government is developing regional urban hubs: *Nganglam* as regional economic hub for which Nu 100m is budgeted, and *Kanglung* as educational hub for which Nu 150m has been budgeted.

### **3 Governance**

#### ***Democracy***

Democracy is unique in Bhutan. It is a gift from His Majesty the King and more importantly, it is a responsibility. For the past nine years democracy has been thriving and our democratic institutions keep growing from strength to strength. However, we must always remember that democracy is not the end, but a means towards our end goal of peace, stability and prosperity as is always emphasized by His Majesty the King. The institutions that enhance democratic values enjoy continuing support:

#### **Media**

Media is an important institution of democracy. In order to strengthen media and also to impart media literacy to the general public, the government has conducted several activities.

The government spent Nu 3m for Media and Information Literacy to the public, schools and capacity development of teacher trainees.

The National Broadcasting Policy has been formulated and submitted to the Gross National Happiness Commission (GNHC) for review and the Radio Rules and Regulations is being drafted.

As a part of strengthening media enterprises, the government outsourced training on Digital Marketing and Marketing Skills, Host-Caller Relationship and Counselling, Business and Financial Journalism, Social Media in Development and Governance for Senior Government Officials. The government has also supported several Annual Media Events such as Bhutan Film Association for organizing the 4<sup>th</sup> Short Film Awards and the Journalist Association of Bhutan (JAB) for observing the International Press Freedom Day.

#### **Civil Society Organizations (CSO)**

CSOs help get everyone on board in the process of development, especially the marginalized sections of the population. Similarly, they help mainstream issues that are not realized. Our country's CSOs are growing and the government continues to provide necessary support.





On 17<sup>th</sup> December, 2016 during the 109<sup>th</sup> National Day Celebration at Trongsa, His Majesty the King recognized and awarded the National Order of Merit Award to 22 registered CSOs. This was in recognition of their services to the nation in volunteering and working towards humanitarian values, preserving culture and tradition, and national objectives.

I thank the CSOs for their unwavering services which have complemented the initiatives of the government.

### **Anti-Corruption Commission (ACC)**

The institution of ACC is crucial, especially in a new democracy. We cannot afford any form of corruption to take roots. I am happy to report that Bhutan is cleaner compared to other developing countries. According to the Transparency International Corruption Perception Index (TI-CPI) 2016, Bhutan is the 27<sup>th</sup> cleanest country with a score of 65 (from a scale of 0-100 where 0 equals the highest level of perceived corruption and 100 equals the lowest level of perceived corruption). Over two-thirds of the 176 countries and territories in this year's index fall below the midpoint of scale of 0 (highly corrupt) to 100 (very clean). The global average score is 43, indicating Bhutan's score of 65 as above average. The majority of Asia Pacific countries sit in the bottom half of the CPI 2016. 19 out of 30 countries in the region scored 40 or less out of 100. The region also has countries that are in the top twenties of CPI like New Zealand, Singapore, Australia and Hong Kong. In the Asia and the Pacific region, Bhutan has maintained the rank of 6<sup>th</sup> position like for the last five years.

Bhutan's position and score has remained the same despite increase in the number of countries/territories participating in CPI 2016 as compared to CPI 2015. Bhutan has featured in the TI-CPI for eleven successive years since 2006. Over the years, Bhutan has made remarkable improvement in the rank and score.

However, we cannot afford to be complacent. Corruption poses the danger of a divide between rich and poor leading to social disharmony. To reduce corruption, the ACC has embarked on several programs including developing special web-based systems to enhance professional management of cases. I am pleased to inform that the ACC has conducted the National Integrity Assessment in 2016. This will help in developing strategies to control and combat corruption in the country.

## **Royal Audit Authority (RAA)**

Equally important institution is the RAA which has the mandate of ensuring that the government uses its scarce resources in an honest, effective and efficient manner. So far, the RAA has completed 493 audits; 34 are under progress; 293 audit reports and 676 follow-up reports have been issued; and 204 reports are being finalized. A total of 676 follow-up audit reports were reviewed and issued by the Follow-up and Clearance Division and four regional offices of the RAA.

RAA recovered Nu 77.451m on account of audit recoveries last year.

The RAA launched its Strategic Plan 2015-2020 and Operational plan 2015-2020 on 27 July, 2016. The Strategic Plan will play vital role towards the fulfillment of RAA's mandates as enshrined in the Constitution of Kingdom of Bhutan and the Audit Act of Bhutan 2006, thereby, realizing His Majesty's vision of promoting good governance in the country.

## **Election Commission of Bhutan (ECB)**

This year ECB conducted the local government elections and the Bye-Elections for North Thimphu constituency. Local Government Election in the 60 remaining vacant *Demkhongs* and Bye-Election for the post of *Gewog Tshogde Tshogpa* in Dozotoen *Chiwog* of Soe *Gewog* under Thimphu *Dzongkhag* were successfully conducted in April, 2017.

On behalf of the people and the government, I thank the ECB and officials for their hardships during the elections and for creating awareness amongst the people on elections.

## **Legislature**

The Second Parliament passed nine laws including the Customs Act of Bhutan, Fiscal Incentives, 2017 and the Pay Revision Bill and amended seven laws.

In the next session, three laws will be discussed: Bhutan Media and Information Bill, Anti-Money Laundering and Countering Financing of Terrorism Bill and the Audit Act.



The government will begin drafting other laws, such as Stabilization Fund Bill, Bhutan Broadcasting Service Public Service Broadcaster Bill, Construction Development of Bhutan Bill, National Commission for Women and Children Bill, Road Safety and Transport Authority amendment Bill, Mines & Mineral and Insolvency Bills. The third parliament will decide to carry these forward.

Cognizant of His Majesty the King's command on the number of laws and the need to harmonize them, the National Law Review Taskforce completed consultation meetings with the Legislative Committee of National Assembly, Legislative Committee of National Council, Local Government Leaders and the Judiciary. Furthermore, an online forum "National Law Review Task Force Forum" has been created by linking it with the Office of Attorney General website. This is to encourage general public to participate in the review process. So far, 126 laws have been studied and the work is expected to be complete by the end of this year.

## **Judiciary**

The judiciary continues to be strengthened. In the last one year, constructions of Punakha and Wangduephodrang courts have been completed and three more at Haa, Sarpang and Trashiyangtse are being constructed.

The year also saw establishment of the National Bar Council. I would like to convey our deepest gratitude to Her Royal Highness, Ashi Sonam Dechan Wangchuck, who is the President of the Council, for persistently working towards consolidating the judiciary system in the country. The Jigme Singye Wangchuck School of Law has already started offering legal courses. An arbitration center has also been established. The Thimphu district Court has now established specialized benches. This will allow the judiciary to expand its services effectively.

In the government's effort to further expand the reach of judicial system, a Legal Aid Guidelines which will enable the government to start providing free legal aid to needy people is in the process. The drafting of Legal Aid Guidelines is scheduled to be completed by the end of June 2017 which will then be submitted to the government for consideration. By mid-September 2017, the Royal Legal Aid Center will commence its functions through an appropriate executive order.

## **Executive**

I would like to inform that most of the targets of the 11<sup>th</sup> FYP have been met. This is due to the hard work and efficiency of the executive body driven by the civil servants. We currently have 28,299 civil servants serving as the backbone of our socio-economic development.

Therefore, it is important that their capacity to deliver is improved by creating the necessary favorable conditions. Realizing this potential of the civil servants, His Majesty the King has always emphasized on cultivating their leadership capacity. The establishment of Royal Institute of Governance and Strategic Studies (RIGSS) is an effort towards this. In the last four years a total of 580 public servants have been trained in seven courses.

The government acknowledges the services of the civil servants and wishes to provide incentives such as increasing their salary. However, this will not be possible till the mega-hydropower projects are complete and a comfortable revenue base is reached. While the government regrets over not being able to increase the salary, I would like to mention that several civil servants have raised concern over the impact on our economy of increasing salaries without first increasing our revenue base. I thank them for their understanding. The increase will happen as soon as we begin to generate more income.

Along with cultivating the potentials of our civil servants, reforming our organizations is equally important. With changing challenges the bureaucracy must rearrange itself to stay relevant and persistent in its efforts to deliver efficiency and effectiveness. Therefore, the Royal Civil Service Commission (RCSC) has carried out an organizational development (OD) exercise. As of now, the OD Exercise has been completed in 10 Ministries, 20 *Dzongkhags*, nine Autonomous Agencies and four Thromdes. Similarly, a need based OD exercise will be conducted based on the nature and complexity of the organizations. OD exercise has been completed in 43 agencies and still undergoing in three agencies. The government has implemented most of the RCSC OD recommendations.

## **Water Commission**

In addition to the OD exercise recommendations, the government has decided to establish a National Water Commission (NWC) realizing that water is one



of the biggest problems across the country. NWC's goal will be to make sure that everyone has access to safe drinking water at all times by 2020. The commission will also look after irrigation. The objective is to provide sufficient irrigation water to improve agricultural productivity in the country. This year, NWC will study existing laws to identify which laws need to be revised to make the commission effective. It will formulate policies and develop plans for the 12<sup>th</sup> FYP which is important especially because the 12<sup>th</sup> FYP has identified water for drinking and irrigation as a Flagship Project.

### Local Government (LG)



His Majesty the King has emphasized that LGs are the nearest and closest level of government for our people and that for rural Bhutanese, local governments are indispensable avenues for participation in democracy and development. Therefore, in the long run, the success of democracy in Bhutan will be determined by the success of local governments.

In order for LGs to succeed in serving their people, they need to be empowered. Recognizing this, His Majesty the King awarded *patangs* to the *Dzongkhag Tshogde (DT) Thrizins* during the national day celebrations at Trongsa in 2016. Moreover, His Majesty the King awarded *dhars* for the *Gups* .

Furthermore, LG entitlements including Travel Allowance and Daily Allowance, sitting fees, special allowances for DT *Thrizin* and Deputy DT *Thrizin* have been

revised significantly. LG leaders are now paid as public servants as opposed to lump sum contract remuneration in the past. They will also receive gratuity, provident fund and annual increment on their salary.

Further, LG has been strengthened in the last four years through decentralization. Today *gewogs* receive Nu 2.0m annually as *gewog* development grant (GDG).

The GDG's success has been emulated at the *Dzongkhag* level, with establishment of the *Dzongkhag* Development Grants (DDG). *Dzongkhags* received Nu 7.0m each, and with an average of Nu 5.0m for human resource development. This year Nu 20.729m or 36 percent of the total budget has been allocated to LGs. In the 12<sup>th</sup> FYP, decentralization will be strengthened and LGs will receive 50 percent of the capital budget.

Effective decentralization calls for improved communication and coordination. The government meets with the *Dzongdags* and *Gups* once a year and twice with the DT *Thrizins*. In addition, the Ministers will keep visiting the *gewogs* and the *Dzongkhags*. I have personally visited 156 *gewogs* and met about 34,000 people. During my visits and *gewog* *Zomdus*, I have had the privilege of discussing the important national plans, priorities and issues. I have also learned a lot, especially the challenges faced by people in the rural places. I look forward to visiting the remaining 49 *gewogs* soon this year.

#### **4 11<sup>th</sup> Five Year Plan**

As of today, most of the 11<sup>th</sup> FYP objectives are fulfilled. During the Mid-term Review (MTR), 20 percent of the performance targets were reported as achieved, 59 percent were on track and 20 percent were at risk. The target that are at risk are being addressed and we will be on track in meeting our 11<sup>th</sup> FYP objectives.

Implementation of the 11<sup>th</sup> FYP had many challenges. When the present government took over, the Plan was still not finalized and the required funds had not been secured. Despite challenges, the government mobilized the required funds for successful realization of the Plan. The initial Plan size increased from Nu 209.440b to Nu 221.691b to give in the desired impetus to realize the plan goals.

Another challenge was not being able to realize domestic revenue as projected due to the three big hydropower projects that could not be completed on time.



Total shortfall of projected revenue from hydropower is Nu 20.83b compared to the initial 11<sup>th</sup> FYP projections of Nu 21.15b which is about 13.83 percent of the total revenue projected initially.

The increase in Plan activities was possible because the government initiated and increased investments in non-hydro sectors. The government of India (GoI) also increased their total assistance to Nu 45b and an additional Nu 5b as part of the Economic Stimulus Plan (ESP). The Japanese government and European Union (EU) were also instrumental in making us realize our targets. The EU had increased its assistance to the plan by more than three times compared to our earlier plan.

More importantly, the 11<sup>th</sup> FYP's success must be credited to the hard work and dedication of the civil servants and the local governments.

## **5. 12<sup>th</sup> Five Year Plan**

While the 12<sup>th</sup> Plan will be finalized and approved by the 3<sup>rd</sup> Parliament and the next government, the present government is taking the responsibility to draft the Plan and also to secure resources so that it will be easy for the next government in the implementation and successful realization of the Plan.

The theme of the 12<sup>th</sup> FYP is “Just, Harmonious and Sustainable Society through Enhanced Decentralization” which also reflects the progressive global movement towards sustainability.

The government will give importance to the enhancement of GNH and graduation of our country from the Least Developed Country (LDC) category during the 12<sup>th</sup> Plan period and will formulate the draft plan accordingly.

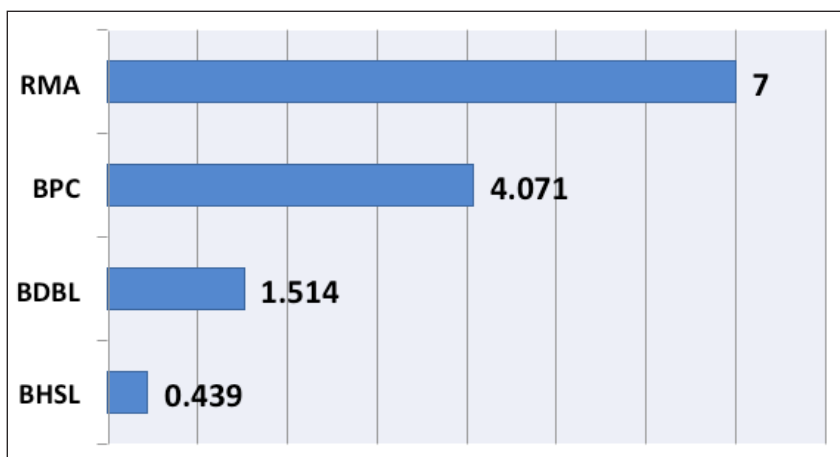
In order to make the planning process inclusive, the government will also visit all the 20 *Dzongkhags* for consultative meetings.

Already two rounds of stakeholders consultations on the 12<sup>th</sup> FYP guidelines have been completed by the Gross National Happiness Commission (GNHC) Secretariat after which preparation of 12<sup>th</sup> FYP guidelines and sensitization of the guidelines was made to Central agencies and LGs. The GNHC Secretariat has also completed consultative meetings on developing Agency Key Result Areas (AKRAs) with central agencies.

## 6. Economy

Our economy is growing steadily. In 2013 GDP grew by 2.1 percent, in 2014 by 5.8 percent, in 2015 by 6.5 percent and in 2016 by 6.9 percent. The World Bank and International Monetary Fund (IMF) predict that Bhutan will continue to be one of the fastest growing economies in the world. However, with economic growth, our debt is also growing. Currently the total debt has reached Nu 171b.

However, most of this debt is incurred by hydropower projects. In the past four years, government debt increased by Nu 69.25b. While we should be concerned, hydropower debt will be paid back by hydropower earnings. Non-hydropower loans decreased by Nu 6.420b in the past four years. Today it stands at Nu 34.5b. Of this Nu 13b are commercial loans to RMA (Nu 7b), BPC (Nu 4.071b), BDBL (Nu 1.514 b) and Bhutan Hydropower Services Ltd. (Nu 0.439 b). Therefore, the actual government debt comes to Nu 21.5b.

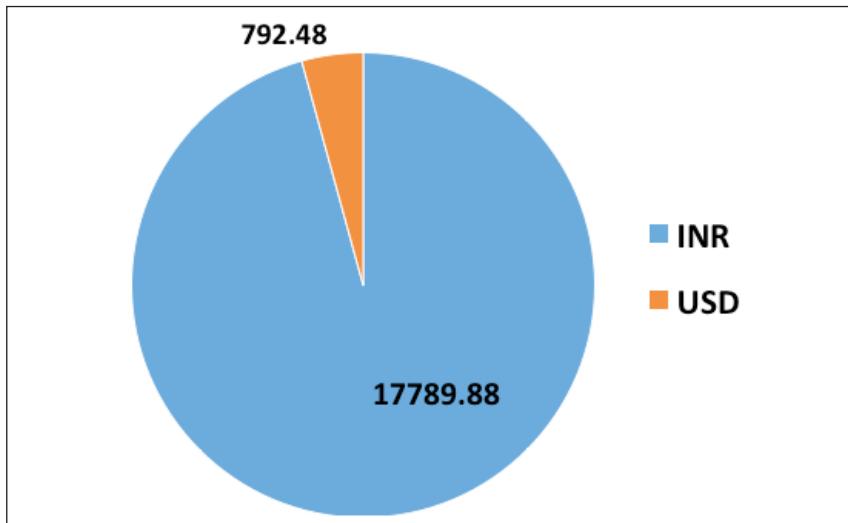


*Figure 3: Non-hydro loans in billions*

While experts believe this amount is manageable, it is the government's responsibility to ensure that debt does not burden our future generations. Therefore, the government has adopted a National Debt Policy.

On the other hand, foreign currency reserves is comfortable at USD 1.06b as of June 2, 2017. Of this, USD 792m (74.22 percent) is foreign currency, and 17.8b (25.78 percent) is Indian Rupee.





**Figure 4: Foreign Currency Reserves in millions as of June 2017**

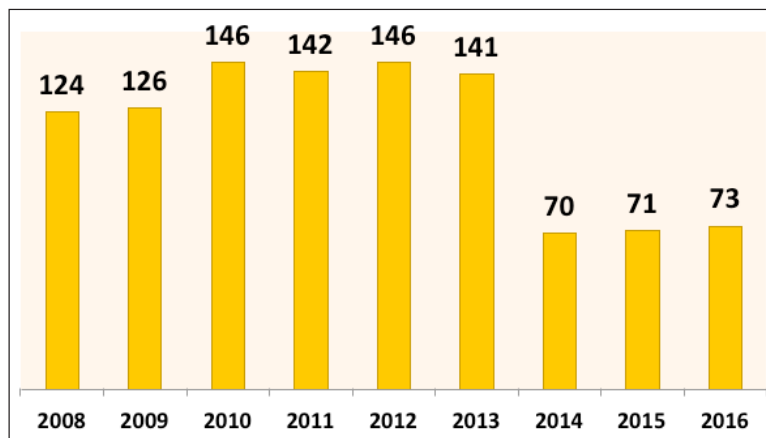
Proper management of foreign currency reserves has helped to address the issue of INR shortage in the country. In addition, RMA surplus has increased rapidly. This year, RMA is expected to contribute Nu 1b as domestic revenue.

To ensure that pre-conditions are facilitated for economic growth, the government passed the Economic Development Policy (EDP). The EDP has a total of 252 Policy provisions (141 new policy provisions) and provides the overall enabling environment to continue creating a transparent and conducive environment for business and investment in the Bhutanese economy. This will help private sector growth.

In addition, the government continues to emphasize on prioritizing the Five Jewels (Hydropower, Tourism, CSIs, Mining and Agriculture); enhancing service delivery and reducing administrative burden for businesses; diversifying exports and enhancing productivity; and progress towards becoming a knowledge based and self-reliant society.

Learning from our past experiences, the EDP will also assign specific timelines and accountability on agencies on the implementation of the policy, and a monitoring and reporting system will be institutionalized. The policy provisions will be incorporated into the Annual Performance Agreements (APA) and an implementation framework and action plan will soon be rolled out.

Bhutan ranked 73<sup>rd</sup> out of 190 economies in the Ease of Doing Business (EDB) Report published by the World Bank for the year 2016. The EDB ranking measures and compares conduciveness of an economy’s regulatory environment for a local firm to start and operate business with other economies. As an important point of reference for foreign investors while considering foreign investments, a good ranking in the EDB could contribute in increasing investments and spurring economic activities which would enhance domestic revenue and create more jobs.



**Figure 5: Bhutan’s Position in Ease of doing Business at global level**

Between May, 2016 and March, 2017, five FDI projects worth Nu 298.80m have been approved. In addition, 15 projects worth Nu10.4b have also been approved in principle.

In recognition of the significance of EDB ranking in foreign investments, the government has committed to be among the top 100 rank in 2016 and upon achieving the target, further committed to being among the top 50 of the world. To realize this target, the government has introduced a range of measures to support EDP and the private sector: the Fiscal Incentives (FI) Policy, 2016 was approved as the Fiscal Incentives of 2010 expired in December 2015. The FIs 2016 has been based on the comprehensive EDP, 2016 and are being continued as businesses derive tangible benefits from increased incentives.

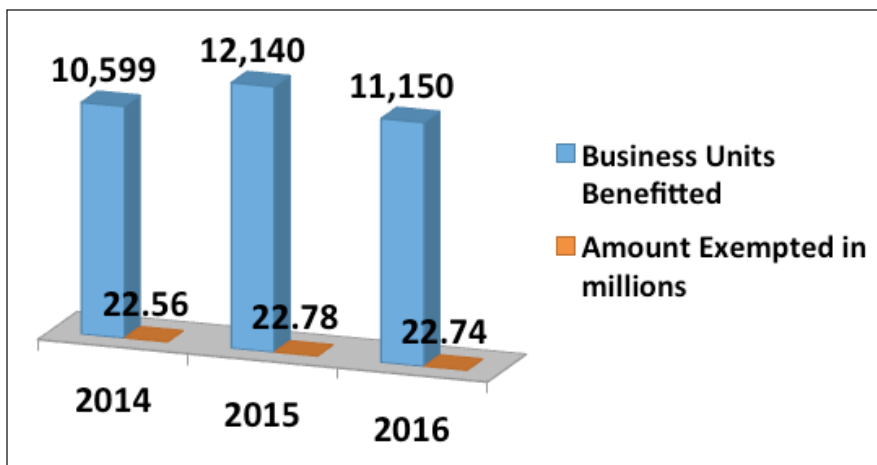
FI 2016 includes general and sector specific incentives covering both direct and indirect taxes. The general incentives are applicable to all the sectors of the economy and the sector specific incentives are applicable to the priority sectors identified under EDP including the five jewels.



Tax holiday, reinvestment allowance, income exemption, TDS exemption, sales tax and customs duty exemption are some of the incentives offered under the FI package. Further, performance based incentives in the form of tax rebate, tax holidays, sales tax and customs duty exemptions are also offered to encourage performance and employment generation.

FI will help promote Tourism, Hotels, Agriculture, Energy, Cottage and Small Industries, Co-operatives, Mining, Construction, Education, Health, ICT, Transport, Waste Management and Recycling Industry.

Business Income Tax (BIT) exemption was granted since 2014 and expires in December, 2018. In 2014, 10,599 units were exempted BIT amounting to Nu 22.56m. In 2015 12,140 units benefitted amounting to Nu 22.78m and in 2016 11,150 units reaped the same benefit amounting to Nu 22.74m. Total exemption granted comes to Nu 68.073m. During my *gewog* tours, many shopkeepers confirmed that waiver of taxes for small rural business has immensely benefited them.



**Figure 6: BIT Exemption for small rural business**

Additionally, reduction of interest rates on loans from 12.61 percent to 11.24 percent on average has benefited people by Nu 2.03b since introduction.

Moreover, increased Personal Income Tax (PIT) exemption slab to Nu 200,000 has benefited 73,148 people with up to a maximum of Nu 10,000 due to increase in basic exemption limit. 42,002 tax filers were fully exempted from paying PIT

for income year 2016. All tax payers disposable income has increased, benefiting private sector and all businesses.

While instrumenting measures to stabilize internal economic conditions is necessary, maintaining external economic ties is also of utmost significance. For this, the Bhutan-India Agreement on Trade, Commerce and Transit was renewed in Thimphu in November, 2016. This is important for Bhutan as India is our largest trading partner. Under the “Import Procedures in the Protocol” section, two new clauses were included: movement of vehicles on their own from Kolkata port to Bhutan will be allowed subject to Indian Customs examination of vehicles for accordance with their approval letter. Secondly, that said, movement be allowed only through Jaigaon Land Customs Station covered by the Letter of Guarantee issued by the Royal Bhutan Customs/Representative of the Royal Government of Bhutan.

The agreement is expected to further strengthen economic relations and promote trade and commerce between the two countries. However, with the Government of India (GoI) introducing Goods and Services Tax (GST), Bhutan’s tax system will be affected. Government will study its impact and propose revision to the tax system where applicable.

Bhutan’s economy is becoming stronger and growing. However, we must be able to study the opportunities and challenges to our economy, and develop economic policies accordingly. In this effort, the government has established Department of Macroeconomic Affairs under the Ministry of Finance (MoF) to formulate, coordinate and monitor macroeconomic policies and programs.

Furthermore, His Majesty the King has established Bhutan Economic Forum for Innovative Transformation (BEFIT). Under BEFIT’s umbrella, we have a platform to discuss our economy, problems, opportunities, strategies and ideas. The first international conference on Financial Inclusion was organized by BEFIT which gave the government new ideas to enhance financial inclusion. Following this, the government has decided that students will open personal bank accounts when they reach class 11. This will ensure that all people above 16 years will have bank accounts and encourage saving from a young age.



## Connectivity

As a landlocked country, connectivity in the form of roads, ports, ICT and air connection are very important for development and especially for trade. This year, Nu 2.3b has been set aside for national highways (1880 km) and *Dzongkhag* roads (618 kms), and Nu 200m for *gewog* roads (65 kms).

East-West Highway is progressing well and will be complete during the 11<sup>th</sup> FYP. *Gyelposhing-Nganglam* Highway, *Haa-Samtse* Highway, *Gomphu-Panbang*, and *Samtse-Phuntsholing* Highway are all also expected to be completed by next year. *Dagapela-Dalbari* Highway has started and will be complete by 2019.

Additionally, last year two *bazams* were completed: *Lekpagangchhu Bazam* under *Gangzur gewog* in *Lhuentse*, and *Tshelungney Bazam* under *Mewang gewog*, *Thimphu*.

Air connectivity is equally important for trade. A bilateral Air Services Agreement (ASA) was signed between United Arab Emirates and Bhutan in February, 2017. This will enable airlines to operate scheduled air services between the two countries. A revised Air Services Agreement (ASA) was signed with Myanmar in May 2016, allowing operation of an additional route from Yangon – Singapore and other airports in Myanmar. With this, Bhutan now has ASA with eight countries.

Paro International Airport (PIA) has seen a major face-lift, with the construction of a new arrival terminal, at a cost of Nu 341m. The construction of a new cargo complex is ongoing. Modification of the departure terminal at a cost of Nu 99.57m and a taxiway (Nu 164.91m) are also underway.

Development of Yonphula Domestic Airport (YDA) is ongoing. At a cost of Nu 200m, major activities under this project include the removal of obstructing hills on two sides of the runway, re-shaping and re-surfacing of runway and construction of car park and access road. The airport is being developed to meet the International Civil Aviation Organization (ICAO) standards. This will ensure safe air transportation to Yonphula Domestic Airport.

Studies to construct helipads are also being undertaken for development of logistical infrastructure in the country. There are 10 areas identified across the

country for 39 Helipads, 43 suitable landing grounds in case of emergency and eight alternate locations suitable for helicopter operation.

### **Information Communications and Technology (ICT)**

ICT is critical for socio-economic growth of our country. Today, fiber optic cables connect all 20 *Dzongkhags* and 201 *gewogs*. This has reduced administrative burden in delivering public services. The Government to Citizen (G2C) program has especially played a critical role through expedited system deployment. There are 107 services available through its system which means that these services can be availed from any part of the country without having to visit government offices. G2C services improve transparency and efficiency in the government. It also reduces corruption and information security.

For supporting ICT, the government is working on opening a third gateway from Bangladesh. As our only gateway is through India, there is a need for an alternative.

Financial services are now made available through online systems. The national ePayment Gateway Infrastructure at Royal Monetary Authority (RMA) has been established to enable inter-bank interoperability and to facilitate G2C service payment. Individuals can now transfer funds online. Three out of five banks provide ePayment gateway services. The ePayment Gateway infrastructure was developed at a cost of Nu 15.63m with support from the GoI. Similarly, G2C developed a payment aggregator that enables online payment/collection of non-tax revenues for the country. Six agencies including Road Safety and Transport Authority (RSTA) deliver end to end online payment services which can be availed through the G2C aggregator.

Furthermore, Google collaborative Suites (G-Suite) have been rolled out in all ten ministries, autonomous agencies and five state owned enterprises (SOEs). Out of 9,000 G-Suite accounts, 96 percent of accounts are activated with 88 percent actively used. This is indicative of the government's move towards a more ICT based functioning.

Recognizing the importance of ICT in today's world, the government has started the country's first ICT College at Gyelpoishing, Mongar which will begin its sessions next month with 81 students.



Moreover, ICT will receive a breakthrough with the launch of South Asian Satellite. We are very grateful to our friend and neighbour, India, for inviting Bhutan to use the satellite free of cost. Three young engineers are currently undergoing “Masters in Space Engineering” in Japan to build and launch our own satellite. This will be a very small satellite but it represents a huge step in our journey to space technology.

While we must expand the use of ICT, we need to be careful about the threats it could pose, especially in the form of cyber-attacks. Towards this end, the government has established Bhutan Computer Incident Response Team, which is a unit to monitor and respond to cyber-attacks.

### **Others**

A total of 36,564 trade licenses and registration certificates have been issued as of March, 2017. From this, 776 are wholesalers, 8,962 retailers and the remaining 26,826 micro traders. This is an increase of 2,516 businesses during the report period. This will contribute towards the growth of GDP and generate more employment opportunities.

To improve balance of trade through enhanced exports and import substitution, an exhibition center has been established at Changzamtok, Thimphu. The center was developed as part of the export development strategy to showcase and promote locally made products to both domestic and overseas buyers. Presently, there are over 40 different products being displayed from 30 Bhutanese manufacturers.

### **Industrial Development**

Towards enhancing economic expansion and diversification, the government is currently developing four industrial estates in Sarpang, Mongar, Samtse and Samdrupjongkhar. The development of industrial clusters such as industrial estates can help improve and increase Bhutan’s manufactured exports.

The significant economies of scale that the cluster approach provides are particularly important for small economies like Bhutan with a nascent and underdeveloped private sector. Such clusters allow for an effective provisioning of required strategic infrastructure and common facilities for the development of particular manufacturing and service industries.

## FIVE JEWELS OF NATIONAL ECONOMY

### A. HYDROPOWER



Hydropower constitutes 15 percent of our economy. Last year, the five hydropower plants under Druk Green Power Corporation (DGPC) generated 7,600 MU of electricity which is an increase of 2.3 percent from the 2015 generation, of which 2,009.9 MUs was consumed domestically and the balance 5,563.94 MUs exported. A total revenue of Nu 14.4b was earned and Nu 7.4b was contributed to the national exchequer as tax and dividend.

DGPC recorded the highest electricity generation of 7,573MU during 2016 from its power plants making it possible for the company to earn its highest annual income till date of Nu 14.62b. For the calendar year 2016, DGPC declared a dividend of Nu 4.99b to its shareholders and paid Nu 2.37b in taxes to the government.

Earnings from hydropower will increase as loan for the 60MW *Kurichhu* Project was liquidated in January 2016. Similarly, the loan for the 1020MW *Tala* Project will be cleared by December 2018. The 126 MW *Dagachhu* Project generated 374MU of energy in 2016 after completion of its tail race tunnel (TRT) rectification works. All the energy generated was exported to India by TATA Power Trading Company Limited which earned a revenue of Nu 1.10b. A





sum of Nu 112.83m was contributed to the national exchequer as cash in lieu of royalty energy. Furthermore, *Mangdechhu* Project will be completed by June, 2018 which is expected to generate similar revenue.

The two projects - of 1200MW *Punatsangchhu-I* and 1020MW *Punatsangchhu-II* have faced geological problems, due to which project costs escalated. Nonetheless, the two projects are scheduled for commissioning in December 2021, and September 2019 respectively. Concerted efforts are being made to adhere to the timelines despite the challenges.

Pre-construction works of 600MW *Kholongchhu* Joint Venture (JV) Project are nearing completion, after which the project will be integrated with the new *Doksum* township in *Trashiyangtse*. Designs and site development for residential and non-residential units have been completed. The main construction works of 118MW *Tangsibji* project, which on completion will generate about 492MU of electricity in a year, is progressing smoothly. The project is scheduled to be commissioned in April 2020.

The implementation of *Bunakha*, *Chamkharchhu-I* and *Wangchhu* JV projects are also being continually discussed with the GoI on a priority basis.

I would like to mention that Bhutanese receive highly subsidized electricity. Average subsidy provided in 2016 amounted to Nu 1.45b. The subsidy to provide 100 units free electricity in rural Bhutan amounts to Nu 88.3m.

The government approved the first ever Domestic Electricity Tariff Policy in February 2016. The policy provides guidelines to determine domestic electricity tariff in a transparent and equitable manner along with subsidy allocation principles. In keeping with these principles, an annual subsidy allocation of Nu 1.77b for the next three fiscal years for Low Voltage (LV) and Medium Voltage (MV) customers was approved.

Furthermore, new developments are taking place in the hydropower sector: for the first time Bhutanese are fully involved in the construction of tunnels, Construction Development Corporation Limited (CDCL) has started working on 3.1km tunnel at *Tangsibji* for which Nu 170m worth equipment was purchased last year. In addition, *Nyera Amari* Drift Project started from August 1, 2016. Meanwhile, we expect CDCL to undertake some more tunneling works in

*Kholongchhu*. This is a milestone development, as our people will be constructing the first tunnel after 39 years since first *Chukha* Hydropower Plant was built in 1978.

DGPC is planning to enter into a strategic JV with an internationally renowned hydropower company for secondary equipment integration that will meet the purposes of a supervisory control and data acquisition (SCADA). This is a control system architecture that uses computers, networked data communications and graphical user interfaces for high-level process supervisory management. As a JV, this would be spun off as a subsidiary company of DGPC. With the expertise and competencies gained through such a secondary equipment integration start-up company, the scope could be expanded in future to include all SCADA and other software/hardware integrated systems in its portfolio.

The new company will help develop our expertise and create employment. The control system software can also be used for the manufacturing industries. Developing our capabilities is important because buying the software is very expensive. The software for *Tala* alone is estimated to cost Nu 500m. This would replace the existing non-functional Bharat Heavy Electricals Limited (BHEL) supplied Computer Control System (CCS). With the secondary equipment integration start-up company and using mostly our own resources, it is estimated that the SCADA upgrade could be achieved within a budget of Nu 200m.

Promotion of renewable energy has always been a priority for the government. Towards this, a Renewable Energy Master Plan and Energy Efficiency Roadmap 2025 for Bhutan have been developed.

The government has also decided to establish a Stabilization Fund (SF). All royalty earnings will be deposited and saved in the SF for use in the event hydropower earnings are compromised in the future.

Subsequently, the government has established a high-level Hydropower Committee to study the hydropower sector carefully. His Majesty the King has commanded that hydropower is a common asset of all the people. To ensure that we look after this asset, and to develop it carefully, experts will study the situation, identify constraints and opportunities, and make recommendations for immediate, medium term and long term implementation.



## B. COTTAGE AND SMALL INDUSTRIES



Development of cottage and small industries (CSI) is aimed towards creating more employment and generating a diversified income base. In the past four years, more than 7,000 licenses for new CSIs have been issued. The CSMI is largely dominated by the service sector, accounting for 67 percent of the total CSI in the country. Production and Manufacturing accounts for 12.04 percent and Contract Sector accounts for 21.4 percent.

Access to finance is crucial in developing CSMIs. The increased availability of loans for small businesses is one of the reasons for an increase in the number of CSMIs. REDCL has played key role and helped promote entrepreneurship by giving out loans to 360 business startups totaling an amount of Nu 524m so far. In addition, the government has decided to waive off tax on income earned from loans made to CSIs.

In addition to financing, promoting local CSMI products is important. To promote the products and services of the entrepreneurs, the second “*Gakyed Gatoen - Festival of Happiness*” was held from January to February, 2017 in Thimphu, *Paro* and *Haa Dzongkhags*. A total of 141 entrepreneurs participated in the festival showcasing a wide range of live production activities to tourists and locals in culinary tasting, painting, craft making and other Bhutanese indigenous products.

## C. MINING



Currently, there are 30 active mines and 36 active quarries in the country covering a total area of 3,456.52 acres. Revenue generated from the mining sector excluding contributions from business or corporate income taxes and any other taxes in 2016 was Nu 336m (an increase by 7.05 percent from year 2015).

The Mines and Minerals Management Act 1995 has been in existence for more than 20 years and has not been reviewed since its adoption. The government, therefore, is carrying out a thorough review of the Act in consultation with all relevant stakeholders to bring about necessary reforms in the mining sector. The review is expected to be completed within this financial period.

The government has also approved the Mineral Development Policy (MDP), which will ensure sustainability of minerals in the country. Moreover, it will serve as a guide towards sustainable, scientific, environmentally and socially responsible mining practices. Adoption of the MDP will lead to the following:

### a. Institutional Reform:

- separation of policy and regulatory functions to improve transparency, good governance and rule of law and to promote industry development and in-country value addition.



- setting up of an independent and autonomous Mining Regulatory Authority to address the conflict of interest, abuse of power and functions, corruption and mismanagement in the mining sector.

**b. Legal reforms:**

- The policy authorizes the necessary legal reform
- Revision of the MMMA 1995 with a draft Mines and Minerals Bill 2017.
- Revision of Mines and Minerals Management Regulation 2002

**c. Improved Management of Mineral Resources**

- Granting of Prospecting and Exploration permits to private sector to encourage investment and FDI
- Granting of increased leased period for the life of mine or maximum period of thirty years to build investor confidence and proper development of mine
- Categorization of minerals and definition of strategic minerals to enable adoption of proper allocation of mines and adoption of proper industry development strategy
- The lease of mineral reserve explored by DGM shall be allocated based on an allocation framework developed by the Ministry.
- The current “first come first serve” approach of entertaining lease is refined to “first come first qualified” for mining lease to enable better investments, better planning, management and rehabilitation of mineral development activities.
- Value addition of minerals will be promoted through a reduced royalty as an incentive. Export of minerals in raw form shall be discouraged.

**d. Strengthened Environmental Stewardship:**

- The requirements on the environmental stewardship are strengthened. Risk based approach to environmental management.
- The Environment Reclamation Fund (ERF) has replaced the earlier Environmental Restoration Bond (ERB). Mines will be restored on a continuous basis with the ERF being made available at any time.

**e. Improved Good Governance:**

- Adequate grievance redressal mechanism and procedures shall be in place to address the grievances related to mining, including that of the affected local communities.
- Proper appeal resolution process will be instituted to resolve mining related issues.

**f. Benefits Sharing**

- Progressive Mineral Fiscal Regime will be adopted to ensure fair share of revenue to the government.
- The local level benefits would be in the form of employment, business, infrastructure and income. First preference will be given to the affected community in terms of procurement and employment opportunity. This will also include sharing of infrastructure and services with the local community.
- CSR activities to the communities shall be formalized through execution of Community Development Agreements (CDA) which will be implemented by the Authority.

Community Development Fund (CDF) shall be created and the concern mining company shall make the fund available, depending on the scale of operation with ownership between the MRA, the mines operators and the affected community.

The main provision of the MRA is the establishment of a Mining Regulatory Authority which was approved by the government to separate policy and promotional functions from the regulatory functions. The MRA, however, can only be formed upon establishing enabling provisions in the revised Mines and Minerals Management Act. As an interim measure, the Mining Division under the Department of Geology and Mines (DGM) will perform the mandates of the MRA and for the policy and promotional functions a separate Mineral Development Division has been created. The government has started implementing revised royalty rates. This increased the domestic revenue by Nu 36m in the last six months.



## D. TOURISM



Tourism industry has been growing rapidly over the years contributing significantly towards Bhutan’s socio-economic development through generation of revenue and creation of employment opportunities amongst others. Last year alone, a total of 62,733 international tourists visited the country which was an increase of 9.10 percent from 2015, and generated a revenue of Nu 4.719b. The Sustainable Development Fees (SDF) paid by the international tourists amounted to Nu 72m. Similarly, regional tourist also saw a substantial increase from 97,584 in 2015 to 146,797 in 2016.

Commensurate to the increase in tourist arrivals, the number of hotels with tourist standard accommodation facilities certified by the Tourism Council of Bhutan (TCB) has almost doubled from 62 to 116 since 2013. Similarly, a total of 39 village homestays were assessed and certified by TCB during the same period.

While the increase in tourist arrival is good for the overall economy of the country, it is important for the government to manage the numbers lest we compromise on our “High Value, Low Impact” tourism policy. Towards this, the government has already piloted initiatives such as the introduction of e-permit for regional tourists and entrance fees to the cultural sites for all visitors. The systems will be fully implemented this year. In addition, a Rapid Carrying

Capacity Assessment was carried out in November 2016, and a comprehensive report developed.

It has been the government's endeavour to promote and strengthen tourism in Eastern Bhutan. The completion of Yonphula Airport, expansion of the East-West National Highway and introduction of helicopter services are expected to help promote the growth of tourism industry in the east. Additionally, the government continues to develop several new products including trekking routes, establish regional tourism office for six eastern *Dzongkhags* and decided to waive off the SDF for tourists visiting these six *Dzongkhags* for three years. The guidelines for the SDF waiver will be announced soon. Therefore, the government encourages the private sectors to build hotels and restaurants in the eastern *Dzongkhags*.

Furthermore, the government is in the process of developing a comprehensive tourism policy that is aimed at, inter alia, improving the quality of tourism, increasing tourism in the east, managing regional tourists, and encouraging domestic tourists.

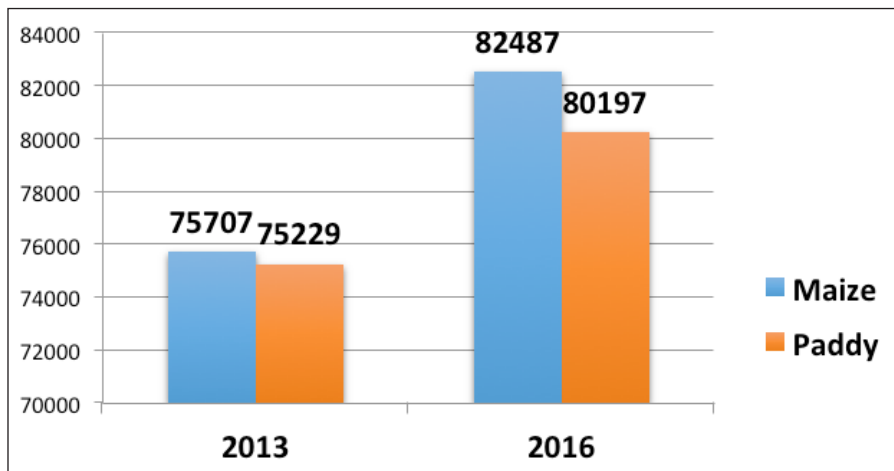




## E. AGRICULTURE



The agriculture sector has also grown in the last few years. Until recently agriculture was practiced at subsistence level. During my *gewog* visits, people have shared that farming has become profitable with interventions such as provision of power tillers, greenhouses, electric fencing and construction of irrigation channels. Production of cereals such as paddy, maize, wheat, buck wheat, millet and barley increased to 175,232MT last year from 163,820MT in 2013. Likewise, 24,460MT of potatoes were exported from which farmers earned Nu 542.4m which was an increase from 2013 when export of 21,871MT generated Nu 360.13m.



**Figure 7: Cereal Production in MT**

The government has also introduced quinoa, a nutrient dense cereal across the country. Three new varieties of quinoa were identified for large scale promotion and demonstration and awareness were also given to more than 1,000 farmers across the country. About 1MT of quinoa was produced from 40 acres of quinoa cultivation. The quinoa production next year is expected to be 60 MT cultivated over 120 acres worth Nu 2.1m.

In livestock, cattle population as of 2016 has reached 98,986 against the 11<sup>th</sup> FYP target of 80,410. In the same year, milk production was 47,270MT worth Nu 2.59b. About 1.009 MT of milk was exported earning Nu 55.5m.

In the last four years, 21,335 dairy cattle were distributed. A total of 432 breeding bulls were supplied in the current FYP. I would like to report that this year, agricultural (1.69b) and livestock (253.075m) productivity will increase again as Nu 1.9b has been budgeted.

Here, I would like to take this opportunity to announce and clarify once more that no slaughter houses are being built.

Bhutan has now become self sufficient in eggs. For the first time, eggs were exported last year (800 trays with Nu eight per egg). There are 575,242 layers in the country which is above the 11<sup>th</sup> FYP target of 350,000 and produced 105m eggs worth Nu 787.5m. There are 312,699 broilers.



Furthermore, about 8.205 MT of assorted and hybrid vegetable seeds were supplied and the production was 55,200MT worth Nu 8,280m. Various interventions such as generation and promotion of improved vegetable production technologies, supply of protected vegetable production facilities, establishment of post-production facilities and capacity building and skills enhancement program have been implemented.

To minimize drudgery in farming and to make farming more attractive, government has started distributing power tillers to the *chiwogs*. So far, 783 power tillers have been distributed and another 343 power tillers will be distributed this year. This will ensure that every *chiwog* has at least one power tiller each. Over the years, electric fencing has been effective in protecting crops and animals from wild predators. This year, 500km of electric fencing will be built in addition to the existing 1,987km which will benefit about 10,841 households.

To address the issue of water availability in agriculture, Nu 339m has been budgeted for construction and maintenance of 130km of irrigation channels. Once the Water Commission is established, we expect all irrigation problems to be addressed. So far 75.86km of new irrigation channels have been constructed and 109.9km of irrigation channels renovated benefiting 5,824 households with an area coverage of 9,262 acres. With this, 680.33km of irrigation channels have been constructed and renovated in the past four years.

Furthermore, greenhouses are supplied to potential vegetable growers in 20 *Dzongkhags* to intensify off-season vegetable production. Greenhouse encourage protected vegetable cultivation and early nursery raising. Close to 360 greenhouses were distributed. With this, 1,885 greenhouses have been supplied in the country covering 416 *chiwogs*. The objective is to provide one greenhouse in every *chiwog* by the end of 11<sup>th</sup> FYP.

In 2004, *Gasa* declared to become totally organic. In 2010, *Samdrupjongkhar* also decided to focus on organic farming. The Government has decided to provide special support to *Dzongkhags* wishing to promote organic farming. Last year, two products (Garlic & potato) were certified organic from *Gasa* and soon carrot will be certified as organic product. Organic asparagus is also being promoted.

Human-wildlife conflict is another challenge faced by farmers. People have been

asking for proper compensation. I am happy to report that the government has started a new endowment for crop and livestock compensation. Guidelines are being developed and it will be announced this year.

In order to help farmers, two new Corporations have been established. The first is Farm Machinery Corporation Limited (FMCL) which is aimed towards mechanizing farms, creating employment in the rural areas and promoting small and medium agriculture enterprise. FMCL is seen as a sustainable tool for future agriculture farming in Bhutan. It has already generated huge employment opportunities for the job seekers. A total of 723 employment opportunities is expected to be created by the end of 11<sup>th</sup> FYP, of which 427 have been already recruited. The corporation will also develop farming land. So far, 300 acres of land have been developed and 971 acres of fallow land reverted to cultivation covering 11 *Dzongkhags*.

The second corporation is the Livestock Development Corporation with a paid-up capital of Nu 600m, which has the mandate to produce and supply inputs required for the livestock and agriculture sector. It will engage in production of livestock products for domestic and export markets and value addition. The company is expected to generate more than 400 employment opportunities in the next one year alone.

As a mountainous country with rugged terrains, arable land is limited. However, so far, 3,538.237 acres of fallow and new lands have been brought back under cultivation. In order to accelerate agricultural land development, a land development guideline has been developed.



## 9. Health



The budget allocated for Health is eight percent of this year's total national budget. Today, this is further facilitated by 5,028 Medical and Health Professionals working across the various health facilities in the country.

The National Nutrition Survey (NNS) 2015 shows that the general nutritional status of the Bhutanese people has been improving over the decade. While malnutrition indicators such as underweight prevalence and wasting have improved, stunting prevalence still remains a major public health issue. The survey concluded that stunting prevalence stands at 21.2 percent, a decrease from 33.5 percent in 2010. However, regional disparities remain persistently elevated with 29.1 percent prevalence rate in the eastern region followed by 18.5 percent and 16.2 percent in the central and western regions respectively. The Infant and Young Child Feeding Practices (IYCF) in terms of the rate of exclusive breast feeding stands at 51.4 percent, while only 11.7 percent of children in Bhutan consume the minimum acceptable diet.

In response to the nutrition issues in the country, Nutrition and Food Strategy and Action Plan has been finalized and is being implemented. The strategy looks at a lifecycle approach to improve the nutrition status in various life stages. An action plan to accelerate the implementation of high impact nutrition action to improve the nutrition status of the vulnerable groups of women and children

has also been developed. To improve the quality of nutrition services being delivered in the health facilities across the country, implementation guidelines on Mother and Baby Friendly Health Facility initiative has been developed and is being piloted at *Phuentsholing* General Hospital.

Additionally, the government has undertaken measures to serve only fortified rice in schools. Fortified rice has Vitamin A, B1, B3, B6, B12, Folic acid, Iron, and Zinc in adequate quantities to improve both physical and mental health of children. The Government has budgeted Nu 20.0m in 2017-18 FY to purchase approximately 7,331.25 MT fortified rice. In addition, World Food Program (WFP) is supplying 1,890 MT of fortified rice. Today, 53,321 children are fed under the school-feeding program. Of these, 37,512 students receive three meals a day.

In addition to designing favorable policies, building adequate infrastructure is one of the critical components in the delivery of health care services. State-of-the-art infrastructures are being established incorporating, in particular, the concept of “green and sustainable architecture” to achieve efficiency gains. Jigme Dorji Wangchuck National Referral Hospital (JDWNRH) is being expanded with the construction of two additional wings: Her Majesty *Gyaltsuen* Jetsun Pema Mother and Child Hospital and the *Gyalyum Kesang Choeden* Wangchuck National Eye Centre.

Similarly, new services are being introduced at JDWNRH such as the infertility clinic, oncology ward, epidural ward, and children with chronic disease clinic. This clinic provides consultation to children with chronic diseases once a week. A Renal clinic was started for the benefit of the patients with chronic renal diseases (CKD). This clinic provides adequate time for the clinician to provide comprehensive treatment to the CKD patients.



| Sl. No | Projects  | Status          | Planned Completion Year | Total project cost (In Million Nu) | Financing |
|--------|---|-----------------|-------------------------|------------------------------------|-----------|
| 1      | 40 bedded Samtse Hospital   | 100 % Completed | 2016                    | 271.874m                           | GoI       |
| 2      | 150 Central Regional Referral Hospital, Gelephu                     | 70% completed   | 2017                    | 716.57m                            | GoI       |
| 3      | 150 bedded Gyaltsuen Jetsun Pema Mother and Child Hospital, Thimphu |                 | 2018                    | 1175.24m                           | GoI       |
| 4      | 40 bedded Tsirang Hospital  | 50% completed   | 2018                    | 254.43m                            | GoI       |
| 5      | 20 bedded Haa Hospital  | 50%             | 2018                    | 195m                               | RGOB      |
| 6      | 40 bedded Dewathang Hospital  | 20%             | 2019                    | 260m                               | GoI       |

**Table 1: Status of health infrastructure**

Another challenge in reaching health care to all parts of the country is the challenge of insufficient health facilities, including health care providers. During my *gewog* visits, many women have asked for nurses in the BHUs to tend to their health issues. The government will ensure that every BHU has at least one nurse.

People, during my *gewog* tours, have also expressed gratitude for helicopter services. Till date, 189 patients with emergency conditions have been airlifted to Thimphu. This is a big achievement in realizing our maximum health care coverage.

Along with improving services and infrastructure, the most crucial element in health care is the availability of essential drugs. I am happy to report that Bhutan Health Trust Fund (BHTF) is functioning well. All essential drugs and most vaccines are provided by proceeds of BHTF which took over the financing of essential drugs since 2014. For the current FY, BHTF has released a sum of Nu 190m to the JDWNRH and the Ministry of Health (MoH).

However, the rising costs in essential drugs and introduction of new vaccines

in the immunization schedule incurs huge expenditure for BHTF and requires a capital fund of Nu 3.0b to fully finance both essential drugs and vaccines. The current fund capital stands at Nu 1.54b. The government has decided to double the current BHTF capital to Nu 3.0b. This year the government will be providing Nu 500m to support the BHTF.

## 10. Sports



The Bhutan Olympic Committee (BOC) and its National Sports Federations (NSF) have played an important role in the development of sports and in promoting physical fitness and wellness. I take this opportunity to thank His Royal Highness Prince Jigyel Ugyen Wangchuck, President of the BOC for his exemplary and steadfast leadership. Sports is an important part of education and growth, especially for the youth. Through sports, our youth learn some of the key human values such as honesty, teamwork, respect for others, fair play and adherence to rules. It also trains young minds to learn how to deal with competition, to be able to accept both victory and defeat, and therefore, contributes to their social and moral development.

The government will continue to play its role in supporting and ensuring development of sports in the country.

The development of infrastructure for sports in the country has been





unprecedented. FIFA funded Astroturf football ground was completed in June, 2016 in Tsirang. The Korea Sports Promotion Organization funded the construction of a Multi Sports Hall at Jungshina, Thimphu. With support from GoI, Astroturf football fields have been laid in Gyalpozhing and Phuentsholing in January 2017. Similar projects are underway in Bumthang, Kanglung and Samdrupjongkhar. In addition, a sports complex was completed in Phuentsholing in January, 2017. Similar projects are under progress in *Punakha*, *Bumthang* and *Samdrupjongkhar*, and expected to be completed by June, 2017. The Construction of a new Table Tennis center is also underway in Thimphu.

I applaud the exceptional performances by our Bhutanese athletes at the regional and international competitions. Bhutan won three silver and one bronze medals in the individual and team recurve events in the International Solidarity Archery Championship in Dhaka, Bangladesh in January 2017.

In Football, Bhutan Football Federation received the AFC award for the aspiring member association for the year 2016. Bhutan hosted the 50<sup>th</sup> Asian bodybuilding and physique championship in September 2016. The Bhutanese team won three gold, one silver and seven bronze medals. Bhutan Tennis Federation hosted the Asian Tennis Tour for the first time in September 2016. The Bhutanese football team won against Bangladesh during the Asian Cup Play-Off Qualifiers in Thimphu in October, 2016. Similarly, the Bhutanese team played very well against the Maldivian team this month.

Our teams and athletes continue to distinguish themselves and I applaud our dedicated athletes for their excellent performances and sportsmanship

## 11. Education



The government has continued to accord utmost importance to education with 18 percent of the total budget for 2016-2017 allotted to education sector.

### Central Schools

With the objective of improving quality of school education, the government has started Central Schools. During my visits to the *gewogs*, one of the common points of discussion has been Central Schools. Several people in the *gewogs* expressed their gratitude towards the establishment of Central Schools which have benefited them immensely.

Currently, there are 45,000 students studying in 60 Central Schools across the country. It costs about Nu 49,000 per child per year to educate in Central Schools which is inclusive of teachers' salary, operation costs, food, clothes, and bedding but does not include new construction. Children studying as day scholars are also provided the same facilities. The per-capita cost incurred in Central Schools is only Nu 5,000 more than the other boarding schools where the average cost per child per year is Nu 44,000.

With the establishment of Central Schools, the quality of education is expected to improve for two reasons:



- a. Students can learn more because they spend more time at school; and
- b. Students can study in the same school until they complete Class 12 without having to change schools.

All schools including the Central Schools are closely monitored by the government to ensure that they receive the required attention and necessary interventions. The Education Minister *Lyonpo* Norbu Wangchuk has personally visited 236 schools including 43 Central Schools. Furthermore, the *Dzongdags* are required to visit the Central Schools in their respective *Dzongkhags* at least twice in a month.

I take this opportunity to inform that three more Central Schools will be opened this year. The government's goal is to establish 120 Central Schools. Therefore, we will need to establish 57 additional Central Schools during the 12<sup>th</sup> FYP period. The objective is to have all school going children living outside the *Thromdes* attend and benefit from Central Schools. However, this does not imply that non-central schools will be closed. Government will continue to provide support to these schools if people and communities chose to retain them.

In recent years, the private sector participation in education has significantly helped enhance access to education. About seven percent of the total students in the country are enrolled in 36 private schools at different levels. Like government schools, private schools are an important part of our education system. Private school fees have increased substantially over the last five years. Today, parents pay about Nu 40,000 per child per year on average for primary school and Nu 50,000 per child per year for secondary school. For private school with boarding facilities, the annual fees can be as high as Nu 70,000 per child per year. Parents send their children to private schools mainly for better quality education. Many Bhutanese parents even borrow money or sell properties to educate their children in private schools.

Therefore, it is important that private schools provide the best possible education. Government will step up monitoring of private schools to ensure that parents and students get value for their money.

Teacher professional development continues to be a priority of the government. The Teacher HR Policy 2014 mandates that every teacher must receive 80 hours of Professional Development (PD) in a year. A survey conducted in 2015

revealed that on an average, only 37 PD hours were availed by the teachers. Teachers from rural locations were reported to be availing even lesser hours.

Towards this, the Ministry of Education conducted a 5-day Transformative Pedagogy training for all the teaching professionals from July to November 2016. A total of 9,591 participants were trained which include teachers, Vice Principals, Principals, *Dzongkhag* and *Thromde* Education Officers, Counselors, trainee teachers and lecturers of Samtse and Paro Colleges of Education and teachers from private schools. The same training package was also translated to *Dzongkha* and all the *Dzongkha* teachers availed the training.

The Education Ministry was able to provide 40 hours of academic PD in the year 2016 to all teachers across the country. Subsequently, in 2016, Nu 106m was spent on PD for the teachers. This year, a sum of Nu 108m has been set aside to provide required trainings for the teachers. I take this opportunity to thank all the teachers for taking part in the training programs and urge each of them to make good use of the opportunity.

Today, only 1,130 of the 8,869 teachers have Master's Degree, which is only 14 percent of the total. The government will create opportunities for all teachers to pursue Master's Degree. Towards this, 30 teachers will begin Master's degree program in Yonphula Centenary Institute of Education beginning next month. This year, the Ministry of Education will prepare plans to upgrade degrees of our teachers in all colleges in Bhutan, especially the Colleges of Education in *Paro* and *Samtse*. Upgrading qualifications of teachers will be a priority in the 12<sup>th</sup> FYP.

Furthermore, the government has decided to increase the summer holidays for schools to one month from two weeks starting this year. This has been done with the hope that students help their parents with farm works, and most importantly to understand village life. With increasing number of students helping in the farms, our economy will benefit from increase in agriculture productivity. I request all teachers to encourage and guide their students to go home and help with agriculture and husbandry works during the long summer holidays. The older students must be asked to maintain a record of their work during the holidays. For those students studying in *Thromde* schools, I request all parents to send their children to respective villages to help their relatives with farming.



Longer summer vacation means that students will be in schools during winter months. The government will make every attempt to keep the students warm during the winter in the schools.

In order to check the state of education in the country against the international standards, the government decided to take part in Program for International Student Assessment for Developing Countries (PISA-D). Against this backdrop, a Strategic Framework for PISA-D Project has been developed with the aim of setting a benchmark profile of the knowledge, skills and competencies of the students in Bhutan; collect evidence on the readiness of the Bhutanese education system for entry into the main PISA in 2021; and ensure adequate preparation for participation in the international benchmarking system and to perform well in the PISA-D. From this year, all 15-year-old students will take part in PISA-D examinations in English, Mathematics and Science. The results will show our education standards compared to other countries. The training of teachers to prepare the students for PISA-D has begun. I thank the teachers for taking on this additional responsibility and also request all students to prepare well and give their best.

Towards making education inclusive, MoE completed development of the Inclusive Education Standards and established two new Special Education Needs (SEN) School in 2017: one at Tsenkharla Central School in *Trashiyangtse* and the other at Gesarling Central School in *Dagana*. There are 611 students enrolled in these institutes.

The establishment of special schools alone will not suffice to meet the needs of special students. Therefore, MoE has initiated training of sign language research team at Wangsel Institute. The activities also included capacity building for teachers, procurement of adaptive furniture, teaching-learning materials and assistive device for children with special needs.

To further extend the reach of education, 123 students from economically disadvantaged backgrounds were availed with the interest free Student Loan Scheme to pursue tertiary education. This year, School Sports Scholarship Scheme (SSSS) was established. The SSSS is expected to help students pursue excellence in both academics and sports.

An important condition for successful schooling is a strong pre-school foundation. Therefore, the government has stressed on further strengthening the Early Childhood Care and Development (ECCD) centers as the foundation for children's long term development. In the past four years, government established 149 centers, bringing the total number of government ECCD centers to 231. As of 2016, there are 7,409 children enrolled in the ECCD centers across the country. The gross enrollment rate in ECCD as of 2016 was 18.6 percent as opposed to seven percent in 2013. This year, the government will establish 45 new ECCD centers in the remote areas. Currently, there is one ECCD center in every *gewog*. The government plans to establish one ECCD center in every *chiwog*.

## 12. Culture



Preservation of culture is one of the four pillars of GNH. Our rich and unique culture helps to shape our common national identity as Bhutanese and has, therefore, served as the hallmark of Bhutan's sovereignty and security. Due to the tireless and conscientious efforts of our successive monarchs and forefathers, Bhutanese culture is vibrant, sustainable and has withstood the test of time.

Bhutan is the only surviving *Vajrayana* country in the world. Moreover, unlike earlier *Vajrayana* Kingdoms, Buddhism is thriving in our country. That is why the first International *Vajrayana* Conference was held in Thimphu in 2016 which



was a success. The Centre for Bhutan Studies & GNH Research will conduct the second conference next year.

Preserving and strengthening our culture has been a continual effort of the government. Activities of the last one year showcases the importance placed on culture.

Here, I would like to thank His Holiness Je Khenpo Truelku Jigme Choeda, Central monastic body, *Rinpoches, Truelkus, Lams, Gomchens, Anims and all other religious institutes* for their continued hard work and dedication to ensure that Dharma continues to flourish in our country.

His Holiness the *Je Khenpo* has already conducted 102 *kurims*, including *Janachidoe, Goenpai Tongtshog, Zhabdrung Danangmai Sungchoe* and *Moenlam Chenmos* in 19 *Dzongkhags*.

Under His Holiness's guidance and support, 19 *Dzongkhags* have *Moenlam Chenmo* Funds amounting to Nu 239m with Nu 51m from His Holiness the *Je Khenpo*. This is an indication of the spirituality of our people, and the love and devotion to His Holiness.

I am happy to report that 2,008 *chortens* were renovated across the country in the past two years. I would like to thank the local government functionaries and the people for their hard work in renovating these important national monuments. . The *chortens* are important national monuments as they were built by our ancestors and accomplished *Lamas* to ensure the welfare and the sovereignty of our country.

I take this opportunity to urge our people to repair those *chortens* that are still in disrepair. I wish to take the special honor of thanking His Majesty the King for the noble support given to the retired armed force personnel in constructing new *chortens*. As of today, six *chortens* have already been completed and many more are being built.

The construction of *Pemagatshel Dzong, Sarpang Dzong* and *Wangduephodrang Dzong* are progressing well. Major renovation of *Gasa, Trongsa* and *Trashigang Dzongs* will be completed by next year.

Reconstruction of Drukgyal *Dzong* is well on track, traditionally this *Dzong* is important as it was built by *Zhabdrung Ngawang Namgyel* to commemorate victory over Tibetan and Mongolian forces. Today, *Drukgyal Dzong* is important as it is being rebuilt to celebrate the Royal birth of our beloved *Gyalsey Jigme Namgyel Wangchuck*.

Several religious structures and institutions have been established and renovated, while works on some are ongoing. A total of two *Tshamkhangs* were constructed, one each at *Pangkarpo Drubdeys*, *Punakha* and *Autsho Lobdra* under *Lhuentse*, while additional maintenance work for 34 *Tshamkhangs* were also carried out. These *Tshamkhangs* are for the monks and nuns who, after the completion of their Master's Degree, go for the three years strict retreat as part of the traditional practice.

A 76 bedded hostel will be built at the Tango *Thorim Shedra*, while *Selung Goenpa*, *Paro*, *Pema Yoedling Dratshang*, *Sarpang* and the *Pangrizampa*, *Drolma Lhakhang* have a new hostel each. Construction of a nunnery that will house 120 nuns is almost completed in *Mongar*. Three classrooms, each catering to 35 monks were constructed at *Tsirang Pangtenchu*, *Jangchubling Dratshang*, *Lhuentse* and *Sewla*, *Punakha*. Hostel constructions at *Tsamdrak Goenpa*, *Chukha* and *Doley Goenpa*, *Wangdue* have been completed. One hostel is being constructed at the *Zhung Dratshang* behind *Tashichho Dzong* to accommodate 70 monks.

The National Museum in *Paro*, *Ta-Dzong* has been restored. Similarly, conservation and restoration of 29 *Tashigomangs* collected from various *Dzongkhags* was undertaken. The construction of the *Utse* at *Drukgyal Dzong* was completed.

Constructions of *Zhirim Lobdra Tewa* in *Tashicholing*, *Samtse* and in *Gelephu*, *Sarpang* is ongoing.

Meanwhile, the first phase of research on traditional rammed earth houses in *Bhutan* was completed. The project is focused on studying the construction techniques and material of traditional rammed earth houses and to determine the typology and chronology of rammed earth houses.

One of the biggest challenges confronted in our villages is the absence of full





time *koenyoers* (*care takers*) to look after the community *Lhakhangs*. Villagers resort to working as *koenyoers* on rotation basis from different households. To address this issue, His Majesty the King has commanded the government to provide some monthly allowances to the *koenyoers*.

On behalf of the people, I take this opportunity to thank His Majesty the King for this *Kidu*. This will go a long way in ensuring that our *Lhakhangs* are well looked after. It will also lead to the preservation of our culture, which are represented by these religious structures.

As commanded by His Majesty the King, two *Mandirs* are being built in Thimphu and Gelephu. This is in addition to the new *mandhir* in Samtse and the renovation of the existing *mandhir* in Jumotshangkha. Similar to *koenyers*, the *pandits* will also receive monthly allowances.

Traditional medicine, besides its intrinsic importance to the national identity, is an area where Bhutan can create a niche market. The annual revenue from sales of traditional medicines and commercial products has increased from Nu 13.2m in 2012 to Nu 20m in 2016. In 2016, two new products were tested and are being scaled-up for marketing.

The National Traditional Medicine Strategy has been finalized. This Strategy will focus on developing, promoting and preserving Bhutanese Traditional Medicine services with social and spiritual values.

With the Tourism Council of Bhutan taking lead, several community festivals have been introduced and promoted, such as the Haa Summer Festival, Matsutake Festival (Genekha), Jomolhari Mountain Festival and the Royal Highland Festival.

Here, I humbly thank His Majesty the King for gracing the first Highland Festival in Laya.

The Royal Academy of Performing Arts (RAPA) is a premier institute to promote our culture. Last year, the government decided to upgrade RAPA to a college. Upgradation of curriculum has been completed and government is exploring land to build the college. Construction is set to begin in the 12<sup>th</sup> FYP.

Bhutan's film industry has evolved tremendously. The industry has contributed significantly to strengthening and promoting our culture. In order to support the industry, a film studio is being built in Thimphu and five cinema halls will be built across the country this year. In addition, the government has been allocating a sum of Nu 3m annually to the Bhutan film association for the National Film Awards.

Moreover, the government will also revitalize Art and Craft business. From next month the institute of Zorigchusum in Trashiyangtse will be upgraded to a college of Zorigchusum. This is expected to produce highly knowledgeable and skilled traditional artists.

The Agency for Promotion of Indigenous Craft (APIC) will start the construction of the craft market in Changzamtog this year. The new craft bazaar will go a long way in promoting Zorigchusum by creating a viable market for our traditional products.

Our national language is a central tenet of Bhutanese culture. From this year, all students must pass in *Dzongkha* in order to move to the next grade. This has been introduced in order to ensure that students take *Dzongkha* seriously from an early age. Moreover, the Dzongkha Development Commission (DDC), continues to undertake important initiatives towards promoting *Dzongkha* language.

A significant achievement is the return of the statue of *Zhabdrung Ngawang Namgyel* from India in December last year.

The six-foot statue, which is at least 250 years old, has been housed in the Asiatic Society building in Kolkata for over a century. For all Bhutanese, the statue is a priceless relic of great spiritual significance, as are all relics attached to the Zhabdrung, who is revered as the great unifier of Bhutan and the founder of the Bhutanese nation state and polity. This was done coinciding with the celebration of the 400<sup>th</sup> anniversary of Zhabdrung's arrival to Bhutan.

I thank the Government of India and the Asiatic society for this priceless gift.



### 13. Environment



The world still marvels at our Constitutional mandate to maintain a minimum forest cover of 60 percent for all times to come. In our effort to maintaining the forests and environment, several areas have been designated as parks and biological corridors. For the sustainability of such conservation, the government has established Bhutan for Life (BFL). The goal is to raise USD 45m (Nu 2.7b) for the maintenance of the protected areas. I am happy to report that fund raising is almost complete and that the government plans to launch BFL on November 11, this year.

Currently, 72 percent of our country is under forest cover and with pride we can say that from the 200-odd countries, Bhutan is the only country that is carbon neutral. In fact, Bhutan is being recognized as the only “carbon negative” country in the world. Bhutan has over 5,400 species, including 300 species of medicinal plants, some hardy species thriving even at 3,700m and above. Bhutan has one of the richest stocks of orchids in the world. Of the 369 species of orchids, 82 are unique to the country. The country boasts of 48 of the 1,000 species of rhododendrons found worldwide.

To further our efforts in maintaining green coverage, the government has also established Green Bhutan Corporation Limited (GBCL) as a government owned corporation for landscaping, urban greening, plantation and floriculture. This

will also help promote tourism in the country. GBCL has already employed 140 employees through the Direct Employment Scheme (DES) and nine regular employees. We expect 500 additional employees to join the corporation in meeting its mandate.

Along with conservation and promotion, maintaining cleanliness of our immediate environment is also essential. His Majesty the King has commanded that *“Where we live must be clean, safe, organized and beautiful, for national integrity, national pride and for our bright future. This too is nation building.”* His Majesty’s concern is for the country and people. Thus, it is the sacred responsibility of each and every one of us to ensure that cleanliness is our top priority.

Towards this, I would like to convey our appreciation to CSOs such as Clean Bhutan, and the schools and other institutes for taking up various mass cleaning initiatives.

Bhutan has been internationally recognized as a role model for conservation. This was clearly expressed during COP-21 when countries committed to the Paris Agreement.

I take this opportunity to express gratitude to the Parliament for ratifying the Paris Agreement. As we are looked up as champions of the environment and climate change, it befits us to be part of a group that works for a global cause. The Paris agreement seeks to keep the rise in average global temperature well below 2 degree Celsius, compared with pre-industrial times. Individual countries made voluntary pledges to curb emissions of green-house gases. With this we join others in the world who are equally concerned about climate change.



## 14. Foreign Policy



Since our country opened to the world we have pursued a careful and prudent foreign policy. Following the guidance and footsteps of our Kings, in the last four years the government has not wavered from the path that our Kings have taken. The relation with our neighbour and closest friend India remains steady. I would like to state that next year will mark 50 years of Indo-Bhutan relationship. Our relation is an example to the world of how a small and a large nation cooperate for the larger good. Next year, we are planning for befitting celebration to commemorate this very important milestone in our relationship.

We expect to open a consulate in Guwahati, Assam this year. Apart from further strengthening the relations we share, it will greatly benefit our people living in the six eastern *Dzongkhags*.

Similarly, in the north, relations with China is good. The boundary talks are proceeding well. The 24<sup>th</sup> round of boundary talks was held in August 2016 followed by an expert group meeting in China in April 2017. The 25<sup>th</sup> round of boundary talks will be held in Thimphu this year.

Bhutan and Japan celebrated 30 years of close diplomatic relations in 2016. A friendship offer was launched for Japanese nationals for the months of June, July and August 2016. Bhutan saw a significant increase in Japanese tourist

arrivals during the offer period with a total of 3,348 Japanese visiting the country compared to only 625 Japanese visiting in June, July and August 2015. The goodwill and people to people contact between the two countries have increased. This is further reflected with the visit by Her Imperial Princess Mako of Akishino of Japan this month. .

We also launched the “Bhutan-Korea Friendship Offer” in February 2017 to commemorate the 30 years of diplomatic relations between Bhutan and South Korea. The offer for Korean nationals from June 1 to August 31, 2017 is expected to increase tourist arrivals from Korea as well as generate awareness of Bhutan as preferred travel destination for Koreans. This will uplift the good relations that we share with the government of South Korea.

His Majesty the King accompanied by Her Majesty the *Gyaltsuen* and His Royal Highness the *Gyalsey* visited Thailand in October, 2016 to pay the last respects to late His Majesty King Bhumibol Adulyadej of Thailand. His Majesty the King was the first Head of State to arrive in Thailand to pay respects to the late His Majesty the King Bhumibol Adulyadej. His Majesty’s visit further strengthened the relations between the royal families and the people of the two countries. His Majesty’s leadership in showing solidarity with people of Thailand was deeply appreciated by the Thai people which is why the Royal Thai Government chose Bhutan among other countries to host the photo Exhibition titled “A Tribute to His Majesty the King Bhumibol” in Thimphu in December, 2016.

We exchanged numerous high-level delegations with foreign partners in the last one year. These bilateral visits are an important component of Bhutan’s foreign policy objectives aimed at fostering and strengthening relations between Bhutan and its friends. The government attaches a lot of importance to its relations with countries visited or from which visitors have been received.

On the invitation of H.E. Shri Narendra Modi, Prime Minister of India, I visited Goa, India from 15 to 17 October 2016 to attend the BRICS-BIMSTEC Outreach Summit. On the sidelines of the Summit, I had the opportunity to meet with H.E. Shri Narendra Modi, Prime Minister of India, H.E. Pushpa Kamal Dahal, Prime Minister of Nepal and H.E. Maithripala Sirisena, President of Sri Lanka. We had wide ranging discussions on bilateral relations as well as regional and international issues of mutual concerns. The visit to Goa provided an opportunity for me to interact with the Leaders of BRICS (Brazil, Russia, India,



China and South Africa) and BIMSTEC member countries and exchanged views on wide ranging issues of common interest. The visit further enabled Bhutan to boost ties with many key regional as well as international players.

I also visited Australia in October 2016, during which I had the opportunity to meet Prime Minister Malcolm Turnbull and other leaders in Canberra and Sydney. Following my visit, Finance Minister Lyonpo Namgay Dorji led a delegation comprising officials from the Royal Monetary Authority of Bhutan and financial institutions to promote 'Remit Bhutan' initiative in Australia in February 2017.

Similarly, I visited Singapore in November 2016, and met with the Acting President, Prime Minister and other important dignitaries in the Government of the Republic of Singapore.

At the invitation of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Prime Minister and Ruler of Dubai, I visited United Arab Emirates (UAE) in February 2017, to attend the World Government Summit (WGS). During the visit Bhutan and UAE signed two Memorandums of Understanding and the Air Services Agreement.

I was honored with the German Sustainability Award in Dusseldorf, Germany, in November 2016. For this, I would like to take this opportunity to thank His Majesty the King, government and the people. The award is significant as it highlights the outstanding contributions made by Bhutan in promoting sustainability.

The relations forged during such visits are very important as it strengthens ties with other countries. Bhutan has established a brand image through the GNH development philosophy, the importance we place on environment conservation, the rich culture preserved over the time, our unique transition to democracy and above all our enlightened leadership in our monarchs. This has been crucial in allowing our development partners to invest in our nation-building process.

I would like to take this opportunity to convey my sincere gratitude and deep appreciations to all countries and development partners for always standing with Bhutan in its vision.



## Our People







### III. Our People

#### Population Census

The second Population and Housing Census of Bhutan (PHCB) was carried out in May 2017. The last PHCB was conducted in 2005.

This year's census is very important, for it will provide us information on the country's state. The information will enable us to evaluate the progress of the 11<sup>th</sup> FYP. The PHCB information and data will also be useful in formulating the 12<sup>th</sup> FYP. I take this opportunity to thank everyone who were involved in the census.

#### Poverty

The Bhutan Poverty Assessment 2014 reported that the incidence of poverty was 12 percent in 2012 which is a decrease in percentage by almost double from 2007. The PHCB 2017 will give us a very clear and recent picture of poverty in the country. Until then, the government will keep working towards addressing poverty.

Our people are fortunate to have a King who is compassionate and concerned, especially about the poor living in rural areas. I would like to state that during my *gewog* visits, people have expressed their gratitude to His Majesty the King for the benevolent *kidus*. The landless are given land and those who live in areas where development services cannot reach are resettled. Those who cannot afford to study are brought under the umbrella of the *Gyalpoi Tozey*. The elderly are provided support and whenever disasters strike those affected are granted *kidu*.

On the government's part, we have launched the Rural Economic Advancement Program (REAP), which has under it 75 villages covering 1,218 households in 18 *Dzongkhags*. With a budget of Nu 150m, the government has provided CGI sheets to 72 households, built 192 houses, renovated 65 houses, constructed 435 toilets, distributed 179 cows, supplied 20 farm machineries and laid 67km of electric fencing.

I take this opportunity to thank Her Majesty Gyalyum Ashi Dorji Wangmo Wangchuck for the role Tarayana Foundation played in making this project a success.



## Youth

Majority of Bhutan's population is youth aged between 15 to 24 years with a total population of 141,000. His Majesty the King has always emphasized the importance of the role youth in the future of our nation. Therefore, the government strives to explore all avenues for investing in our youth.

As more youth enter the job market, unemployment is becoming a serious issue. The government has taken several measures to ensure that every youth is gainfully employed.

Every year, about 18,000 youths enter labour market. Of this, 8,000 are absorbed in civil service, armed forces and government corporations. About 4,000 youths are provided skills training and internships. By this account, we have to provide employment opportunities to about 6,000 youths. In the past four years, 60,000 youths have been placed in various jobs and training opportunities. However, the government still has to do more. Therefore, the government has developed job plans outside civil service, corporations and armed forces. This includes overseas employment, direct employment and self-employment.



A total of 12,836 jobs have been identified for two years. Of this, 3,931 are for university graduates, 5,232 for class 12 graduates and 3,673 for class 10 graduates. Last year, 5,780 jobs were identified in the job plans. However, only 3,593 jobs were taken and 2,187 remained vacant. This year, job plans offer 7,101 job opportunities. I would like to urge our youths to take advantage of these opportunities.

We have about 4,000 youths working abroad without including those who went on their own. I am happy to report that they are doing well and have been sending money home through the Remit Bhutan facility. We have already received a total amount of USD 1.16m since it was launched earlier this year.

### **Senior Citizens**

We have over 38,000 people above the age of 65 years. Traditionally, the old parents lived with their families and did not have to worry about their future. However, due to the change in social dynamics, family structures have changed and there are cases of elderly people who have no one to look after them. Towards this, His Majesty the King's monthly *kidu* has helped them fare better. A special *tshamkhang* for senior citizens is being constructed at *Sisina* in Thimphu.

His Majesty the King has also established the Royal Society for Senior Citizens (RSSC), *Nyikem Gongzhu Tshogpa*, with the main aim of giving retired senior citizens, who have had distinguished career, a platform to continue contributing to nation building. The objective of the association is to conserve and promote the cultural heritage of Bhutan. His Majesty the King granted a seed fund of Nu 10m for the association.

### **People with special needs**

Realizing the need to create a platform for people with special needs, Her Majesty the *Gyaltsuen* founded Ability Bhutan Society (ABS) as the Chief Patron. I would like to express our sincere appreciation to Her Majesty the *Gyaltsuen* for the generosity.

The vision of ABS is to empower individuals with diverse abilities to live independently and with dignity within Bhutanese society, through advocacy, direct interventions and improved capacity of care givers. As of April 2017, there were 82 children benefiting from ABS.



## Women

Women in Bhutan enjoy equality of status to a great extent. Today, we have six women Member of Parliament (MP), two *Dzongdags*, four *Thromde Tshogpas* and *Ngotshabs*, 23 *Mangmis* and 130 *Tshogpas* across the nation. These figures are a testimony to the growing role of women in leadership and decision making positions. This situation is very different from many countries in the region; our women enjoy equal opportunities.

Given that women constitute almost 50 percent of the country's total population, the government sees it imperative to create favourable conditions which will allow for them to contribute without any form of discrimination. His Majesty the King has also recognized women's potential in contributing towards the nation and in recognition of their role and leadership, conferred *Gyentags* (Symbol of responsibility) to women which is equivalent to conferring ceremonial swords for men. His Majesty has also repeatedly emphasized that Bhutanese women should never be left behind and that they are integral in our development process and society.

Towards this effort, the government has pushed for policies that will allow women's participation to be mainstreamed: the government has already established 231 ECCDs, and an additional 45 will be established this year. More ECCDs all over the country would mean more time for women to devote to their work which will increase the overall productivity of the economy.

Similarly, the government has established nine crèches in Thimphu alone. We will continue to encourage and support creating more crèches in the office



premises all over the country. The maternity leave for civil servants has also been increased to six months and the government is working on drafting policies to make this applicable to the private and corporate sectors. Furthermore, construction of the separate Mother and Child Hospital (MCH) will provide specialized maternal and child health. Additionally, the government is putting in all efforts to get one nurse to all the BHUs in the country.

In the government's push towards creating enabling conditions for women, the role of women and children related NGOs and CSOs such as the NCWC, National Women Association of Bhutan (NWAB) and Women Children Protection Unit (WCPU) have been critical and we hope that they will continue supporting this cause.

## Conclusion

Bhutan, under the guidance of our beloved monarchs, has experienced unprecedented growth and development not only in terms of our overall economy but also in terms of well-being and happiness of the people. Due to the guidance of our Kings, blessings of the Triple Gem and prayers from our monk body, we continue to enjoy peace and stability.

Today, we have schools, hospitals and BHUs in every part of the Kingdom. This is especially important in our effort to include every Bhutanese in mainstream economy and development process. Our people today own more cars, with 25,056 cars that have been imported in last three and half years alone. Almost everyone in Bhutan owns a mobile phone with mobile subscription totaling to 698,373 subscribers. Our total savings in the banks over four years amount to Nu 196.47b. With increase in earning capacity, our people are beginning to travel more; there were about 50,127 people who visited India and Nepal on pilgrimage and availed Indian Rupees (INR) facility amounting to Rs 970m. Living standards have improved as evident from the significant improvement in housing and infrastructure in both rural and urban areas over the years.

While economic prosperity is essential, peace, stability and sovereignty are more important. We are grateful to the selfless leadership of His Majesty the King because of whom we continue to enjoy peace, security and sovereignty. We are also very thankful to our armed forces for their sacrifices and our central monastic body for their continued prayers and blessings.

His Majesty the King has always stressed that democracy should bring us closer. We should always live as one people under one King with a collective aspiration to grow and prosper. We must take the responsibility to ensure that we hand over a more peaceful, secure and prosperous nation to our future generations. For that we must continue to offer our prayers and loyalty to His Majesty the King.

Lastly, I would like to offer our deepest gratitude to His Majesty the King for continued guidance and support. On behalf of the people and on my own behalf, I would like to wish His Majesty the King, His Majesty the Fourth *Druk Gyalpo*,



His Royal Highness the Gyalsey and members of the Royal Family continued wellbeing and happiness. May we the people of Palden Drukpa continue to be blessed with compassion, wisdom and guidance under the reign of our beloved His Majesty the King.

**Tashi Delek!**