

ROYAL GOVERNMENT OF BHUTAN



REPORT OF THE FIRST INTERIM GOVERNMENT

JULY 23, 2013

THIMPHU

Cabinet Secretariat
Gyalyong Tshogkhang
Thimphu
Tel: +975-2-336667/321437
Fax: +975-2-336665/321438
URL: www.cabinet.gov.bt



Chief Advisor and Advisors of the First Interim Government

REPORT OF THE FIRST INTERIM GOVERNMENT

In pursuance of Article 19 of the Constitution of the Kingdom of Bhutan, after the dissolution of the National Assembly on 20 April 2013, His Majesty the Druk Gyalpo appointed an Interim Government to function for a period not exceeding ninety days to enable the Election Commission of Bhutan to hold free and fair elections.

During its tenure, the Interim Government worked closely with the Election Commission of Bhutan and other Government agencies to ensure smooth and peaceful national elections that took place on 13 July 2013. In addition, the Interim Government addressed urgent issues with the Government of India such as the withdrawal of subsidies on LPG and SKO, and the assurances of the Government of India on their continued assistance to Bhutan, especially for the upcoming 11th Five Year Plan. These would have to be further pursued with the Government of India by the new Government. The Interim Government also saw to it that the 10th Five Year Plan was successfully concluded.

The first Interim Government, on completion of its tenure, hereby makes available a report in respect of its formation, manner of functioning, some key activities undertaken, and recommendations on a number of the more pertinent and pressing issues to the future elected Government and ministries for further consideration.

The report is also expected to be a guideline for future Interim Governments by outlining the manner of formation and the way the first Interim Government functioned.

Sonam Tobgye
Chief Advisor
July 23, 2013

PART I: The Interim Government

1. His Majesty the Druk Gyalpo Jigme Khesar Namgyel Wangchuck established the first-ever Interim Government on 28 April 2013 immediately upon dissolution of the first elected Parliament and the resignation of the Government in keeping with the Constitution of the Kingdom of Bhutan, 2008. A *Kasho* was issued appointing the Chief Advisor and six Advisors of the Interim Government (*Annexure 1*).
2. The Chief Advisor administered the Oath of Office and Secrecy to the Advisors.
3. The Chief Advisor issued a Government Order on the functioning of the Interim Government (*Annexure 2*).
4. The Rules of Procedures for the Business of the Interim Government was drafted and approved (*Annexure 3*).
5. His Majesty the Fourth Druk Gyalpo graciously granted audience to the Interim Government on 9 May 2013.
6. His Holiness the Je Khenpo graciously granted audience to the Interim Government on 19 May 2013.
7. His Majesty the King graciously granted an audience to the Interim Government on 25 June 2013.
8. The Chief Advisor carried out all protocol functions of the Head of Government like receiving foreign dignitaries and guests, including the normal day-to-day functions of the Prime Minister's Office.
9. The Advisors, in keeping with the allocations of their respective ministries, exercised the ministerial supervisory functions of the ministries in close consultation with the Secretaries and other senior officers of the ministries.
10. As per the established procedure of the Cabinet, the Interim Government met once a week on every Tuesday. Other meetings of the Interim Government were also convened as required. In total, the Interim Government met 25 times from the time of its appointment (*Annexure 4*).
11. Ministries and institutions provided briefings to the Interim Government as was felt necessary for addressing some of the major concerns that the Interim Government confronted.
12. The primary round of elections on 31 May 2013 and the General Elections on 13 July 2013 were successfully held.
13. The Interim Government completes its term on 26 July 2013.

PART II: RECOMMENDATIONS ON ISSUES OF MAJOR CONCERNS THAT WERE CONSIDERED BY THE INTERIM GOVERNMENT

The Interim Government, being the first such Government, spent time on deciding how best it could function within its constitutional provisions for the Interim Government. While ensuring the smooth functioning of the Government, and free and fair elections were the primary functions of the Interim Government, it decided to study and make recommendations for the next Government on some of the more immediate and critical issues of long-term national concerns such as:

1. Fiscal and Monetary Interventions;
2. Immigration and Integrated Services at Border Check Posts;
3. Education: Teaching of Science, Mathematics and History; and
4. Good Governance.

With the rapid pace of socio-economic development in the country, a number of critical issues are emerging. The Interim Government spent much of its limited time on the issues immediately facing the nation and which, if not addressed in a timely manner, could have long-term consequences to the future of the country.

Based on a wide range of briefings, consultations and deliberations, the Interim Government makes a number of recommendations on the priority areas it had deemed important. It is not to suggest that the Government and the public at large are not aware of these critical issues. These issues warrant prioritization. The Interim Government, therefore, strongly advocates the formation of an independent committee to review the recommendations and submit well analyzed and objective suggestions to the Government.

**PART III: RECOMMENDATIONS ON ISSUES THAT EMERGED DURING
THE TENURE OF THE INTERIM GOVERNMENT**

1. Fiscal and Monetary Interventions

A lot has been said about the overheating in the economy that Bhutan has been experiencing with its very high growth rates. This is further being aggravated by the huge investments in the hydropower sector as it stimulates growth in the other sectors. The buoyant confidence of the Bhutanese public due to the high growth rates has resulted in increased consumerism with Bhutan experiencing unprecedented growth in the construction industry and import of non-essential commodities.

Not only the Government but also the people of Bhutan have become highly indebted although many suggest that the debt levels are still within manageable limits. Something had to, however, give way as people started to spend more than what they earned, especially with the banks providing easy access to loans. As imports continued to outstrip exports, the Bhutanese economy is faced with a short supply of Indian Rupees. Even historically, Bhutan always had a balance of payment problem vis-à-vis the Indian Rupee. The shortfalls were usually balanced through the generous grants from the Government of India.

The Government and the Royal Monetary Authority have resorted to taking Rupee loans from the Government of India and the Indian Financial Institutions to support the short supply of INR in the market, and have also resorted to control measures such as the moratorium on the import of vehicles, and restrictions on loans for construction and purchase of vehicles. RMA has also put in measures to restrict the access to INR currency making it very inconvenient, especially for the common people.

Control mechanisms can only be short-term measures. As an economy that is highly import oriented and largely dependent on India, appropriate and timely fiscal and monetary policy measures would be critical to achieve the stated national goals of self-reliance and Gross National Happiness. Without the appropriate fiscal and monetary policies in place, the economy might deteriorate further and could in the long term have a bearing even on the country's sovereignty and independence.

However, it is believed that by 2017-2018, the INR situation will greatly improve with the inflows of INR forecasted from the export of energy from the Punatshangchhu and Mangdechhu hydroelectric projects that are presently under construction. But this expectation might not live out as the 11th FYP current expenditure outlays are projected to grow exponentially.

The Indian Rupee supply crunch with the ballooning imports and exports that are not keeping pace with imports is a critical area of concern. Dasho Karma Ura, Advisor-in-charge of the Ministry of Finance, GNH Commission, National Statistical Bureau and Tourism Council of Bhutan undertook an extensive analysis of the situation and it culminated in a conference on the macro-economy of Bhutan on 28 June 2013. The

article “How to Keep Enough Rupees – A Causal Analysis Report” by Dasho Karma Ura is at *Annexure 5*.

With the portrayal of Bhutan as achieving very high levels of socio-economic development (about 8.8%) and the very low unemployment (2.1%) and poverty rates (12%), traditional donors whose generous contributions have enabled the Government to tide over its budgetary shortfalls, especially for capital expenditures, are withdrawing or indications have already been given that they would move their grant financing to more needy countries. Bhutan’s largest development partner, India, appears to have already indicated its intentions to decrease its budgetary grants to Bhutan and prioritize areas for its capital investments. It is advisable for the Government to re-examine these figures and be careful in releasing figures that may inadvertently harm inflows of aid and assistance.

While the 10th FYP ended and the constitutional requirement to meet the current expenditures from internal revenues was fulfilled with the last minute release of the excise duty refund by the Government of India, the shortfall of INR in the market continues. The Royal Monetary Authority implemented a number of restrictive measures that have not gone down well with the public. The availability of loans from the financial institutions virtually dried up bringing most of the booming real estate business and other private sector activities to almost a stand still.

From the consultations with the Ministry of Finance, Gross National Happiness Commission, and the Royal Monetary Authority, there appeared to be very limited or no consultations on fiscal and monetary interventions between the relevant agencies. Hence, it is recommended that the Government make it mandatory for these organizations to have regular consultations and submit periodic reports and recommendations to the Cabinet.

The establishment of an Economic Development Committee as already planned and empowering it with the requisite mandate could prove to be effective in aligning fiscal and monetary policies for the overall benefit of the economy.

Fiscal Policy relates to Government taxes, expenditures and regulations. Hence, the responsibility lies mainly with the Ministry of Finance but a major role in the policy decisions for the plan periods is with the Gross National Happiness Commission. Domestic taxes and other incomes derived from within the country are required to meet current expenditures of the Government as per the constitutional requirement. Other (capital) expenditures are mostly met from external sources, the main being from the Government of India through grants and loans.

The Ministry of Finance and the Gross National Happiness Commission briefed the Interim Government on the 10th FYP budget utilization and the 11th FYP budget layouts, and the forecasts into the future, mainly in terms of the anticipated revenues and debt servicing requirements. The Ministry of Finance presented a number of different scenarios for the 11th Five Year Plan based on what might be the outcome of the consultations with the Government of India for the budgetary grants and other financing that the Government of India normally makes available to Bhutan.

Royal Government of Bhutan

Considering that there were still no concrete commitments for funds towards the 11th FYP from its traditional donors, the Interim Government advised the Ministry of Finance and Gross National Happiness Commissions to consider the worst-case scenario in the finalization of the draft 11th FYP that would be presented to the incoming Government. The following recommendations were also made to keep the 11th FYP under control, and to address the serious balance of trade and INR shortage problems:

- (i) As foreign assistance was expected to decrease, some of the capital expenditures could be curtailed/postponed based on priorities;
- (ii) A serious attempt should be made by the Ministry of Finance to enhance savings from its revenues instead of matching layout for current expenditures in keeping with expected internal revenues;
- (iii) The Ministry of Finance should provide direct tax incentives for private savings through maybe an amendment of the Personal Income Tax so as to encourage a society that saves part of its earnings, which could provide long-term liquidity to the banks;
- (iv) Consumer-related taxes could be revised by segregating merit goods from demerit goods through imposition of import duties/taxes/bans to partially offset the balance of payment problems;
- (v) Foreign travel of ministers, secretaries and senior management need to be restricted not only to curtail current expenditures and use of foreign exchange but also for the overall Good Governance; and
- (vi) As the biggest impact on current expenditures will be affected by the size of the civil service, the RCSC needs to take a serious look at curtailing the growth of the civil service and rationalizing its size. This could in turn make more graduates and others available for employment in the private and corporate sectors.

Monetary Policy vests primarily with the Royal Monetary Authority (RMA). The perception in the market is that RMA is heavy handed and not very consultative in the implementation of the monetary interventions, although like in its interventions in the case of the INR crunch, it probably was timely. It is also noted that the figures on the INR situation differ between even the two very important agencies that deal with the issue: that is the Ministry of Finance and the RMA. While RMA should continue to exercise its independent stature as provided for in the Constitution, there must be broader levels of consultations, especially with the Ministry of Finance.

The Interim Government considered it vital for the RMA to establish a very strong confidence in the people on the banking sector in Bhutan, and, therefore, had a number of other recommendations:

- (i) RMA should ensure adequate liquidity with the financial institutions to meet the demands for private sector lending by reconsidering some of its restrictions;
- (ii) RMA should ensure adequate INR availability for Bhutan-India trade through whatever means are available at their disposal and through consultations with the Government; and

- (iii) RMA could permit, if necessary on a selective basis, stock market trading domestically and internationally of companies like Druk Green Power Corporation Ltd, Dungsum Cement Corporation Limited, and others. The domestic stock market (RSEB) could also permit equity trading by foreigners. This would help mobilize investment resources and increase the availability of INR and other hard currencies.

The Interim Government also consulted the Ministry of Economic Affairs on their recommendations to address the economic problems faced by Bhutan. In sharp departure to some of the control measures that were implemented to address the INR shortage problems, the Ministry of Economic Affairs had proposed a number of measures of which the following are priority areas that the Interim Government recommends:

- (i) To increase exports through development of domestic productive capacity that would help Bhutan replace some of the imported goods and also earn INR and foreign exchange through exports;
- (ii) To substitute imports by local goods and services by promoting local industries/businesses without compromising quality and pricing;
- (iii) To further tap the potential of tourism by facilitating direct “trickle down” benefits to stakeholders such as local communities, taxis, restaurants, and hotels;
- (iv) To make allocation of mines more equitable, and to maximize benefits to the nation mainly through setting up appropriate industries that would value add on the cheap electricity from hydropower while at the same time addressing environmental, regulatory and monitoring concerns;
- (v) To diversify investment models in hydropower to include private sector participation and raising of funds in the foreign capital markets including innovative means to maximize the returns from the export of power; and
- (vi) To appropriately target subsidies in the setting of the domestic electricity tariffs to reflect the actual cost of supply to reach electricity to the customers.

2. Immigration & Integrated Services at Border Check Posts

Background

Currently, five agencies (BAFRA, Customs, Forests, Police and Immigration) man the check posts in the border towns through their regional offices. The border towns are free for movement of Indian nationals as per existing bilateral arrangements. To strengthen border security and identification, and to enhance services, the possibility of placing all functions relating to check posts under one single authority had been under consideration for some time. The main objectives for introducing integrated check posts in the country were:

- (i) To strengthen national security by incorporating online identification and verification system and automation of check posts; and
- (ii) To professionalize and enhance service delivery to the public by doing away with multi-layer clearance system and facilitating one stop services.

The Interim Government noted that other activities were already being pursued by the concerned agencies in Phuentsholing and Pasakha areas, such as:

- (i) **Mini Dry Port:** The Initial Assessment Report of an ADB assisted study had identified the establishment of a mini dry port near the city sewage treatment ponds and Bhutan/India border wall so as to facilitate the clearance of commercial merchandise/ goods, thereby easing the heavy traffic congestion in the main town. This would require the shifting of the customs and other law enforcement offices to the mini dry port. However, enforcement functions for customs would have also to be carried out from the existing check post for light vehicles and passengers.
- (ii) **Pasakha Access Road:** The ADB's Initial Assessment Report also suggested the Pasakha access road to cater to the need of industries. In this case, there would be a need to establish another customs office at Pasakha for clearance of import of industrial raw materials and export of finished goods from the industries.
- (iii) **Operability of Customs Office:** The operability of the Customs offices would depend on the economic policy, infrastructure development and the economic scale of the country. It was clear that customs couldn't operate from one location due to its multi faceted role in international trade.
- (iv) The Department of Immigration has already floated tender for integration of biometric features to the existing Immigration and Monitoring System and would be completed in a few months. Once completed, all foreigners, visitors or tourists, would be required to provide two fingerprints and ten fingerprints for work permits except for diplomats and official passport holders. The integration of biometric features would help detect impersonation and fraudulent documents, and restrict re-entry of undesirable persons.

Recommendations

After extensive deliberations amongst the stakeholders, the following recommendations emerged:

- (i) As directed by the Interim Government, few rooms within the Phuentsholing RRCO building were allocated to the Department of Immigration to establish a proper in-house clearing place for labour permits and visas. The Department of Immigration would institute a fast-track clearance system in the building immediately.
- (ii) The check posts at the border crossings could continue to remain under the respective agencies. The verification work of all agencies should be strengthened so that these agencies need not have fall back checks at the up-country check posts unless in case of emergencies and disease outbreaks. However, service delivery standards at the border check post counters could be simplified to enhance the efficiency of service delivery, and prevent long lines and waits at the border check posts. Integrated service counters similar to passport control counters at the international airport terminals or a simplified permit paper (token of approval) could be introduced in the border checkpoints.
- (iii) The up-country check posts could be placed under a single authority, ideally under the Department of Immigration. The Department of Immigration should set up, at the key up-country check posts starting from Rinchenling, fish bone style lanes (three lanes up and three lanes down) with facilities for verification of the identity of a person, goods, plants and animals as recommended below but with the directives to minimize long delays, especially for travelers:
 - a. Immigration checks could be done on the road/lanes;
 - b. First lane for professional foreign workers and Bhutanese nationals;
 - c. Second lane for foreigners visiting Bhutan including those approved by the Consulate Office of India in Phuentsholing;
 - d. Third lane for other foreign workers such as labourers;
 - e. CCTV to be set up for each lane for the designated officer on duty to monitor the checks carried out by inspectors;
 - f. Suspicious passengers going through the check points to be immediately informed and checked at the next check posts, if necessary;
 - g. Database at check posts to be computerized and shared with all stakeholders;
 - h. Similar system could be applied for immigration checks at the international airport as well; and
 - i. A separate lane could also be maintained where necessary for diplomats and official passport visa holders.
- (iv) The Government would have to provide adequate budget to implement the above recommendations.

3. Education: Teaching of Science, Mathematics and History

On ‘Getting Education Right’

The ‘education that is right’ for Bhutan has to be a ‘GNH inspired education’. A GNH inspired education, must provide the people, young and old, the opportunity to learn to be ‘smart’ (to live in an increasingly globalized world) as well as ‘wise’ (to live happier and dignified lives, in peace and harmony, with others and with nature).

His Majesty the Fourth Druk Gyalpo always reminded teachers that their prime responsibility above all else was, to teach children to ‘take care of their minds’ or ‘*Sem Dagzin Thabni*’, and be mindful of their actions in body, speech and mind or ‘*Sem Gochoep Zoni*’. ‘Mindfulness education’ encapsulates the essence of ‘*Sem Dagzin Thabni*’ and ‘*Sem Gochoep Zoni*’, and forms the core essence of ‘Educating for GNH’. One must train one’s mind to look in and become aware of one’s thoughts and emotions, and learn to be mindful of one’s actions in body, speech and mind, or learn to be ‘good human beings’.

‘Mindfulness education’, which used to be intrinsically imbibed into our individual characters while living within our traditional extended family systems, now needs to be increasingly taught in our schools and colleges. The establishment of ‘Mindfulness education’ as a pervasive program would require total commitment and continuous effort, resources, and time. But this could be the pillar on which Bhutan could build its education foundation for its children, and this would have a profound impact on the overall standard of education in Bhutan.

School Education: Quality and Standards

The quality and standard of our education will be judged by how our graduates are able to present themselves and manage their lives, how they communicate and relate to other people and the environment, and on what positive role they are able to play in the world they live in. In all these, teachers play a huge role in shaping their wards. The success of the education system therefore ultimately depends on the quality of teachers. The present system does little to attract the best and brightest into the teaching cadre nor does it encourage and motivate teachers to stay on in their profession.

Overall, it is also noted that Bhutanese students spend very little time reading and writing, especially in this day of the television and computers. Poor communication skills, both oral and written, arising out of poor reading habits, as well as poor writing and presentation skills are often raised as critical concerns.

It is recommended that:

- (i) To consider delinking the education cadre from the RCSC in the long term to give flexibility in the management and structuring of the education system, which is quite different from the normal civil service;
- (ii) To instill reading and writing habits through allocation of time for this specific purposes, and also to introduce presentation as a basic skill requirement for students;
- (iii) To encourage good teachers, who are rated exceptional, to stay on beyond their age of superannuation till they are 65 years of age; and

- (iv) To extend the services of teachers till the end of the academic year should they superannuate in the middle of the year.

History Curriculum

The study of Social Science and History should provide children with the opportunity to engage in the Bhutanese experience, and not have to spend too much time understanding other societies and histories especially at the younger formative ages. While other textbooks used in the schools have undergone major updates that incorporate more relevant materials to Bhutan and its environment, the Social Science and History are yet to undergo any major reviews.

It is recommended that the development of course books and teachers guides for Social Sciences and History be commissioned to an organization such as the Center for Bhutan Studies to make them more relevant to the Bhutanese context.

Mathematics Curriculum

The Ministry of Education has carried out a comprehensive review and reform of the Mathematics Curriculum from PP to XII, benchmarked against international standards. New textbooks and teacher's guides were developed for all the classes from PP to X and textbooks for classes XI and XII (from India) were customized for use in Bhutan. It has been implemented through the 10th Five Year Plan. Orientation workshops for both the primary and the secondary teachers were conducted and support is being provided through school visits, telephonic consultations and online services through the website. The Mathematics curriculum reform team is also using the feedback that it received from the Royal Education Council studies on the Annual Status of Student Learning and the Teacher Needs Assessment studies, to make adjustments to the textbooks and teacher guides and the orientation workshops.

However, Bhutanese students continue to perform below par on the average in Mathematics despite all efforts. To improve the quality of teaching mathematics and the understanding of mathematics by students, it is recommended

- (i) To set up a scheme, to be called His Majesty's 'Scholarship for Excellence in Teaching' and give awards to high performing teachers to help build up a cadre of lead/master teachers that could help create a pool of high quality Mathematics teachers and eventually teachers in other subjects as well; and
- (ii) To telecast key lessons in Mathematics and Science and later other subjects, through the Bhutan Broadcasting Service by teachers drawn from those who received His Majesty's Order of Merit for excellence in teaching or others who are exceptional teachers, and the program could duly recognize these exceptional teachers.

Science Curriculum

The Curriculum reform for Science has been initiated in the 10th Five Year Plan. A Curriculum framework for Classes PP to XII has been completed. Textbooks for Classes IV to VI has also been developed and implemented, starting the 2013 school year. The new Science curriculum provides avenues to engage learners in variety of activities such

as field trips to gather information from different sources, library research, project work to investigate various science related issues in the locality, and maintaining scrapbook and journal to record their feelings and observation of scientific phenomena and events in the locality on day to day basis. The new curriculum also contains web links to text materials in the textbooks, and software for scientific drawing and simulations are provided to facilitate science teachers and students to integrate ICT in the teaching and learning of science.

While a lot of work has already been done and more are being implemented, Bhutanese student generally performed below par in Science and one of the main reasons emerging is that, apart from the problems of not having qualified Science teachers, the schools do not get sufficient budgets for science equipment and material as the overall budget is placed under the Dzongkhags and normally education tends to be a low priority for the Dzongkhags especially when there is a shortage of funds.

It is recommended to segregate the budget allocation for Education in the annual budgets from the other Dzongkhag expenditure heads, and that these allocations be reviewed annually based on actual requirements rather than ad-hoc percentage allocation by the Ministry of Finance within the Dzongkhag budget.

4. Good Governance

As part of the Interim Government, the Advisors got the opportunity to meet people who shape the future of the country and with a wide range of the functionaries that run the government. While not in any way implicating any of the agencies involved in the governance of the country, it is felt that a number of issues in governance needs national level deliberations and the outcomes could thereafter be appropriately incorporated under good governance initiatives of the government machineries.

(i) Gross National Happiness: Concept & Implementation

The concept of Gross National Happiness truly provides each Bhutanese with equal hope to aspire for happiness; a desired outcome of the proper implementation of the four pillars of GNH – sustainable and equitable socio-economic development, environmental conservation, preservation and promotion of culture, and good governance. While Bhutan has been pursuing the GNH relentlessly, it is perceived by many that the GNH concepts are no longer that of the Bhutanese or as had been originally envisaged.

It is the stated ideals that Bhutan will grow and develop within the framework of the precepts of GNH. Bhutan is confronted with large scale rural to urban migration, gender inequality issues, and youth related and unemployment problems amongst a host of recent troubles. Some may like to correctly believe that these problems are now surfacing, as the policy of GNH is not being implemented in its true spirit.

While the GNH debate is ongoing at the regional and international forums, and more and more countries are believed to be adopting the GNH concept, it might be time for Bhutan to reflect back and reinvigorate the true essence of Gross National Happiness as we plan for our futures.

(ii) Rationalize the Functions/Requirements of Government Machineries

If there has been one thing that was apparent in the workings of the Government machineries, it was the fact that one arm of the Government, many a times, did not co-operate or worked effectively with the other arm of the Government, even within the same ministries and departments in some cases. With others, like the time when the Interim Government was trying to understand the Indian Rupee crunch issue, it was very apparent that the most important policy making and implementing bodies of the Government such as the GNHC, MOF, MOEA and the RMA did not see eye to eye on many issues nor did they share the same level of enthusiasm and perceptions. Their views differed primarily on account of their responsibilities, functions and the level of information and data that they had access to.

The Government machinery with 10 ministries and the paraphernalia appear to be moving towards burdening the very people they were created to service instead of helping ease the work for the Government as well as for the people.

It might be time for the Government to undertake an extensive exercise to see the relevance of the governance structure that has been created over the years, and see how best a restructuring could take place in a democratic setting to better serve the country and the people of Bhutan.

(iii) Autonomy of Autonomous and Constitutional Bodies

In a democracy and for that matter in any form of government, proper checks and balances are necessary to ensure that the Government is “by, of and for the people”. However, it is important that each agency/body not only functions within the framework of its responsibilities but also for the overall good of the people. In this respect, a lot of consultations might be required to streamline the functioning of some of the autonomous bodies to align with overall Government priorities, all the while ensuring that the proper checks and balances are not compromised.

The Interim Government advises that the reviewing and amendments to the relevant Acts governing some of these bodies need to be urgently done by Parliament so that the Government and Parliament can ensure that its policies and objectives are fulfilled rapidly and effectively.

(iv) Employment

The Ministry of Labor & Human Resources has prepared drafts of a National Employment Policy and Strategies towards achieving employment targets as may be set for the Ministry. Both the Policy and the Strategies would need take a lot of time for implementation as these are mostly aimed to address these issues in the long term interests of the country. Amongst the many strategies, it is recommended that the trainings at the TVET institutes be aligned as per the requirement in the job market, that there needs to be an all out effort to shift the mentality of the Bhutanese to take on blue collared jobs, and that the time has come for Bhutan to train and market the highly adaptable Bhutanese for jobs outside of Bhutan.

(v) Civil Service Reforms

Background

The size of our civil service is 23,909: 50% and 40% of the civil servants are in the professional and management position category, and supervisory and support position category respectively. On an average, one civil servant “serves” 30 people. 43% of the civil servants are in Thimphu; 60% are below the age of 35 years (*Source: Biannual Civil Service Statistics, RCSC, June 2012*).

The civil service has been growing @ 4% annually (average), highest growth being 4.9% in the professional and management category followed by 3.6% and 3.8% in supervisory and operational categories (average growth in the specialists category is 6% but the absolute number is small). Continued growth of the civil service at the same rate is expected (*Source: RCSC briefing to IG*).

Pay and allowances of civil servants account for 43% (the figure also includes gups’, mangmis’, tshogpas’ and geog clerks’ pay and allowances) of the recurrent budget, which

consumes 36% of the domestic revenue (*Source : MOF*) and operation and maintenance, which is directly proportional to the size of civil service, accounts for 38% of the recurrent budget.

Rationale for Civil Service Reform

Political, social, economic and technological developments have altered the environment within which the Government operates. The civil service systems and the civil servants must keep up with the speedy pace of change and be equipped with the right behavioral skills, knowledge and capabilities to meet the challenges of the new era. Better delivery of public goods and services, with increased accountability and value for money will be increasingly demanded in a fast changing environment.

With governance moving closer to people, services correspondingly have to move closer home. Civil service has to meet people's expectation rather than people meeting civil service processes. It has to be result and outcome driven instead of process, control and rule driven, placing huge and avoidable regulatory burden on the service users. Competency framework should not only work on hard skills but on behavior that focuses on achieving results, continuous improvement, accountability, breaking down hierarchies and silos, tackling poor performance efficiently and recognizing good performance and encourage innovation. The country is facing serious financial challenges. Fiscal reforms without administrative reforms may not bear the expected results. A civil service that is growing oblivious of the surrounding changes and changing demands, without concomitant improvement of services may be undesirable.

The size and shape of our civil service may be superfluous with inherent duplication of services and perennial challenge of territorialism, resulting in inefficient delivery of poor services at high costs.

Reform Interventions

The civil service reform interventions should affect the organizational culture, performance and working conditions of the employees. Civil service has to remain small (relative) but strategic.

The core functions of the civil service (central and local) may have to be redefined within the democratic setting, privatization and corporatization of services and technological applications.

A blue print defining the shape and size of the civil service may have to be developed. Review of services of each agency and cross agencies may be important.

Identify and understand factors that are affecting the civil service performance.

Identify and understand the new challenges and problems confronting civil service.
Review performance management and recruitment systems.

Innovation in service delivery - The outcome of the time bound project (G2C & G2G) manned by a team of experts with enhanced allowance conceived in 2010 have to be evaluated.

Leadership is crucial. Civil servants with potential leadership qualities have to be tracked, nurtured and developed at all levels in managing future leadership.

Pay and allowances

Pay and allowances of civil servants is an important issue and also popular. However, raising it without the concomitant reform action plan will place greater burden on the State. Civil service size and shape have to be redefined and an effective performance management system with a robust recruitment system has to be put in place first.

Housing

If performance has to be demanded from the civil servants, their future security has to be taken care by the Government. Having a home, a basic necessity for dignified living, gives a person that sense of security. A normal civil servant can neither afford to buy land nor build a house with just his or her salary. Considering that civil servants spend 50-60% of their salary on rentals, Government incurs over Nu. 20-30 million annually in maintaining over 1000 government houses, Government and civil servants contribute to NPPF, the National Housing Development Corporation or NPPF or jointly with smart land lease and financial arrangement can provide affordable housing to all civil servants. With a modest rolling fund of Nu. 1.4 billion, NHDC may be able produce about 600 houses annually (an estimate).

Caveat

A challenge in the reform process will be how interest groups including politicians will see what the reform means for them. Civil service reforms is profoundly a political issue affecting the balance of power between various actors, namely civil servants, ministers, legislators and central executives and as well as between agencies, interest groups and citizens. Resistance may come from civil servants themselves because of fear of loss of jobs, influence, and/or benefits. Other interest groups may fear that their normal points of access to influence will be diminished. Will politicians take these risks?

Management of Reform Process

A changed management infrastructure is critical for the success of any reform. An action plan with clear delineation of responsibility and accountability and monitoring mechanism is of paramount importance. For example, a similar exercise called Organizational Development (OD) was conducted by the RCSC in close partnership with external consultants and agencies in 2006/7. The recommendations of the report were not implemented fully for various reasons.

PART IV: CONCLUSION

Bhutan has asserted its distinctive identity to the world in terms of its culture, tradition, pristine environment, its development philosophy of Gross National Happiness, and more recently, peaceful transition to democracy. Our neighbours and the world have taken notice of Bhutan. Bhutan is widely lauded for pursuing the concept of Gross National Happiness, and many countries are trying to emulate or learn from Bhutan. Under the wise leadership of the Kings and the contributions of the Government, Bhutan has seen extraordinarily high growth in its economy over the last couple of decades. Today, the country enjoys one of the highest per capita incomes in the South Asian region. The stage is set for Bhutan to achieve its goal of self-reliance over the next decade or so.

However, the laurels of its success could make the people of Bhutan complacent to the realities that we must always bear in mind: that Bhutan is a small developing landlocked country with huge influences from external factors. Bhutan has to take very careful stock of the present economic developments that is basically triggered by the INR crunch, critically analyze the root of the problem, undertake sound and appropriate macroeconomic planning, and implement measures so that similar situations do not arise in future. Other wise, Bhutan will continue to be highly dependent on external aid for its development and hence remain vulnerable.

Much of the success of Bhutan is attributable to the unflinching support of the Government of India because of longstanding mutual interests. The Government needs to give topmost priority and emphasize that the cornerstone of Bhutan's foreign policy and relations is the maintaining and furthering of the friendly and close relations with the Government of India. This strong recommendation stems from our historical relations built over the years by our beloved Kings and the leadership in India. The most significant outcome of this relationship has been India's generous and consistent economic and financial assistance to Bhutan since the first five-year plan in 1961. This has expanded to mutually beneficial economic cooperation, and is exemplified, among other things, by the joint undertaking of the ambitious hydropower construction program for an additional generation capacity of 10,000 MW by 2020. To ensure that the mutual interests of the two friendly neighbors are always taken into account and to avoid misunderstandings, the close and frequent consultations between the two governments at the political and administrative levels, and especially between the Ministry of Foreign Affairs and the Ministry of External Affairs of the Government of India must continue.

The regional and global dynamics and priorities are changing, and our young democracy has to be fostered in the direction desirable to us. Bhutan can be extremely vulnerable to regional geopolitics. We must, however, continue to work unswervingly in continuously finding solutions to nurture Bhutan's independence and sovereignty.

The strengthening of governance and the upholding of our vital unity and inherent nature of our people to work in unison and harmony have to be the solemn responsibility of the elected governments towards ensuring that we continue to strengthen our sovereignty and preserve our unique heritage for all times to come, no matter the sacrifices we may have to make along the way.

Tashi Delek

Annexure-1



TASHICHHODZONG
THIMPHU, BHUTAN

༢ དེའི་ འབྲུག་གི་རྒྱལ་ཡོངས་ཚོགས་འདུའི་དུས་ཡུན་ལོ་ངོ་ལྔ་ཏེ་ སྤྱི་ལོ་ ༢༠༡༣
 ཟླ་ ༥ པའི་ཚེས་ ༢༠ ལས་ཤིལ་བྱུང་ཚད་སྟེ་ གློན་ཆེན་གྱིས་གཙོས་པའི་ ལྷན་རྒྱུས་གཞུང་ཚོགས་ཀྱི་
 གློན་པོ་ཚུ་ བཅག་འཕྲུའི་བྱ་རིམ་ནང་གྲབས་སྤྱི་གཤམ་འབད་ནིའི་དོན་ལུ་ ཡིག་ཚང་ལས་དགོངས་ཁུ་འབད་དགོཔ་
 ལས་བརྟེན་ འབྲུག་གི་རྒྱལ་ཁྲིམས་ཆེན་མོའི་དགོངས་དོན་དང་འབྲེལ་ཏེ་ འབྲུག་གི་ཁྲིམས་སྤྱི་གློན་པོ་བསོད་
 བསམ་སྟོབས་རྒྱུ་འདི་ གྲོས་དཔོན་སྤྱི་ཁྱབ་དང་ འབྲུག་མི་སེར་རྒྱུ་མེད་གཞི་བཟུང་གི་ཁྲིམ་འཛིན་གློན་པོ་ཨོ་ཧྲ་
 རྟན་དང་འབྲུག་རྒྱལ་འཛིན་གཙུག་ལག་སློབ་སྡེའི་གཙུག་ལག་གཙོ་འཛིན་འོག་མ་དྲག་ཤོས་པདྨ་ཕྱིན་ལས་ དཔལ་
 འབྲུག་ཞིབ་འཇུག་ལྟེ་བའི་ཡོངས་ཁྱབ་མདོ་ཆེན་དྲག་ཤོས་ཀླུ་ལྷ་ར་ རན་ལྷན་བཀག་སྟོམ་ལྷན་ཚོགས་ཀྱི་ཁྲི་
 འཛིན་དྲག་ཤོས་གནས་བརྟན་བཟང་མོ་ འབྲུག་སྤར་འབྱུང་གློག་མེ་ལས་འཛིན་གྱི་འཛིན་སྐྱོང་མདོ་ཆེན་དྲག་ཤོས་
 ཚོ་དབང་རིག་འཛིན་ འབྲུག་རྒྱུང་བསྐྱུགས་ལས་འཛིན་གྱི་འཛིན་སྐྱོང་མདོ་ཆེན་ཕྱིན་ལས་རྩི་རྩེ་ཚུ་ གྲོས་དཔོན་
 འབད་འདེམས་བསྐྱོས་གནང་མ་དང་བསྟུན་ གནས་སྐབས་ཀྱི་གཞུང་བསྐོ་བཞག་གནང་མ་ཡིན།

གནས་སྐབས་གཞུང་གི་འགན་ཁྲིའདི་ རྒྱལ་ཡོངས་ཚོགས་འདུ་གསར་བཙུགས་བྱུང་སྟེ་ གློན་ཆེན་གསར་པ་
 གིས་ ཡིག་ཚང་གི་ལཱ་འགན་འགོ་བཙུགས་པའི་ཉི་མ་ལས་གནས་འཕྲོ་ཆད་པ་ཡིན། ཞེས་རྒྱ་སྤྱོད་ཟླ་ ༣
 པའི་ཚེས་ ༡༥ ལུ་འཇུག་སྤྱི་ལོ་ ༢༠༡༣ ཟླ་ ༥ པའི་ཚེས་ ༢༥ ལུ།

Jigme Kuzhangchuck
 འཛིན་པོ་ལྷན་གཞུང་།
 འབྲུག་མངའ་བདག་རྒྱལ་པོ།



TASHICHHODZONG
THIMPHU, BHUTAN

Upon completion of the five-year term the National Assembly stands dissolved on 20 April 2013. Accordingly, as per the Constitution of the Kingdom of Bhutan, the establishment of the Interim Government is hereby decreed, so that the Lhengye Zhungtshog headed by the Prime Minister, can resign from office to prepare for the upcoming elections.

The Interim Government shall comprise of the following Advisors:

- 1) Lyonpo Sonam Tobgye, Chief Justice of Bhutan as the Chief Advisor
- 2) Lyonpo Om Pradhan, DHI Chairman
- 3) Dasho Pema Thinley, RUB Vice Chancellor
- 4) Dasho Karma Ura, Director General of CBS
- 5) Dasho Neten Zangmo, ACC Chairperson
- 6) Dasho Chhewang Rinzin, Managing Director of DGPC
- 7) Thinley Dorji, Managing Director of BBS

The Interim Government is mandated to conduct the routine functions of Government and shall cease to exist when the new Prime Minister enters office upon the constitution of the National Assembly after the Second Parliamentary elections.

Issued on the 28th of April 2013 corresponding to the 18th day of the 3rd month of the Water Female Snake Year

Druk Gyalpo

Annexure-2



འབྲུག་རྒྱལ་ཁབ་ཀྱི་རྒྱུ་རྒྱུ་
Royal Government of Bhutan

C-IG/528

6 May 2013

GOVERNMENT ORDER

Subject: Functioning of the Interim Government

This is the first time that an Interim Government (IG) has been set up following the enactment of the Constitution of the Kingdom of Bhutan. Hence, there was no precedence. In view of this situation, discussions were held amongst the IG advisors, as well as with the Cabinet Secretary and the Secretaries to the Royal Government of Bhutan. The Constitutional provisions and the Royal Kasho were carefully examined. The following conclusions were drawn up for the functioning of the IG:

1. The IG succeeds the elected Government and, therefore, will function on the same principles as the Government but with the limited powers granted to it in the Constitution. The IG will ensure the continuance of all routine government functions in a seamless manner till the next elected Government takes up office after the elections.
2. The Cabinet Secretariat will support and function as the IG's secretariat as in the case of the regular Cabinet.
3. The Ministries, the Constitutional Bodies, the Commissions, the autonomous bodies, and other agencies will ensure that normal government functions are carried out so that existing activities of the Government continue, especially those in the pipeline like the completion of the 10th Five-Year Plan, formulation of the 11th Five-Year Plan, and discussions on projects and mobilization of aid/financing with foreign entities.
4. The IG will receive timely and regular briefings from the Ministries, the Constitutional Bodies, the Commissions, the autonomous bodies, and other agencies so as to keep the IG abreast of evolving situations and emerging trends in the country and of external events that could have a bearing on the State.
5. The Ministries and concerned agencies will continue to consider all such legal documents and MOUs to be signed with foreign governments and agencies, which were approved by the previous government and were under negotiations, and also sign them as signing does not constitute a new initiative.
6. The IG will allocate Ministries to the Advisors to facilitate broad oversight of the functioning of the government and efficient interaction/interface between the IG and the Ministries but without undue interference in the day-to-day routine functioning of the Ministries.
7. The Ministries will study and make recommendations for the future on critical issues of long-term national concerns such as the fiscal and monetary situation and trends, education, employment, immigration, and good governance.



དཔལ་ལྷན་འབྲུག་གཞུང་།
Royal Government of Bhutan

8. The assignment of portfolios will be as provided hereunder:

- i) Chief Advisor: Ministry of Foreign Affairs and Ministry of Home & Cultural Affairs;
- ii) Advisor Lyonpo Om Pradhan: Ministry of Agriculture & Forests and Ministry of Information & Communications;
- iii) Advisor Thinley Dorji: Ministry of Health;
- iv) Advisor Dasho Neten Zangmo: Ministry of Works & Human Settlement;
- v) Advisor Dasho Karma Ura: Ministry of Finance, GNH Commission, Tourism Council of Bhutan and National Statistical Bureau;
- vi) Advisor Dasho Pema Thinley: Ministry of Education;
- vii) Advisor Dasho Chhewang Rinzin: Ministry of Economic Affairs and Ministry of Labour & Human Resources.

The Interim Government will assist and enable the Election Commission of Bhutan to hold free and fair elections in the Nation, and enhance harmony, unity, happiness and well being of the people of Bhutan.

Issued on 6th May 2013 for compliance by all the Ministries, the Constitutional Bodies, the Commissions, the Autonomous Bodies, and other agencies of the Royal Government.

(Sonam Tobgye)
 Chief Advisor, Interim Government

Copy to:

1. Hon'ble Chief Justice of Bhutan, Royal Court of Justice, Thimphu
2. Hon'ble Advisors to the Interim Government, Thimphu
3. Hon'ble Chief Justice, High Court, Thimphu
4. Hon'ble Chairman, RCSC, Thimphu
5. Hon'ble Chief Election Commissioner, Election Commission of Bhutan, Thimphu
6. Hon'ble Chairperson, Anti-Corruption Commission, Thimphu
7. Hon'ble Auditor General, Royal Audit Authority, Thimphu
8. Hon'ble Secretary to His Majesty the Druk Gyalpo, Tashichhodzong, Thimphu
9. Hon'ble Secretary to His Majesty the Fourth Druk Gyalpo, Thimphu
10. Chief Operations Officer, Royal Bhutan Army HQs, Lungtenphug, Thimphu
11. Commandant, Royal Body Guards HQs, Dechhencholing, Thimphu
12. Secretary, All Ministries, Thimphu
13. Secretary, All National Commissions, Thimphu
14. Chief of Police, Royal Bhutan Police HQs, Thimphu
15. Attorney General, Office of the Attorney General, Thimphu
16. Governor, Royal Monetary Authority, Thimphu
17. Head, All Departments, Thimphu

Annexure-3

**RULES OF PROCEDURES
FOR
THE BUSINESS OF THE INTERIM GOVERNMENT, 2013**

Preamble

Whereas, Article 19 of the Constitution of the Kingdom of Bhutan enshrines the formation of an Interim Government to enable the Election Commission to hold free and fair elections in the Nation, and enhance harmony, unity, happiness and well being of the people of Bhutan.

Whereas, His Majesty the Druk Gyalpo, through a Royal Kasho issued on 28th April 2013 appointed the first Interim Government (IG) mandated to conduct the routine functions of Government.

Whereas, the Interim Government (IG) has been set up for the first time following the enactment of the Constitution of the Kingdom of Bhutan and that there was no precedence.

Therefore, the IG after careful examination and discussion on the provisions of Constitution and Royal *Kasho*, hereby promulgates the Rules of Procedures for the Conduct of Business for the Interim Government.

**CHAPTER I
PRELIMINARY**

Title and commencement

1. This Rules of Procedures shall:
 - a) Be cited as the Rules of Procedures for the Interim Government, 2013; and
 - b) Come into force with effect from May 01, 2013. -

Application

2. This Rules of Procedures shall apply to the conduct of business of the Interim Government and the function carried out by the concerned Advisors of the Interim Government.

Final authority for interpretation

3. In case of dispute on the interpretation of the provisions of this Rule, the interpretation of the Chief Advisor of the Interim Government shall be final and binding.

CHAPTER II THE INTERIM GOVERNMENT

Interim Government

4. The Interim Government is not just a fill-in-the-gap entity between the past and the new governments but a system of neutral entity constituted as part of enhancing good governance during the period of transition from one government to another, constituted after the completion of the tenure of the former government. The main objective of the Interim Government is to create an environment in which an election can be held in a free and fair manner without any political influence of the outgoing government, among others.
5. The Interim Government is an important institution established under the provisions of the Constitution to encourage intellectual engagements in the bureaucracy, inspire civil servants and be a trendsetter for the new government.

Composition of the Interim Government

6. The Interim Government shall consist of the Chief Advisor and Advisors appointed by the Druk Gyalpo in accordance with Section 1 Article 19 of the Constitution.

Oath of Office and Secrecy

7. The Chief Advisor and Advisors shall take an Oath or Affirmation of Office and Oath or Affirmation of Secrecy upon appointment as per Third and Fourth Schedules of the Constitution.

Tenure

8. The Interim Government shall cease to exist from the date on which the new Prime Minister enters office upon the constitution of the National Assembly after the parliamentary elections [Section 6 Article 19 of the Constitution].

Powers and responsibilities of the Interim Government

9. The Interim Government shall:
 - a) Function on the same principles as the Government but with limited powers vested in it by the Constitution;
 - b) Ensure the continuance of all routine government functions in a seamless manner till the next elected Government takes up office after the elections;
 - c) Assess the affairs arising from developments in the State and society and from events at home and abroad;
 - d) Ensure that the policies of the Government are properly coordinated and implemented;
 - e) Ensure that the Kingdom of Bhutan is represented at home and abroad; and
 - f) Exercise any other powers in conformity with the laws.
10. The Interim Government shall assist and enable the Election Commission of Bhutan to hold free and fair elections in the Nation, and enhance harmony, unity, happiness and well being of the people of Bhutan [Section 1 of Article 19 of the Constitution].

Royal Government of Bhutan

11. The Interim Government shall be collectively responsible to the Druk Gyalpo. It shall aid and advise the Druk Gyalpo in the exercise of His functions including international affairs, provided that Druk Gyalpo may require the Interim Government to reconsider such advice, either generally or otherwise [Section 3 of Article 20 of the Constitution].
12. The Interim Government shall promote national unity and progressive economic development and strive to ensure the well-being of the nation.
13. The primary responsibility of the Interim Government shall be to ensure stability and harmony in the communities and that the elections are held free and fair. It shall ensure that civil servants and local government officials do not influence the voters.
14. The Interim Government shall conduct the day to day routine matters of the State.
15. The Interim Government shall avoid taking any controversial decisions and committing to any process that is not reversible by the incoming government.
16. Notwithstanding the requirement under Article 19 Section 4 of the Constitution, the Interim Government may take policy decisions or enter into agreements with foreign governments or organizations during the interim period under exigent circumstances but only after seeking necessary approval from the Throne (invoking Article 2 Section 16(e) of the Constitution).
17. The Interim Government shall not:
 - a) Formulate any plan or new policies;
 - b) Enter into agreement with foreign governments and organization;
 - c) Determine, mobilize and allocate resources;
 - d) Approve policy on a proposed Government Bill and direct appropriate authority to draft such Bill;
 - e) Propose creation of additional ministry or reduction of ministry to Parliament; and
 - f) Carry out transfers and promotion within the civil service.
18. The Interim Government shall submit a report to the Druk Gyalpo and the new Government at the end of its tenure.

Agreements and Memorandum of Understanding

19. Where a process for a legal document to be signed with a foreign government or agency has been already approved by the previous government and the drafts with all its important and key provisions are known to the previous government, the process shall be completed. But no new initiatives shall be taken by the IG.
20. Where a process for an MoU to be signed with a foreign government, such as diplomatic letter of intent, has been approved by the previous government and the process has been active, it shall also be signed as signing now does not constitute a new initiative.

21. Where there is doubt of interpretation or magnitude of the agreement or MoU seems out of the ordinary, it shall be referred for decision of the Interim Government.

Assigning Portfolios

22. The IG shall allocate ministries/agencies to the Advisors to facilitate broad oversight of the functioning of the government and efficient interaction/interface between the IG and the Ministries but without undue interference in the day-to-day routine functioning of the Ministries.
23. In allocating the ministries/agencies, the IG shall take cognizance of potential conflict with the Advisors' regular responsibilities.
24. The assumption of ministerial responsibilities by the Chief Advisor and Advisors shall not encroach on the roles and responsibilities of the secretaries to the government.
25. The relevant secretaries to the government or a relevant agency head shall refer a matter for decision to the designated advisor when it exceeds their administrative and financial authority.
26. The ministerial responsibilities shall be in addition to the Advisors' regular functions.

**CHAPTER III
THE CHIEF ADVISOR**

27. The Chief Justice of Bhutan shall be the Chief Advisor for the Interim Government.
28. The Chief Advisor shall function as the interim Head of the Government and *ex officio* Chairperson of the Interim Government.
29. The Chief Justice of Bhutan (CJB) as the Chief Advisor during the interim period shall not participate in his judicial responsibilities. The day to day functions shall be performed jointly by the other four justices, who shall be responsible and accountable for conducting hearings and awarding decisions during the absence of the CJB.
30. The CJB shall ensure that decisions in all the cases that he participated in are rendered prior to assuming responsibilities of the interim government.
31. The Chief Advisor shall assess the affairs of the State arising from developments in the Kingdom and from events both at home and abroad and bring to the notice of the Druk Gyalpo.
32. The Chief Advisor shall manage the routine affairs of the Government and shall be accountable to the Druk Gyalpo for the actions of all the ministries, departments, authorities, bodies and agencies of the Government.
33. The Chief Advisor shall keep the Druk Gyalpo informed from time to time about the affairs of the State, including international affairs and shall submit such information and files as may be called for by the Druk Gyalpo. [Section 4 Article 20 of the Constitution].
34. As a Chairperson of the Interim Government, the Chief Advisor shall approve the agenda, chair the meetings and shall be the final arbiter of the procedure of the Interim Government meetings.
35. The Chief Advisor shall submit written advice to the Druk Gyalpo for proclamation of any of any emergency under Article 33 of the Constitution.

Grievance Redressal

36. The Chief Advisor, as may be advised by the Cabinet Secretary, shall continue to attend to public grievances through the Public Grievance Redressal Cell of the Cabinet Secretariat.
37. The Chief Advisor shall direct the Cabinet Secretariat to conduct independent as well as consultative meetings/studies on grievances that are of serious nature as may be required from time to time.

CHAPTER IV ADVISORS

Powers and responsibilities of an Advisor

38. The primary duty of an Advisor is to act in the interest of the people of Bhutan. In doing so, he or she shall uphold the laws and live up to the trust bestowed upon him or her by the Druk Gyalpo.
39. An Advisor shall ensure the public confidence in the Interim Government through an act of openness, honesty and transparency.
40. An Advisor shall protect and strengthen the sovereignty of the Kingdom, provide good governance, and ensure peace, security, well-being and happiness of the people.
41. An Advisor shall ensure the preservation and promotion of the established institutions of the Kingdom, religion and the rich traditional and cultural values that embody its unique national identity.
42. An Advisor shall promote an efficient civil administration based on the democratic values and principles enshrined in the Constitution.
43. An Advisor shall provide leadership to the concerned ministry and shall work toward streamlining effective implementation.
44. An Advisor shall be individually responsible to Interim Government for his or her own action and the actions of his or her ministry in administering portfolio functions.
45. An Advisor shall exercise relevant statutory powers and functions of his or her portfolio ministry or ministries.
46. An Advisor has duty to the State to account, and be accountable for any decisions and actions of his or her ministry and any agencies over which he or she has supervisory responsibilities

**CHAPTER V
THE INTERIM GOVERNMENT SECRETARIAT**

33. The Cabinet Secretariat shall support and function as the IG's secretariat as in the case of the regular Cabinet. The Secretariat shall provide:
- a) Secretarial and professional services to the IG; and
 - b) Continuity and support to the interim government.
34. The secretarial services of the Secretariat shall include;
- a) Discharging responsibilities of the IG affairs as may be instructed by the Chief Advisor and the Advisors;
 - b) Arrangement of business of the IG;
 - c) Submission of agenda for discussion to the IG;
 - d) Attending and recording minutes of the IG Meetings;
 - e) Conveying the decisions of the IG to the concerned ministries and relevant agencies;
 - f) Arranging the preparation of briefs, speeches, felicitations, briefs, credentials, attestation and messages for the Chief Advisor in coordination with the Ministry of Foreign Affairs;
 - g) Ensuring effective coordination and facilitation between and among ministries and other agencies; and
 - h) Performing such other functions as the Chief Advisor may direct from time to time.
35. The Cabinet Secretary shall be the chief spokesperson of the IG.
36. The Media Division shall continue to keep the Chief Advisor and the Advisors of the Interim Government informed on issues of national concerns through the Cabinet Secretary. The Division shall also facilitate interviews, press conferences and press releases of the Interim Government. The Division shall be present at all public events of the Chief Advisor, including Call-On, to document speeches, press releases and photographs of the Chief Advisor.
37. The Secretariat shall be the custodian of all the documents of the IG.
38. The Secretariat shall support the Chief Advisor in performing his or her duties as the interim Head of the Government. The support shall include:
- a) Co-ordinate and schedule appointment of the Chief Advisor;
 - b) Organize his or her public statements and relations with the media;
 - c) Facilitate correspondences;
 - d) Provide administrative and logistical supports to the Chief Advisor;
 - e) Enable the Chief Advisor to achieve various strategies for good governance and act as the central point of communication and coordination with the Ministries, the National Council and the Palace.

CHAPTER VI**Ministries, Constitutional Bodies, Commission, Autonomous bodies and Agencies**

39. The constitutional bodies, ministries, autonomous bodies, and other agencies shall provide timely and regular briefing to keep the IG abreast of evolving situations and emerging trends in the country and of external events that could have a bearing on the State.
40. The constitutional bodies, ministries, autonomous bodies, and other agencies shall ensure that normal government functions are carried out so that existing activities of the Government continue, especially those in the pipeline like the completion of the current Five-Year Plan, formulation of next Five-Year Plan, and discussions on projects and mobilization of aid/financing with foreign entities.
41. The ministries and concerned agencies shall continue to consider all such legal documents and MoUs to be signed with foreign governments and agencies, which were approved by the previous government and were under negotiations, and also sign them as signing does not constitute a new initiative.
42. The ministries shall study and make recommendations for the future on critical issues of long-term national concerns such as the fiscal and monetary situation and trends, education, employment, immigration, and good governance.
43. The ministries/agencies shall provide weekly briefings on important affairs to their assigned Advisors.

CHAPTER VII
INTERIM GOVERNMENT MEETING

Meeting of the IG

44. The IG meeting shall be held once in a week on Tuesday afternoons in the Call-On Hall at the Gyaljong Tshogkhang. Special IG meetings may be held on other days and in other places, as the Chief Advisor may deem necessary and appropriate.

Chairperson of the meeting

45. The Chief Advisor shall chair the IG meeting. In the absence of the Chief Advisor, the senior most Advisor to the IG shall chair the meeting.

Attendance of the meeting

46. All Advisors shall attend meeting of the IG unless the Chief Advisor has granted approval of absence.

Conflict of interest

47. The Chief Advisor may excuse participation of an Advisor in any deliberations on the agenda in which he or she may have conflict of interest.

Quorum

48. The presence of not less than five out of the total seven members shall be required to constitute a quorum for the IG meeting.
49. If there is no quorum for the meeting, the Chairperson may declare an adjournment of the meeting.

Clarification on any issue

50. The IG may require any person to present or clarify on issues deliberated in the meeting.
51. If the IG desires that a further information is needed on any issue, it may direct concerned ministries and agencies, and if necessary, to form a committee with appropriate Advisors and submit the report.
52. During the IG meeting, the Chairperson shall ensure uninterrupted conduct of meeting, unless such interruption is necessary for the interest of the deliberation on the issue.

Decision of the IG

53. Every decision of the Interim Government shall be taken through consensus. In absence of consensus, the concurrence of the two-thirds of the members in the IG Meetings shall prevail.

Attendance of other officials

54. The Cabinet Secretary shall attend the IG meetings regularly to provide secretarial services. However, the Cabinet Secretary or the Chairperson of the IG may require officials from the Cabinet Affairs, Legal Affairs, Media Division or any official from any relevant Division of the Secretariat to attend the meeting.

Conveyance of decision

55. Unless specifically directed otherwise by the Chairperson or the IG, within one week after finalization of the decisions or directives of the IG, the Secretariat shall convey such decision or directives in writing to ministries and relevant agencies.
56. The Advisor and Head of relevant agency shall instruct their respective ministries and agencies to implement the decision of the IG.
57. Apart from sensitive issues, the gist of decisions of the IG may be released to media in order to maintain transparency and accountability of the government.

Records of the IG Meeting

58. The designated official of the Secretariat shall record the meeting of the IG diligently and accurately, and shall be responsible to maintain record of the deliberation and decisions.
59. The record of the meeting shall be a classified document unless otherwise provided for in the laws of the Kingdom of Bhutan.
60. The records of minutes shall be limited to the decisions of the meeting and such summary of the discussion as is necessary to take action. Any matter of special secrecy and political sensitivity may be recorded in a limited circulation.
61. The minutes of the meeting shall be distributed by the Secretariat for endorsement or correction in the succeeding session.

**CHAPTER VIII
SUBJECT AND FORMAT OF SUBMISSION TO THE INTERIM
GOVERNMENT MEETING**

Agenda for the IG meeting

62. The Secretariat shall compile the agenda items for the IG meeting on behalf of the Chairperson.
63. The Cabinet Secretary shall ensure that the agenda contains only items that merit consideration by the IG, unless there is an urgent matter that is of national significance.
64. The Advisors shall provide a fortnightly briefing on important matters of the respective ministries to the IG.

Oral items

65. In case of urgency, confidentiality or to garner in principle support for a specific proposal including proposal for a new legislation or amendment of any law, an Advisor may raise an item orally at the IG meeting. An oral item shall be accepted only with the prior approval of the Chief Advisor, and notification to the Cabinet Secretary.

Admissibility of agenda items

66. A matter which may be submitted to the IG for creative inputs and consideration shall include:
 - a) A subject that concerns framing of major policy or major shift in the existing policy. A working proposal for recommendation to the new government;
 - b) A detailed policy proposal for enacting a new legislation. A working proposal for recommendation to the new government;
 - c) A bill drafted pursuant to the approved policy. A working proposal for recommendation to the new government;
 - d) Proposal to amend the existing laws. A working proposal for recommendation to the new government;
 - e) Issue that has irreconcilable differences between the two agencies;
 - f) An issue that requires urgent direction or course of action by two or more agencies;
 - g) A subject where an action of one Ministry or Agency may have impact on another ministry or agency;
 - h) An issue which is not empowered or delegated to any of the ministry or agency by law;
 - i) Any other matter that the Chief Advisor deems appropriate to discuss in the IG.
67. An Advisor shall not submit a matter for the consideration of IG, if:
 - a) It pertains to administrative issues of a ministry or an agency;
 - b) It is within the scope of the ministry or agency of the Government;
 - c) It concerns one or two ministries which can be resolved bilaterally/ trilaterally or through Committee of Secretaries;

- d) It can be resolved through inter-ministerial discussion where instructions from the past Lhengye Zhuntshog already exist for consulting specific departments or agencies; or
- e) It involves large financial implication which is not agreed by the Ministry of Finance.

Preparation of document for the IG

68. Any Advisor, the Government Secretary or the Head of autonomous agency who submits document to the IG shall ensure that the document:
- a) Bear the name of the ministry or department at the top of the document with file Number and date, marked with “Note for the Interim Government” below the name of the ministry or department;
 - b) Contains a brief subject heading indicative of the proposals contained therein;
 - c) Is numbered continuously at the bottom right hand corner of the pages, simultaneously indicating the total number of pages, in the manner “Page x of y”, where “x” is the running serial number of the page and “y” is the total number of pages in the note.

Contents and format of the document

69. The document submitted to the IG shall contain enough information that reflects sound policy development, succinct consultation processes to provide IG with all the information to make an informed decision.
70. The document shall be self-contained within five to six pages, any other relevant material shall be attached as Annexure.
71. The last paragraph of the document shall indicate that the note has the approval of the Advisor of the sponsoring Ministry.
72. The note shall be signed by an officer of the rank of Secretary, Joint Secretary, Director and above, if an Advisor has delegated preparation of document.
73. The summative part of the document shall contain points on which the directive of the IG is sought, with the views or recommendations of the sponsoring Ministry.
74. Before the document is submitted, an Advisor shall consult the relevant Ministry, Department or Agency and include such views, if any, in the document.
75. If an Advisor seeks the deliberation of the IG on the issue urgently, the views of other Ministry or Agency known through past consultation may be indicated.

Deadlines and late papers

76. The relevant Ministry or Agency shall submit document to the Secretariat at least one week in advance.
77. If an Advisor intends to submit a document after the deadline, he or she shall write to the Chief Advisor through the Cabinet Secretary seeking approval for acceptance of document with justification for inclusion on the agenda. The Cabinet Secretary shall consult the Chief Advisor, and advise the Advisor of the outcome.

78. The Secretariat shall submit the document to the Advisors to the IG at least three days in advance for the meeting or every Friday afternoon before 5 PM for the meeting scheduled on Tuesdays.

Amendments to papers

79. The amendments of document which is already submitted to the Secretariat shall not be allowed unless the change is of a minor or editorial nature. If an Advisor intends to make substantive amendments to a document, the original document shall be withdrawn and submit a new one before the expiry of the deadline.
80. The Secretariat shall not accept changes suggested by one Advisor to another Advisor's paper before a meeting. The Advisor shall suggest any proposed changes at the meeting at the time of discussion of the paper.

Withdrawal of document

81. Upon finalization of agenda by the Secretariat, the document may be withdrawn or deferred only at the scheduled meeting. The Advisor who signed the document shall provide notice of withdrawal as soon as possible, so that the Chairperson shall be informed.

Conversant with the issues

82. An Advisor who signs and submits documents to the IG shall be conversant with the matter.

Who may submit documents

83. The Government Secretary or Head of the autonomous agency may submit document to the IG, provided that the document clearly indicates that the portfolio Advisor is consulted and agrees with the submission of the paper. This requirement may not apply if responsibility for the matter has been transferred to another Advisor on reasons of a conflict of interest.
84. The Chief Advisor may include or exclude documents or issues submitted by the ministries and agencies in the agenda.
85. The approved agenda shall be circulated to the ministers on Friday or last working day of the scheduled meeting. Any urgent agenda, which is not circulated as required may be circulated expeditiously before the meeting.
86. If an Advisor intends to submit a document late, he or she shall submit it with justifications and the Chief Advisor may accept such document.
87. If an Advisor who submitted the document or if any other relevant Advisor is absent on the day of meeting such agenda or paper may be deferred for the next meeting.
88. Once the Secretariat distributes an agenda, the document or a paper can only be withdrawn or deferred at the meeting for which it was prepared. The Advisor, who signed the paper, shall provide notice of withdrawal as soon as possible, so that the Chairperson can be informed.

Prior permission for presentation

89. Any ministry or agency that wishes to make presentation before the IG meeting, shall seek permission from the Chairperson through the Secretariat one week in advance.

Documents of the IG Meeting

90. Every record of the IG Meeting shall be a classified document and shall be the property of the Royal Government.
91. All the confidential and classified documents shall be marked as “Classified or Confidential” on all the pages.
92. Any record relating to the proceedings of the IG Meetings, IG Committees, any briefing or correspondence relating to them shall be classified and shall not be made public.
93. An Advisor shall maintain the confidentiality of the documents and return all such documents to the Cabinet Secretariat on relinquishing the office.
94. The Secretariat shall destroy all the documents returned by the Advisor upon relinquishing the office. However, selected documents may be handed over to the concerned Secretary of the ministry.
95. All the classified documents of the IG shall be archived in a place designated by the Secretariat and only the authorized officials of the Lhengye Zhungtshog Secretariat shall have access to the archive.
96. The designated officials shall be solely responsible for maintaining confidentiality, safety and security, proper management and recording of the Lhengye Zhungtshog Archive.

**CHAPTER IX
CALL ONS**

International

97. The Protocol Department, Ministry of Foreign Affairs shall be responsible for processing all international call on to the Chief Advisor.
98. The International call on routed through the Protocol Department shall include:
- a) Bilateral;
 - b) Multilateral; and
 - c) Others.
99. The Protocol Department shall submit the request for all international call on to the Cabinet Secretary along with the program, CVs and relevant briefs for the delegation.
100. The request for the appointment shall be addressed to the Cabinet Secretary.
101. The Cabinet Secretary shall, upon scrutiny of the request, submit the list to the Chief Advisor.
102. The finalized list shall then be forwarded to the Personal Secretary of the Chief Advisor to slot the time and for intimation to the Protocol Department.

National

103. The request for other national calls on shall be made directly to the Personal Secretary of the Chief Advisor by the respective ministry, agency or person for approval of the Chief Advisor.
104. The request for all invitation to the Chief Advisor as Chief Guest to a function shall be submitted to the Protocol Department by the respective agencies.
105. The Personal Secretary shall intimate the ministries, agencies or person on the time and date of the call on.

Arrangements

106. The Personal Secretary shall circulate the calendar of the Chief Advisor to the Director for further action.
107. The Director of the Secretariat shall identify the relevant Program Officer in the Cabinet to attend and record the minutes of the call on.

Absence of Chief Advisor

108. The Chief Advisor shall, in the event of his absence, nominate the senior most Advisor amongst the Advisors to receive the call on.

Receiving Foreign Dignitaries

109. The Protocol Department shall arrange to receive and see off the foreign dignitaries and guests at the grand entrance of the Gyalyong Tshogkhang.

110. The Director shall represent the Cabinet Secretariat.

Hosting Dinners and Receptions

111. The Chief Advisor shall host receptions and official dinner for State Guests, foreign dignitaries and others, as may be necessary.
112. The arrangement for all functions to be hosted by the Chief Advisor shall be coordinated and arranged by the Protocol Department.
113. The arrangement for all official functions at the residence of the Chief Advisor shall be coordinated by the Cabinet Secretariat in coordination with the Protocol Department.
114. The expenses for hosting the functions shall be met by the Ministry of Foreign Affairs.

Press

115. The Media Attaché shall plan on press releases, press handouts, and arrangement for press coverage of the event.
116. The Media Attaché shall be present in all international call on and national call on when specifically directed by the Chief Advisor.

**CHAPTER X
CODE OF CONDUCT FOR THE MEMBERS OF THE INTERIM
GOVERNMENT**

Loyalty and dedication

117. A member shall perform his or her duties with loyalty and dedication to the Tsa-Wa-Sum and he or she shall not indulge in any activity that may affect the sovereignty and interests of the Kingdom of Bhutan.

Responsibility

118. A member shall ensure that his or her personal conduct is consistent with the dignity, image and integrity of the position.

Honesty

119. A member shall act honestly, and with propriety in the performance of his or her duties and functions.

Fairness and diligence

120. A member shall not make any decision without giving due consideration to the matter at hand and its likely impact on the rights and interests of the people.

Confidentiality

121. A member shall maintain confidentiality in matters where decisions and documents of meetings should not be disclosed in the interest of the nation and the people.

Integrity

122. A member shall not be influenced in any manner whatsoever by any individual or body of individuals in the discharge of his or her official duties on the grounds of personal affinity.

Selflessness

123. A member shall take decisions solely in the interest of the Tsa-Wa-Sum.

Transparency

124. The decisions and actions of every member shall be made transparent and he or she shall provide reasons for his or her decisions.

Leadership

125. A member shall display high moral values and conduct himself or herself at all times in a manner that befits his or her dignity and position. A member shall abide by the spirit and letter of the laws and rules, and adhere to the ethical standards provided in the Rules.

Respect to the Chairperson

126. A member shall at all times conduct in a courteous and respectful manner and shall respect the authority of the Chairperson. In particular, a member shall not interrupt when the Chairperson is speaking.
127. A member shall not mock, clap or use profane, offensive, vulgar expression in the meeting.

128. If a member leaves or re-enters the meeting Hall under compelling situation, he or she shall fold down his *Kabney* or her *Rachu* as a gesture of respect.
129. A member shall maintain decorum and dignity of the meeting and shall desist from acts of defamation and use of physical force.
130. A member shall not use information which is not in the public domain, or information obtained in confidence in the course of the duty to further the member's private interests or those of a member of his or her family, or to further another person's private interests.

Personal conduct

131. A member shall:
- a) Comply with and implement laws;
 - b) Uphold the administration of justice and protect the integrity of public life;
 - c) Not indulge in habits and behavior that infringe upon the performance of official duties or tarnish the image of the position;
 - d) Uphold and promote core Bhutanese values and essential elements of *driglam-namzha* including compassion, kindness, humility, integrity, honesty and civility;
 - e) Maintain dignity and decorum of the position;
 - f) Be apolitical at all times;
 - g) Not use Government resources for personal purposes and benefits;
 - h) Be liable for unlawful, improper conduct or the non-performance of duties;
 - i) Not direct to do or directed to be done, in abuse of his or her office or power any act prejudicial to the rights of another person knowing that such act is unlawful or contrary to the Government policy;
 - j) Maintain transparency in the policies of the Office and in his decisions and actions;
 - k) Knowingly not mislead the Government on any matter of significance arising from his or her functions;
 - l) Not maintain or operate a bank account in any country outside Bhutan;
 - m) Not provide information which is detrimental to the interest, territorial integrity and sovereignty of the Kingdom;
 - n) Protect and uphold professionalism;
 - o) Render decisions based on merit and shall prohibit all forms of discrimination; and
 - p) Not accept any gifts, presents or benefits as otherwise provided in the Gifts Rules of the Anti-Corruption Commission.

Conflict of interest

132. A member shall:
- a) Ensure that no conflict arises, or appears to arise between his or her official duties and his or her private interests, financial or otherwise;
 - b) Declare his or her income, asset and liability including the asset and liability in the name of his or her spouse and dependents to the concerned authorities as required by law;
 - c) Not undertake any private trade or commercial activity or additional employment;

- d) Be entitled to retain any shares held before his or her appointment as the Member of the IG, provided that he or she does not indulge in profit making business of those shares or acquire new shares while in office;
- e) Not appear, advice or represent any person or a party against the Government.

CHAPTER XI REMOVAL AND RESIGNATION

Removal of a Member

133. The Druk Gyalpo, on the recommendation of the Chief Advisor, may remove an Advisor from the office, if he or she:
- a) Marries a person who is not a citizen of Bhutan;
 - b) Convicted of any criminal offence and sentenced to imprisonment;
 - c) Is in arrears of taxes or other dues to the Government;
 - d) Commits willful violations of the laws of the Kingdom;
 - e) Contravenes the Code of Conduct as laid down in the manual; or
 - f) Commits any act of corruption.

CHAPTER XII CODE OF CONDUCT FOR PERSON ATTENDING MEETINGS

134. A person who attends the IG meeting shall conduct in a manner provided in this Rules.
135. If the Chairperson has granted permission to the other person to attend the IG meeting, the Secretariat shall inform the time and place of meeting.
136. The Secretariat shall confirm the number of other person, who intends to come to the meeting and provide for such number of required seat.
137. Other person shall dress properly to attend to the meeting.
138. On the scheduled meeting, the other person shall come fifteen minutes prior to the commencement of the meeting and wait outside the meeting place.
139. Other person shall enter the IG Hall, led by a team leader if there are two or more persons, upon request of official of the Secretariat.
140. Upon entrance or exit of the meeting hall, the other person shall fold the *Kabney* or *Rachu*, as the case may be, and sit on the instruction of the Chairperson.
141. Before the commencement of the IG meeting, the Secretariat shall require the other person to submit power point presentation or slides, if any, and install in the computer, which is placed in the meeting hall.
142. Upon grant of permission by the Chairperson, the other person or the team leader may introduce other members of the group, if any in Dzongkha, and seek permission from the Chairperson to speak or present in English, if necessary.

143. The presentation shall precise and brief and clearly highlight the issue on which the approval of the IG is sought.
144. The other person shall be courteous and respectful during the presentation and shall not address the Advisor by name. An Advisor shall be addressed with the portfolio with which he or she is assigned.
145. If the presenter is not able to provide satisfactory explanation to the queries of the Members of the IG, he or she may seek permission of the Chairperson to permit his or her colleagues to answer.
146. The other person shall not clap, laugh, talk or interrupt the proceedings of the IG.
147. The other person shall maintain strict confidentiality of the deliberations of the IG.

CHAPTER XIII MISCELLANEOUS

Amendment

148. The IG may amend this Rule from time to time.

Definition

149. In this Rules, unless the context requires otherwise:
 - a) “Rules” shall mean the Rules of Procedures for the Interim Government, 2013;
 - b) “Member” shall mean the Advisors to the Interim Government appointed by the Druk Gyalpo including the Chairperson or the Chief Advisor;
 - c) “Other person” shall refer to anyone who attends the IG meeting, such as:
 - i) As an official of the Secretariat to provide secretarial services; and/or
 - ii) From the Ministry or Agency of the Government to make a presentation or clarification on any issue discussed in the IG meeting;
 - d) “Private interests” shall include not only the Member of the IG financial or other interests but also the financial or other interests of the Member’s spouse, the dependants or his relatives;
 - e) “Secretariat” in this Rules shall mean the Cabinet Secretariat; and
 - f) “Secretary” shall refer to the Cabinet Secretary.

Royal Government of Bhutan

Annexure-4

List of IG Meetings/Sector Briefings May–July 2013

| SN | Date | Topic | Briefings made by: |
|----|----------------------------|---|---|
| 1 | 6 th May 2013 | - Immigration issues - Law & Order situation | - Dept. of Immigration, MoHCA - Bureau of Law & Order/RBP, MoHCA |
| 2 | 7 th May 2013 | - NA election matters | - Election Commission of Bhutan |
| 3 | 8 th May 2013 | - Financial situation | - Ministry of Finance - Royal Monetary Authority |
| 4 | 10 th May 2013 | - Education sector updates & issues | - Ministry of Education |
| 5 | 15 th May 2013 | - Way forward for enhancing economic development | - Ministry of Economic Affairs |
| 6 | 16 th May 2013 | - Draft 11 th FYP | - GNH Commission |
| 7 | 21 st May 2013 | - Presentation of Kholongchhu Detailed Project Report - Regular IG Meeting | - Ministry of Economic Affairs |
| 8 | 27 th May 2013 | - REC updates and issues | - Royal Education Council |
| 9 | 28 th May 2013 | - Regular IG Meeting | |
| 10 | 30 th May 2013 | - Clarifications on issues raised by the IG on the draft 11 th FYP | - GNH Commission |
| 11 | 4 th June 2013 | - Integrated check post system - Transport system - Regular IG Meeting | - Ministry of Home and Cultural Affairs - Ministry of Information and Communications |
| 12 | 11 th June | - Fiscal Year 2013-2014 Budget presentation - Regular IG Meeting | - Ministry of Finance |
| 13 | 13 th June 2013 | - Regular IG Meeting | |
| 14 | 25 th June 2013 | - Regular IG Meeting | |
| 15 | 28 th June 2013 | - Conference on macro-economy of Bhutan at RTC | Organized by the Centre for Bhutan Studies and GNH Research |
| 16 | 2 nd July 2013 | - Regular IG Meeting | |
| 17 | 9 th July 2013 | - Regular IG Meeting | |
| 18 | 11 th July 2013 | - Special Meeting of the IG | |
| 19 | 16 th July 2013 | - Regular IG Meeting | |
| 20 | 19 th July 2013 | - Last IG Meeting | |

Note: The IG met every day in the first week of its operations to discuss its working procedures.

Annexure-5**HOW TO HAVE ENOUGH RUPEES**

A Causal Analysis by Karma Ura, 21.7.13

Our country needs foreign currency reserve for three main purposes though there can be other less important ones. Firstly, our country can face unexpected contingencies. A sizeable liquid asset in terms of foreign currency reserve can help mitigate them, and the sense of security any government has depends partly on it. Secondly, foreign currency reserve can be used to repay external debt. Thirdly, it can be drawn down to pay for current account deficit when exports cannot cover them.

INR 11 b worth of dollars was recently sold essentially to keep imports from India going. What if this keeps recurring every year? At this rate, within next three years or so, the meagre reserve stock of \$ 724 m as of July 2013 will be wiped out, regardless of the legal minimum reserve requirement, and as long as INR outflow is much greater than its inflow. After that, there will be two options to cope with the deepening current account deficit. Firstly, borrowing of INR or hard currency can be increased to continue financing current account deficit. This will make the future governments and society face a high mountain of debt and debt service. Secondly, Nu can be devalued sharply against INR to arrest the deficit from growing. If one time devaluation does not eliminate the deficit effectively, a dirty floating exchange rate might be adopted. Devaluation will make imported goods overnight dear and choke import demand to an extent. It will be a painful process before the economy can be restructured. Neither option is attractive. So we have to initiate action to avoid both eventualities. In the long term, hydro power investments will earn INR and this currency's reserve will increase but so will our imports of goods and services from India. Meanwhile expenditure in general has to be redirected and consumption component of the GDP have to be contained from sharp increase. Until earning improves substantially, financial stability has to be maintained through other means.

Yet the crisis is unfolding towards a critical state that I described above. As an economist with defunct skills, to whom opportunity to deal with such issues never arose so far, I thought perhaps I should present my analysis of the problem to point how our country can put it behind us quickly. How does such a problem come about is what I will explain and solutions should be clear from the analysis of the problem. Knowing cause and effect relationship is the beginning of solution. The effect can be reversed when its known causes are treated. I would like to give a summary of several major causes. Treating them is necessary to end the INR crisis. The study of economy should proceed from the basic view that it is small and open, and it is characterized macro-economically by a fixed exchange regime with very limited capital mobility and downward price rigidity. These factors should be borne in mind while suggesting solutions.

The first cause to the INR crisis is the higher inflation in our country compared to India. Bhutan's inflation grew at 9% since 2009 although the current method and weights attached seems to underestimate core inflation in our country due to weighted averaging

across 438 items in the consumer price index. Indian inflation, as measured by CPI, has been much lower. Whole sale price index of India is far less relevant for comparison. Bhutanese inflation has been so high that in the last 12 years the Nu has lost 45% of its value. Because of transport, trading and tax margins, price level of imported goods will be higher in our country. This is expected, and cannot lead to sustained divergence in inflation between the two countries. A sustained divergence in inflation rates between India and Bhutan is primarily caused by either monetary and fiscal expansion or some combination of both. Such expansion has increased demand for traded goods, making the current account deficit worse due to increases in volume of imported goods. Increases in demand for imports by Bhutan cannot raise the prices of those goods in India. However such fiscal or monetary expansion in Bhutan has raised the prices of domestically produced non-traded goods because of their limited supply. Higher prices should stimulate higher production of non-traded goods. But in an open economy, demand shifts towards imported substitutes of such non-traded goods because of their lower prices. Think of the price of Tsirang-produced egg going up by 15% every year while an Assamese egg's price is going up by 5% a year. Such divergence in prices induces a continuously deteriorating balance of payments and consequent running down of INR reserve. But under fixed exchange rate between the two countries, this cannot go on forever; our foreign exchange reserves will be depleted.

As the GDP of Bhutan increases so has its propensity to spend on imports. Spending, as measured by GDP, on domestic goods rises but it rises less than GDP because part of GDP is saved and an overwhelming part of it is spent on imports. Import price rise does not exert expenditure switching effect in favour of domestic goods. The government often considers increasing import taxes as people's income rises so that the price of imports rises relative to exports and import volume and value is lowered. Relative increase of prices of imports, whether it is Assamese eggs or Taja milk, by imposing additional taxes could improve trade balance only if the sum of import plus export elasticities exceeds unity. This so-called Marshall Lerner condition is most likely not satisfied in our economy. Rising import taxes will have limited effect on improving trade balance under such circumstance. Further research with better data should reveal it is true or false. In any case, whether import tax increase improves trade balance also depends on how the government uses the revenue accrued from increased import taxes. If the government is able to use the revenue thus accrued to switch its expenditure to domestic goods more than the households sector, trade balance can improve. Short of this, restricting imports by imposing higher taxes will not meet the objective of improving trade balance fully though it will obviously improve revenue for the government.

The second cause of INR crisis is monetary. I need to emphasize strongly here that addressing current account imbalance involves targeting monetary variables. Monetary instruments can have effect to a certain extent because neither the movement of capital nor interest rates is completely free while exchange rate is fixed or pegged. Monetary policy is not surrendered under such circumstance.

To explain the role of monetary solution in INR crisis, it should be understood that current account deficit (-CA) is identically equal to changes in the foreign reserve (Δ FR) held by RMA in any year. Δ denotes change between last year and this year. But the changes in the foreign reserve (Δ FR) should be measured cumulatively for the year just like current account for this relationship to hold. Conventionally, foreign reserve is measured as a stock at any point in the year instead of measuring its change for the whole year like current account.

Let us note clearly that $-CA \equiv \Delta$ FR where \equiv means identically equal to. This identity links deficit current account with changes in the foreign reserve composed of INR and dollar. The monetary sector and the trade sector are intimately linked. Further, it is important to note that Δ FR + Δ Domestic Credit $\equiv \Delta$ M2, the broad measure of money supply. M2 means the total of currency outside the banks, demand deposits, saving deposits, time deposits, and foreign currency deposits held by foreigners, such as diplomats, allowed to hold their accounts in foreign currencies. They constitute together the supply of money. The preceding identity also can be rearranged as Δ FR $\equiv \Delta$ M2 - Δ Domestic Credit. The conduct of monetary policy in our country should be based on estimating these three variables and forecasting them ex ante, possibly a year in advance. If two are measured well, the third variable can be found obviously residually at a broader level. Influence on two variables can also be simultaneously exerted. In the current situation of continuously deteriorating current account balance, domestic credit should be restricted. RMA is restricting domestic credit to reduce M2. The fact that it has not arrested problems suggests that this measure is not well targeted and other accompanying measures are necessary. Other measures are being explored and applied, though they too have not been too effective. So a better and deeper understanding is needed. Operating at a broad level of aggregates alone is not sufficient. Understanding empirically the behavioural functions of the subcomponent variables and the transmission mechanism affecting the three aggregates are crucially important before proceeding to policy targeting. The task of reducing certain components of M2, particularly its liquid components, is still to be addressed adequately and in a way that is articulated well in advance based on predictive frameworks and behavioural functions. Both require modest research capacity. It should not be too difficult to build simple exploratory models of demand and supply of money, inflation and delineate transmission mechanisms. Further, it is not monetary policy alone that can resolve everything. The crucial roles of (1) expenditure pattern and fiscal expansion caused by the plan managed by the GNHC, (2) the cash flow management of the government agencies, (3) the operation of DHI and DGPC impact INR shortage, and (4) the export improvement plan of Ministry of Economic Affairs. Their actions can scupper or improve financial stability, and their decisions must be aligned quickly with some of the better efforts of RMA. The nature and scope of FYP are also fully implicated in the INR issue at a deeper level. Its resolution must take into account not only the FYP on the official front but the business plan of the private sector represented by the BCCI.

To return to the monetary role in causing INR shortage, if and when foreign reserve rises, injecting counterpart Nu in the banking system will increase M2. M2 will increase when there is upsurge in official demand deposits as foreign capital flow in. In order to reduce

the effect of foreign reserve on increasing M2, one of the most feasible options is to keep certain amount of reserve out of the Bhutanese banking system for a certain period of time, for instance in a subsidiary branches of BOB in India, instead of adopting standard measure of stabilization or sterilization as suggested by some people. Ideally there should be subsidiary branches of BOB in Delhi, Jaigoan, Siliguri, Bongaigoan and Guahati where Bhutanese traders can settle their transactions in INR. Otherwise, with money multiplier as high as 2.9 ($M2/M0$) in Bhutan, injection of 1 INR into the banking system can result in as high a credit creation as Nu 2.9. Depending on the marginal propensity to import (MPI), Nu 2.9 may finally result in substantial INR equivalent requirement as a creditor converts her Nu holding into INR for import purposes. For example, if MPI is 0.63, as my rough estimation show, an increase in gross national disposable income by Nu 1 will result in demand for INR by .63 paisa. But the estimate of marginal propensity to import is not reliable with a required confidence level. Trade statistics on imports seem to be an underestimation by a substantial margin.

Past always hold lessons if it is heeded. Monthly data available from July 2011 to June 2012 on domestic credit and M2 show that domestic credit was almost equal to foreign reserve till December 2011 and then it exceeded foreign reserve. Domestic credit is much higher than foreign reserve even now. This suggests that INR shortage which burst upon the financial sector early in 2012 lay in excessive domestic credit that has been fueling imports. For example, domestic credit in March 2012 was around 45 billion whereas foreign reserve was only 32 billion. Adding these two together, M2 in March was 77 billion. Since then, domestic credit (loan) has continuously exceeded foreign reserve.

In fact, when six monthly disaggregated data is examined, loans given as a percentage of deposits crossed the 100% threshold sometimes in January 2012 when pronounced INR shortage became so evident. That is to say, for the first time in the financial history of Bhutan, banks as a whole had given more loans than they had deposits to support them. The banks have been lending in amounts that exceeded deposits with them, indicating in general low liquidity. If one looks back at the loan-deposit ratio in January 2006, it was about 45%. By January 2012, loan deposit ratio exceeded 100% and in the later part of the year it crossed 115%. So there is simple indicator of this kind which suggests aggressive lending and aggressive borrowing resulting in financial instability. Despite the difficulties faced by the economy, profit maximisation has been the goal of the financial institutions but that can be often false achievement when seen from a higher integrated perspective. Their financial over performance can emerge as problems in another field, in this case as over active money multiplier and consequent INR problem. Between 2011 and 2012, BNB profit grew by 37% (697 m), TB by 71% (37 m), and DPNL by 90% (86 m). BOB made a hefty profit of 660 m in 2012.

The experience of the past five years should be heeded, if we are not to buck lessons from the past. A few major investments drew away most of the credit. Top five borrowers in 2012 were Tashi, DCP, Lhaki, Druk Iron and Steel, RTC and RICBL taking a total of 5.4 b out of a total of 51 b lending: 5.4 b is 10% of total credit. An official report available on the web says that “Tashi InfoComm, Druk Ferro Alloys, Druk Deothjung Resorts, Bhutan

Concast and Drukwang Ferro Alloys, and several others contributed to the domestic credit growth and increased the Rupee demand. It also highlights that constructions of Dungsam Cement (DCCL) and Dagachhu hydropower projects contributed to the credit growth as part of the projects are financed through domestic credit.” Repeating the experience will worsen credit crunch, and INR shortage while lowering electricity revenue in INR. Another cause of loans is obviously construction booms, inflationary costs of construction materials, and resultant trade deficit and finally INR shortage. This started with greater Thimphu town declaration in 2005 that began to suck credit into construction several years later. Now there are some 60 declared urban sites and their development will require credit. Officially classified credit to construction went up from 5.7 b in 2008 to 13.6 b in 2012, corresponding to 30% to 27% of the total credit. The actual amount might be higher as other credits could have been used for construction by disguising. Administrative credit control by RMA will lead to many distortions. It might be better to control through slowing down of urban plans administratively. It would give space at the same time for aesthetic, architectural and utilitarian dimensions of the urban planning to be improved.

A few economists have vaguely suggested that the aggressive lending and borrowing in the private sector has happened because of the lack of opportunities for buying short-term government instruments like bonds or treasury bills. I do not agree with this observation. A closer look at the amount of treasury bills sold by RMA on behalf of the government for 2012-2013 budget years in order to maintain cash flow is quite astonishing. To maintain cash flow of the government, in the past budget year nearly 13 b was borrowed and redeemed. In the total credit market volume of 45 b or so, a turnover of 13 b in the treasury bills itself can rock the financial system. A more analytic appraisal of treasury bills’ impact as well as a more fine-grained appraisal of the budget deficit would be desirable in future, given the precise knowledge of the total deposit available for such purpose. Budget deficit as a percentage of GDP, though used as an indicator around the world, seems to be a blunt and misleading instrument in the case of Bhutan.

An interesting question about excessive seigniorage profit and inflation tax imposed by RMA has not been touched so far except by UN-DESA economist Hamid Rashid. Seigniorage issue is relevant because it contributes to money supply. My re-estimation shows substantial seigniorage made by RMA but it is lower than Hamid’s findings. But let me leave aside this issue here by merely noting that it is an important one for future monetary policy.

Another enormously important question that we should ask is why M2 which is composed predominantly since December 2011 by domestic credit accelerated. M2 is now hovering between 55-60 b. Within M2, the amount of currency circulating outside banks has been fairly stable at around 5 billion since 2010. Time deposit is now about 22 b out of some 55-60 b M2. Most important thing to note is that the level of time deposit got lower than demand deposit and currencies after 2009. Time deposits were higher than demand deposits before that point in time. Demand deposits, short term liquidity, have seen spectacular growth from 2 b in 97 to 8 b in 05 to 33 b in 13. Demand deposit is more

than half of M2. M2 growth has accelerated and it owes mostly to government accounts. Burgeoning demand deposits of ministries and DHI are thought to be responsible for this acceleration of demand deposits although I have not seen detailed data to support this statement. That is to say, the current and capital accounts of the government sector maintained in demand deposits are responsible for the growing level of M2.

As part of the explanation of growing level of M2, it should be noted that the level of quasi money - time deposit - got lower than the volume of demand deposits and currencies after 2009. The volume of money maintained as time deposit was higher than demand deposit before this period. This is an important change in the behavior of money supply. It seems that this could be explained by a combination of two factors. The first factor could be the higher rate of expected inflation that has had a real balance effect, i.e., people did not want to hold time deposits because the acceleration of inflation that has been undermining its value. An indirect evidence of real balance effect is the velocity of money ($V=PY=(\text{real GDP})/M2$). Velocity of money is influenced by changing psychology of the people about their demand for money. It is inversely related to inflation and it often goes down when inflation goes up. Velocity of money slows down as people do not want to hold money and it has indeed slowed down since 2007. The second factor could be that the volume of demand deposits in the bank's increased due to a rise in government sector revenue as well as increasing government sector expenditure which, importantly, included hydropower investments.

INR crisis is attributed by some economists to a change in the composition of foreign currencies reserves between INR and dollars. INR reserve as a % of total reserve has declined severely since 2006. But I do not agree with this particular diagnosis as a cause. This is not a diagnosis of cause but of symptom. It is descriptive and it simply means that outflow of INR has been greater than inflow. People have suggested that half of reserve should be held in INR. But if outflow exceeds inflow, changing the composition of foreign reserve in favour of INR will not resolve the problem, just as selling dollar reserves from time to time when the Rs is at its lowest point cannot remove the root cause. Only if the INR or dollar reserve inflow is greater than outflow can the reserve get replenished and get cumulatively higher. For the moment, however, it is important note that when one looks at monthly record of the INR and dollar reserves held by RMA, they are almost mirror image of each other. That is to say, when dollar reserve goes up, INR reserve comes down. This happened simply due to the fact that as dollar is converted in Nu, the Nu holding is quickly reconverted into INR for import purposes. So the round tripping of dollar into Nu and back into INR seems to have taken place with very little time lag. In fact the time lag of completing a round trip seems to be less than a year.

The third cause of INR crisis is the deterioration in the terms of trade. Export index price and import index price are needed to estimate terms of trade movement. But its idea is very elementary. Terms of trade measures how many units of export is needed to pay for a unit of import. An example can be given by comparing the growth rate of import price of diesel from India and the growth rate of export price of electricity from Bhutan. Import price of a litre of diesel has grown over the years much faster than the export price

of a kilowatt hour of electricity. This means that to import a litre of fuel Bhutan needs to export increasing units of electricity. Even if the quantity of fuel imported remains constant, the balance of payments will continuously deteriorate. The fuel import has risen by a large amount every year. Growth rate of prices of major export commodities like apple, oranges and potatoes have also been sluggish.

The fourth contributory cause of INR crisis is the foreign debt itself. When INR overdrafts are included, and it should be, debt servicing has grown spectacularly. It was \$ 385.9 m in 2010/11 but rose to \$ 914 m in 2011/12 because of the repayment of overdrafts. In 2009/10, \$ 182 m or over Nu 9 b a year in repayment consisting of both principal and interest had to be made. In any case, debt service is set to rise in future. I'm not debating at all about the necessity of repayment because the investment in hydropower generates revenue out of which repayment is made possible. It is to merely state that capital outflow has to take place because there was borrowed inflow for investment at some point in the past and that places a burden on the foreign currency reserve. The government meticulously maintains information on its debt service schedule, but this information is not adequate if we wish to judge the expected level of stress on foreign reserve, say over the next 15 years. It is equally important to estimate the stress on foreign reserve from another main source i.e., current account deficit.

The time path of outflow out of foreign currency reserve should be exhaustively estimated by taking into account both the debt service and the likely size of deficit current account at any given point of time in future. Only when we have rough estimates of the two streams of outflow out of foreign currency reserve we would know the level of comfortable balance in the foreign currency reserve. The current state of information maintained by the government is not at all good enough at showing the level of outflow in terms of INR and dollars over the next 15 years. It doesn't have rough idea of current account deficit even over the next five years although the RMA will be obliged to settle deficit current account. This deficiency in generating information over a longer period of time will compel the government and RMA to take short-term reaction to the problem. They will have to borrow abruptly to finance current account deficit; this is evident in the INR commercial borrowing.

Among the imported goods, contributing to trade deficit, are investment goods (machineries for the hydropower sector) which are paid for by borrowing for, say, hydropower investment. A good part of borrowing is done to close the gap between domestic saving and total investment in the economy. In 2011 Bhutan's total net borrowing from all sources was over 17 b. Net borrowing means after deducting debt service payments.

When trying to solve the INR problem, it is not only important to consider merchandize trade but also trade in services. In fact, tourism, which is an invisible export, help offset the current account deficit of our country. However, the per capita per night difference in gross earnings from regional tourists and international tourists must be calculated in a rigorous way to show which kind of tourism aggravates current account deficit and which one helps on the margin. Gross earning per regional tourist is estimated to be 476

dollars while gross earning for an international tourist is estimated to be 5044 dollars. One more international tourist gives the same gross earning as 10 regional tourists. It is easy to see which one is smarter move. In 2012, gross earnings from \$ tariff paying tourists was \$ 62.8 m, royalty to the govt. was 16.6 m; tour operators net was \$ 43.96 m. Total gross earning was estimated to be \$ 227 m. In the same year, a regional tourist spent around INR 33,718 (\$ 616.6) for a trip to Bhutan. Total gross earning of regional tourist was estimated to be \$ 31.26 m. These numbers concerning regional tourist earning seems to be overestimated and needs further research. As the number of regional tourists increase, more bed and breakfast type of hotels will have to be built, and construction materials and labour have to be imported. More fuel and food will have to be imported to support such tourism on a continuous basis. This will contribute, though it will not be a decisive factor, to further deterioration in current account balance for some time.

The fifth contributory cause of INR crisis is the INR outflow on account of foreign workers. In the balance of payments accounting, it is part of the invisible trade which contributes to current-account deficit. But in national accounts framework, it is called net income. INR outflow in this regard should not be considered with a value judgment that this outflow is negative or undesirable. It is simply to state that in 2011 about 4.8 b INR has been paid as remittances on account of wages and salaries of labourers and professionals from India. It is quite obvious that about Nu 5 b of INR that is incurred in current account deficit can be reduced if Bhutanese can work in similar tough working conditions as Indian workers, but this is very unlikely to happen for the foreseeable future. Bhutanese people do not submit themselves to rigorous work at the same wage rate as foreign labourers, as substitute effect of leisure seems to dominate income effect. On the other hand, such adaptation to tough working conditions could be demystified to the prospective workers by giving them training and better housing conditions. One part of solution to the current state of underemployment will lie in creatively organizing a substantial number of Bhutanese youth to work in the hydropower construction sector over the next decade.

In summing up, I have attempted to explain the fundamental causes of the INR problem. Analysis is based on quantitative evidence as far as data permits though I do not include the data here. The key measures of both long term and immediate solutions are implicit in this short article. If actions are not taken in the most appropriate directions, preliminary analysis drives me to the conclusion that the country will face economic crisis within a few years. The main value of a diagnosis is to avoid such unpleasant outcome by proactive measures. We need not accept the conclusion because we can overcome it.