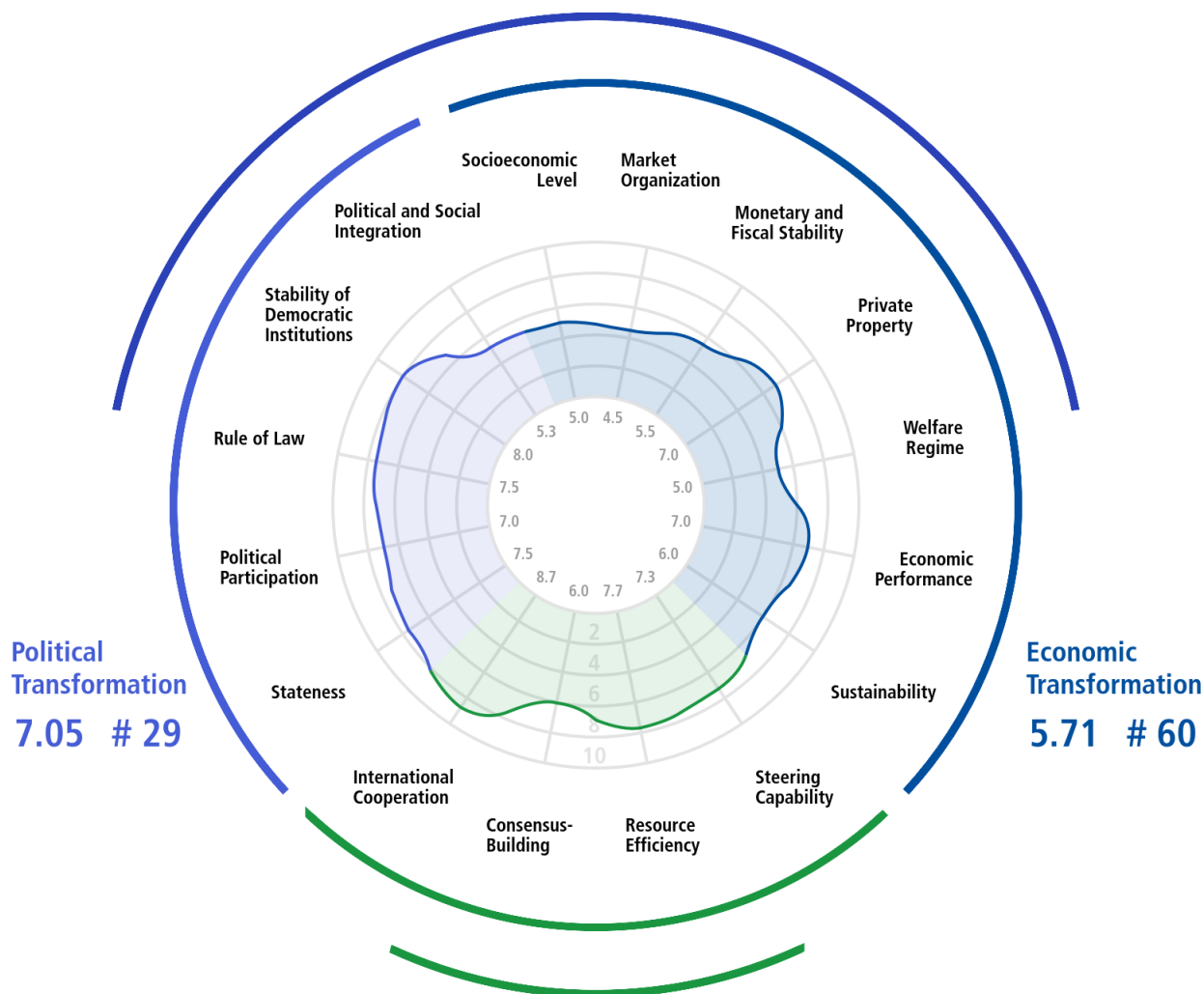


# Bhutan

## Status Index

**6.38 # 38**

on 1-10 scale out of 137



**Political Transformation**  
**7.05 # 29**

**Economic Transformation**  
**5.71 # 60**

## Governance Index

**6.69 # 13**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>0.8</b>	HDI	<b>0.654</b>	GDP p.c., PPP \$	<b>11508</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.1</b>	HDI rank of 189	<b>129</b>	Gini Index	<b>37.4</b>
Life expectancy	years	<b>71.8</b>	UN Education Index	<b>0.496</b>	Poverty <sup>3</sup>	% <b>12.2</b>
Urban population	%	<b>42.3</b>	Gender inequality <sup>2</sup>	<b>0.421</b>	Aid per capita \$	<b>237.7</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

In 2019 – 2020, Bhutan’s democracy continued its consolidation. A new party, the Bhutan United Party (Druk Nyamrup Tshogpa, DNT), took the helm by winning the 2018 national elections. The Bhutan Peace and Prosperity Party (Druk Phuensum Tshogpa, DPT) accepted its role as the opposition party with 17 members of parliament, which made it the strongest opposition in the country’s democratic history beginning in 2008. While the changes in power with each election from the current ruling party to another party could be seen as a sign of mistrust of the incumbents, rotation of power is a positive sign in terms of accountability and inter-party competition. The ruling and the opposition parties have challenged each other on various issues ranging from legislations to public policy. The now-opposition DPT dismissed the ruling DNT’s repeated appeals to act as one team unless it was offered positions on the cabinet allowing it a seat at the decision-making table.

Bhutan’s democracy has also shown strong signs of horizontal accountability. The National Assembly and the National Council, Bhutan’s lower and upper houses of parliament, respectively, have clashed at times over legislation and policies but have eventually settled most of their differences amicably. The role of Bhutan’s judiciary also has drawn increasing public attention both in terms of its verdicts and the growing role of the judiciary in adjudicating differences between the branches of governments and with constitutional bodies such as the Anti-Corruption Commission and the Attorney General. As competition between Bhutan’s political parties for popular support grows, their appeal will inextricably be tied to their success at addressing peoples’ expectations for improved living conditions and economic opportunities. Since Bhutan discovered its first case of COVID-19 on March 5, 2020, the government, under the stewardship of the king, rallied the country to contain and mitigate the impact of the pandemic; as of January 2021, Bhutan had reported only one death, and just over 750 infections.

COVID-19 affected Bhutan's already-struggling private sector. With state-owned enterprises (SOEs) generating most of the state's revenue, especially in the areas of hydroelectricity, mines and minerals, the government experienced little urgency in terms of addressing the financial and regulatory concerns of the private sector. The passage of the Mines and Minerals Act of 2020, which gives a monopoly to a state-appointed authority, is a clear example of this. With reduced revenues from the important tourism sector in the wake of COVID-19 and simultaneously increased expenditure on relief and mitigation, the government's dependence on SOEs has only grown. COVID-19 has also hit private enterprises particularly hard, particularly those in the tourism sector. This sector also attracts the bulk of foreign direct investment (FDI) in Bhutan. With over 25% unemployment reported among Bhutan's youth, Bhutan will need to accelerate development of the private sector to create more jobs. COVID-19 has also negatively impacted Bhutan's critical earnings from remittances and forced the return of over 6,000 Bhutanese from abroad.

## History and Characteristics of Transformation

Bhutan underwent a major and generally peaceful transformation from direct royal rule to a constitutional monarchy over the course of 10 years. In June 1998, direct royal rule was ended and a cabinet of ministers was appointed. In 2005, a draft constitution was publicly released and on July 18, 2008, after public consultations, the constitution was formally enacted.

The constitution establishes a parliamentary system with the right to form political parties. In the country's first past-the-post elections, held in 2008, the People's Democratic Party (PDP) received 33% of the votes but won only two out of 47 seats, while the Bhutan Peace and Prosperity Party (Druk Phuensum Tshogpa, DPT) took the other 45. The country's second general elections (for both the National Council and National Assembly) took place in 2013 but recorded lower voter turnouts than the 2008 elections. Four political parties, including two new ones led by women, competed in a primary election. The two new parties did not make it past the primaries, leaving the DPT and PDP to run against each other in the general election. In the general round, the incumbent DPT won only 17 seats, with the PDP capturing 30 seats, thus emerging as the new governing party. In 2018, Bhutan held its third parliamentary elections. National Council elections in April saw voter turnout of over 54%, a substantial increase from 45% recorded in the 2013 elections. On September 15, 2018, the primary round of elections was held for the National Assembly. The surprise winner in the primary round was a new left-of-center party formed in 2013, the Bhutan United Party (Druk Nyamrup Tshogpa, DNT), led by Lotay Tshering, a urology surgeon. The DPT secured the second place and the two parties advanced to the general round held on October 18, 2018. In the general round, the DNT secured about 60% of the votes and won 30 of the 47 seats. Voter turnout, about 71%, was far higher than the 66% turnout for the 2013 National Assembly elections. In 2018, there were significant gains in women's representation. Two female candidates were elected to National Council. Women also did better in the National

Assembly where seven of the 10 women candidates won. In 2013, no women had been elected to the National Council and only three had been elected to the National Assembly.

Economic and social changes have been proceeding rapidly in Bhutan. This has been particularly evident in the capital Thimphu, which has grown from 30,000 inhabitants in 1993 to about 138,736 in 2017, 19.1% of the country's total population. Despite the pace of urbanization in Thimphu and elsewhere in Bhutan, 61% of the population continue to live in rural areas and are predominantly engaged in agriculture. In 1960, 91% of the population lived rurally.

Traditionally, the Royal Civil Service provided employment for school and college graduates. However, since 2000, the number of graduates has exceeded the number of available positions, highlighting the need for the private sector to provide employment opportunities. Slowing economic growth rates in 2013 and 2014 underscored the difficulty in generating strong private sector development in the country. Even higher growth in 2017/18 has not reduced the problem of unemployment.

Recent reports from Thimphu suggest increasing social problems associated with the effects of urban life on the structure of Bhutanese families, especially owing to youth unemployment. Drug offenses and property crimes have spiked. Although Bhutan continues to make improvements in providing infrastructure, health care and education, the negative effects of modernization are increasingly palpable in urban areas and have also led to rural depopulation in some areas. However, urban populations are happier than rural residents according to the 2015 Gross National Happiness survey.

The so-called Southern Question regarding Lhotshampa refugees, who fled or were expelled from Bhutan in the early 1990s, has largely faded as most of the refugees, over 90,000, have been resettled abroad, mainly in the United States. Thousands of Lhotshampa refugees have remained in Nepal, even after the resettlement program ended in 2019, and there has been no breakthrough between Nepal and Bhutan to help them settle permanently.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

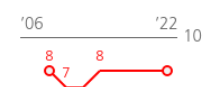
The state has the monopoly on the use of force throughout the country. Responsibility for patrolling the border areas and forests rests with the Royal Bhutan Army, the Royal Bodyguard of Bhutan and Royal Bhutan Police. The latter has posts nationwide. An estimated 1% of GDP is used for military expenditure. No rebel groups or criminal organizations operate in Bhutan.

Relations with neighboring India are close and cooperative, including with the Indian military, which has a presence in Bhutan. In 2020, porous borders with India presented some challenges to enforcing the lockdown to prevent the spread of COVID-19. Bhutan has no formal diplomatic ties with its northern neighbor, China, and there is still an unresolved border dispute between the two countries. Negotiations on the dispute have been conducted amicably since 1984. The 24th round of border talks took place in August 2016. In 2017, Bhutan was caught in the middle of a 75-day standoff between India and China in Doklam, a disputed territory between China and Bhutan. The standoff followed China's attempt to extend an existing road in North Doklam into southern Doklam claimed by Bhutan. India has a security treaty with Bhutan under which the Indian military is obligated to defend Bhutan's territorial integrity. The standoff ended after China halted the construction and Indian troops withdrew. In June 2020, fresh claims by China to Bhutan's Sakteng Wildlife Sanctuary added a new dimension to the disputed borders. There were reports in the New York Times in 2020 of China building a village inside Bhutanese territory in the Doklam region, but Bhutan denied this.

Question  
Score

Monopoly on the  
use of force

8



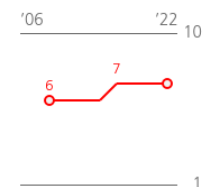
1

The concept of Bhutan as a nation-state is widely accepted. Before and since the expulsion or flight of thousands of ethnic-Nepali Lhotshampas in the late 1980s and early 1990s, the government vigorously promoted the concept of the Bhutanese nation-state. Bhutan's policy regarding thousands of Lhotshampas who remain in the country after the expulsion remains discriminatory. The 2017 census contained no questions about language, ethnicity and religion, which makes it difficult to establish the exact number of Lhotshampas still in Bhutan. Access to citizenship is determined by the 1985 Citizenship Act. The rules are strict. People whose parents are both Bhutanese qualify for citizenship as do those domiciled before December 31, 1958. Otherwise, applicants for citizenship should have at least 15 years (public servants) or 20 years (others) proof of residence and proficiency in the national language. Some external organizations have commented on the "very strict criteria" facing "ethnic-Nepali Bhutanese" when trying to obtain citizenship and security clearances. Failure to secure such clearances can limit access to employment, business ownership, education and international travel. The number of residents without such clearances is not disclosed by the government. Kuensel, Bhutan's leading newspaper, reported in 2020 that the five southern districts with significant Nepali-ethnicity populations are well-represented in the local and central governments; members of parliament of Nepali ethnicity comprise 20% of elected members in both houses of parliament.

Of Bhutan's population, 75% adhere to Mahayana Buddhism. The constitution declares that religion is separate from politics and that religious institutions and personalities must remain above politics. Thus, the state is officially secular. There is no political activity by the Buddhist establishment. The personnel of religious institutions are prohibited from voting or standing in elections. The constitution does state, however, that preserving the country's religious heritage of Buddhism is important and that society is "rooted in Buddhism." Buddhism is closely tied with the elites and there is a strong bias against Hindus in particular. Since the 1980s, Bhutan's One Nation, One People policy has sought to promote a uniform religious and cultural identity. The national flag and emblem also draw from Buddhist symbolism. The state continues to provide some financial support for monasteries and religious activities. Government approval is necessary for the construction of religious buildings. There have been reports of the government favoring Buddhist over Hindu religious buildings. A Hindu temple was rebuilt in the southern region in 2015 by order of the king as a gift in commemoration of the royal wedding. In 2019, a large new Hindu temple was established in the capital, Thimphu. There is a small number of practicing Christians in Bhutan – estimated to be between 2,000 and 25,000 – who meet discretely. They are not formally recognized by the government and have no religious buildings. Two Christian pastors were fined and sentenced to prison for evangelism in 2016.

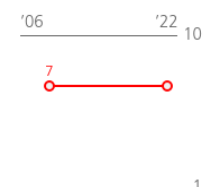
#### State identity

7



#### No interference of religious dogmas

7



Bhutan has a generally well-functioning system of public administration involving central ministries in the capital and their decentralized offices in the districts (dzongkhags). In recent years, there have been calls to modernize the civil service by making it smaller, more compact and more efficient. With a relatively small and underdeveloped private sector, especially in rural areas, the state has taken most of the responsibility for service delivery, for example, in education, health and the construction and maintenance of infrastructures. In 2019, Bhutan announced a pay raise of between 14% and 29% for public servants. Basic services are provided throughout the country and the coverage and quality of these services has been steadily improving. Universal primary education has been achieved with more than 98% of 6- to 12-year-old children enrolled in schools in 2017. Secondary enrollment has also increased from 12% in 1985 to over 70% in 2017.

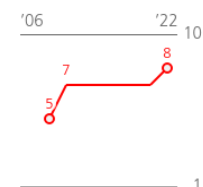
According to the WHO, life expectancy has risen from 52.4 years in 2000 to 70.6 in 2017 and 98% of households now have electricity (as recently as 2008 only 60% of households had electricity). As of 2017, 98% of the population have access to an improved water source and 81% to improved sanitation, although 18% reported irregular water supplies. In 2019 – 2020, Thimphu and surrounding areas experienced critical water shortages, forcing many businesses and residents to turn to private water vendors. Poverty levels were recorded at 23% of the population in a 2007 survey but halved to 12% in 2013 and dropped to 8.2% in 2017. Most poor people live in rural areas of the country. Tax as a percentage of GDP rose from 5% in 2004 to 19% in 2016 and 16.1% in 2018 and is predicted to increase as incomes rise and hydroelectric projects come into operation. Although only 6% of the population pays any direct tax in Bhutan, this is still the highest percentage among the South Asian Association for Regional Cooperation (SAARC) countries.

## 2 | Political Participation

In 2018, Bhutan held the third elections to the National Council and National Assembly, the two chambers of the national parliament. Bhutan also has non-party elections at the local block (gewog) level. For the National Council, which is non-partisan and seen as a house of review, one member is elected for each district (dzongkhag), regardless of population size. In November 2020, Bhutan held a by-election for the National Assembly seat in the Choekor-Tang constituency, vacated by the resignation of the opposition leader, Pema Gyamtsho, of the DPT. He had resigned voluntarily to assume the position of the new director-general of the Kathmandu-based International Center for Integrated Mountain Development (ICIMOD). By winning this seat, the ruling party, the DNT, flipped a constituency that the DPT had held for the last 10 years. Bhutan will hold local-level elections toward the end of 2021. The Electoral Commission has run elections strictly and impartially. Elections in Bhutan have been free and fair with no serious complaints concerning irregularities. However, political parties' campaigns are restricted to issues that are not “divisive.”

### Basic administration

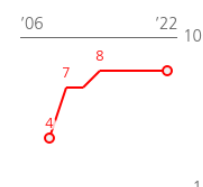
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1

### Free and fair elections

8



1

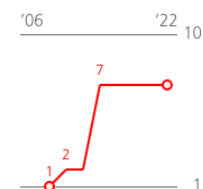


Bhutan's political elite is small and has demonstrated consistent loyalty to the state and the king. The military has no record of challenging the state, the clergy do not participate in politics, and there is to date neither a trade union movement nor a powerful business lobby. In short, there are no active domestic veto players. However, there are two potential veto players, one domestic and one external. The potential domestic veto player is the king. He is part of the parliament and has the authority of assent for bills of parliament. He may return bills with recommendations for amendments but must abide by parliament's final decision, if supported by both houses. The king and the institution of monarchy are held in very high esteem in Bhutan and the two houses of parliament are highly unlikely to make proposals with which the king would strongly disagree. However, the king has never taken any overt action that could be interpreted as veto behavior. The potential external veto player is India. It provides considerable financial aid to Bhutan and accounts for 80% of all trade. The country buys most of Bhutan's hydroelectricity, the main source of state revenue, and is also responsible for Bhutan's defense. The Bhutanese government is careful to avoid actions likely to annoy India. For example, a conversation between the prime ministers of Bhutan and China on the sidelines of an international meeting in the run-up to the 2013 election raised speculation that diplomatic relations between the two countries might be established. Soon thereafter, the Indian government removed the subsidies on kerosene and cooking gas exported to Bhutan leading to a doubling of their prices in Bhutan. Some commentators saw India's action as a warning to Bhutan concerning the adverse consequences of opening up relations with China.

The constitution guarantees freedom of assembly and freedom of association, but in practice there are some restrictions. Citizens can join political parties that have been approved by the Election Commission. Protests or demonstrations are permitted but must be approved by the government. Public protests are portrayed as a non-Bhutanese mode of behavior. Freedom of association has the proviso that it is only for groups "not harmful to the peace and unity of the country." Thus, civil society organizations (CSOs) that might work on refugee, human rights or other sensitive issues are not allowed to operate. All CSOs must register with the government. There are no trade unions because of the rural subsistence nature of much of Bhutan, the relative absence of large organizations and lack of government support for unions. COVID-19-related restrictions did not impact freedom of assembly.

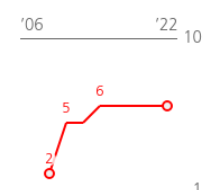
Effective power to govern

7



Association / assembly rights

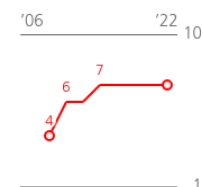
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Bhutan's constitution guarantees freedom of expression but its exercise in practice remains constrained. Journalistic expression has been hampered by Bhutan's Defamation Act that can be used to harass journalists. A recent case that drew critical attention was the month-long suspension of the managing editor of *The Journalist* in 2018. He was apparently suspended in response to a complaint by the Office of Media Arbitrator that the paper had violated the Election Commission's oral directive not to run profile stories on National Council candidates. The Journalist Association of Bhutan (JAB) expressed concern that such practices may prevent journalists from performing their duties free from fear and bias. In 2018, Bhutan established a Media Council with broad regulatory authority. The council establishes the journalists' code of conduct and lays out accreditation and certification requirements for journalism practitioners. Critics fear that the council's intrusive oversight could make journalists more prone to self-censorship. In the 2020 World Press Freedom Index, Bhutan was ranked 67th out of 180 countries, a notable improvement over its 94th place in 2018. When compared to other South Asian countries, Bhutan's media environment was ranked the best in the region. The use of social media is spreading rapidly in Bhutan. According to the Info-Comm and Transport Statistics report 2018, the number of internet subscribers increased by 28% between 2016 and 2017 to 700,000. Bhutan has more than 700,000 mobile phone subscribers; almost every Bhutanese has mobile access. According to [www.datareportal.com](http://www.datareportal.com), an online digital data portal, 430,000 Bhutanese are on social media, about 58% of Bhutan's population. According to a report in *Kuensel* in November 2018, Bhutan is the top internet-addicted country among Southeast Asian nations; at least four out of 10 adolescents are reported to be addicted to the internet in Bhutan and this addiction negatively impacts their health, work and school performance. The government does not generally monitor online accounts of citizens.

### Freedom of expression

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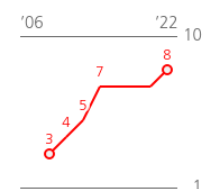


### 3 | Rule of Law

Separation of powers between the executive, legislative and judiciary is laid out in Bhutan's constitution and is evolving in the context of its new democratic framework. Under Bhutan's parliamentary system, the government has the support of a majority in the National Assembly. In all three recent elections, the winning party secured an absolute majority. The judicial branch functions independently of the executive and legislative, and judges are appointed by the king on the recommendation of the judicial council. As political and legal contests grow in a democratic system, demands for judicial adjudication is on the rise, especially involving cases of corruption and abuse of power. The Anti-Corruption Commission (ACC) plays an important role in the system of checks and balances on the exercise of power. Following recommendations by the National Law Review Task Force from 2018 to strengthen the separation of powers, the ACC and the Election Commission of Bhutan have become independent of the Royal Civil Service Commission, the central agency for recruiting, training and transferring civil servants.

### Separation of powers

8



After the first detection of a COVID-19 case in March 2020, the government introduced emergency measures. In August, it declared a national lockdown and a strict tracing policy, which was extended in September. Parliament formed a Parliamentary Committee on COVID-19 Preparedness and Response which monitored the government's decisions.

Bhutan's constitution strongly emphasizes the rule of law, and the judiciary is the guardian of the constitution and the final authority regarding its interpretation. The Supreme Court sits at the top of the court hierarchy. The decisions of the lower courts can be appealed upwards and each level of the court system maintains its independence. There has been investment in upgrading the skills and knowledge of officials in the judiciary through foreign technical assistance and with the establishment of the National Legal Institute. In 2015, Bhutan also founded the Jigme Singye Wangchuck School of Law.

The Supreme Court has acquired credibility both domestically and internationally as the guardian and interpreter of the constitution. Courts at all levels of the judicial system have demonstrated independence by adjudicating cases against government officials and agencies, including members of the cabinet and the military. As pointed out by the Royal Audit Authority (RAA), there appeared to be numerous problems within the judiciary, related to recruitment of judicial officials affecting its ability to deliver fair, and equitable justice. The judiciary's 2020 annual report found insufficient financial resources to expand its infrastructure and to hire and train personnel as restricting the courts' ability to keep up with increasing demands for judicial services. In 2019, 9,541 cases were registered with 2,692 pending cases from 2018. The courts decided 9,216 cases.

Bhutan's judiciary has been criticized for both delivery and a lack of transparency. In 2017, in response to complaints of possible bias resulting from a plaintiff's relationship to more than one judge, the Supreme Court of Bhutan drafted the Judicial Accountability Guidelines 2017. The guidelines allow individual citizens to file complaints of bias against High Court and Supreme Court decisions. The Judicial Services Act 2007 only allowed for complaints and investigations against district-level judges. The RAA report, the "Review of Judiciary System and Practices, 2019," states that court judgments still remain entirely inaccessible to the public. The RAA recommended that the judiciary improve accessibility to judgments in order to achieve greater transparency and also to facilitate legal research.

As political and legal contests grow with the maturation of Bhutan's democratic system, demands for judicial adjudication of constitutional and legal issues are on the rise. Bhutan's court began adapting to the challenges of COVID-19. On May 12, 2020, Trongsa District Court delivered a judgment using Skype video conferencing without requiring the physical presence of the parties to the action in court.

Independent  
judiciary

7

'06 '22 10



1

There is a low incidence of corruption in Bhutan but there is considerable official and public concern about potential adverse effects from it. The ACC has worked well since commencing operations in 2006. In its first 10 years of operation, the ACC dealt with 4,333 complaints, undertook 148 investigations and had a conviction rate of 90%. The ACC has not shied away from prosecuting cases against leading officials. In response to the ACC's appeal against a High Court's acquittal decision, in March 2019, Bhutan's Supreme Court sentenced nine Royal Bhutan Army officers and a non-commissioned officer to prison terms for their involvement in the DeSuung training fund embezzlement case. The ACC also looked into an allegation that the former prime minister, Dasho Tshering Tobgay, misused government funds amounting to BTN 3 million to installing security infrastructure at his private residence in Thimphu. The ACC cleared Tobgay of any wrongdoing in November 2019.

Fundamental civil rights are set out in Article 7 of the constitution but refer in most cases to citizens only, like the freedoms of speech, opinion, expression, movement and religion, the right to vote, and equality of access to the law and public services. However, according to Article 33, these rights may be suspended when a Proclamation of Emergency has been declared. Furthermore, Article 7 gives the state permission to apply "reasonable restriction by law" when "the interests of the sovereignty, security, unity and integrity of Bhutan" and when peace, stability and national well-being are judged to be threatened.

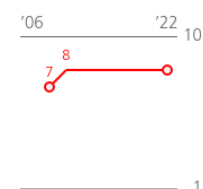
There is no capital punishment. According to the U.S. State Department, there were no incidents of disappearances, arbitrary killings or torture in 2018. Prisons have been judged to generally meet international standards. Rules against arbitrary arrests and detention are generally observed. The police have sometimes been accused of human rights violations, especially by external ethnic-Nepali organizations, as well as of discrimination and human rights abuses against the Nepali Lhotshampa population. An unknown number of members of this population does not have full citizenship and the rights associated with that status. While freedom of religion is guaranteed in the constitution, missionaries are banned and government permission is needed for the construction of religious buildings.

In June 2019, Bhutan's National Assembly passed the Penal Code Amendment Bill of Bhutan 2019 to remove discriminatory sections on "unnatural sex" from the Penal Code. The move was a major boost for the lesbian, gay, bisexual, transgender, intersex and queer (LGBTQ+) community. The National Council passed this bill in February 2020 but refused to remove the penal provisions, while reducing consensual "unnatural sex" to a petty misdemeanor. This punishment, however, was removed by an amendment in December 2020, which clarified that homosexuality between adults does not constitute unnatural sex.

Bhutan is a signatory to the Convention on the Elimination of All Forms of Discrimination Against Women and other international agreements. NGOs report little overt discrimination against women and that women have equal access to public

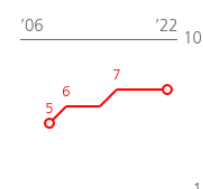
#### Prosecution of office abuse

8



#### Civil rights

7



services. However, Bhutan ranked only 121st out of 144 countries in the Global Gender Gap Index 2016. In 2018, Bhutan rose slightly to the rank of 122nd out of 149 countries. In 2020, Bhutan's ranking declined again to 131st out of 153 countries.

The report showed considerable gender disparities in health, education, economy and politics. There have been media reports indicating a rise in the incidence of domestic violence and sexual assaults on women. The government acknowledged the seriousness of the issue by passing the Domestic Violence Prevention Act in 2014. Gender-based violence was reported to have increased by 36% in 2020 compared to the previous year. Accessibility for persons with disabilities remains a major problem. The National Commission for Women and Children is responsible for the country's obligations to international agreements while there are NGOs that focus on women's and children's issues.

#### 4 | Stability of Democratic Institutions

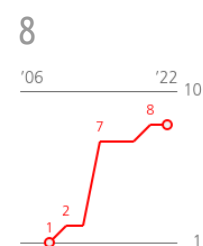
As a young democracy, Bhutan's democratic institutions function well. All three elections have seen alternations of power from the ruling party to another party. Political parties, though respectful of each other, face growing opposition from their rivals. For example, during the 2018 election campaign, opposition parties questioned the ruling party's performance in office and the improper use of government resources. Parties have become more attentive to the electorate's concerns (e.g., income inequality and access to health care and drinking water). The election of two women as members of the National Council in 2018 and seven women to the National Assembly also marked an improvement. Since the first case of COVID-19 was detected in Bhutan in March 2020, the government became entirely focused on containment of the pandemic and distribution of relief to citizens.

Bhutan's democratic institutions have progressively consolidated since the first national democratic elections in 2007 and 2008. There are no active veto players and no individuals or organizations advocating significant change to the political system. All political parties are supportive of the democratic system, and the ruling parties in both the 2013 and 2018 elections smoothly handed over power to the new majority parties. Higher voter turnouts in elections for both houses of parliament in 2018 than in 2013 showed increased support for the electoral process. Increasing use of electronic voting machines and postal votes has helped streamline the voting process.

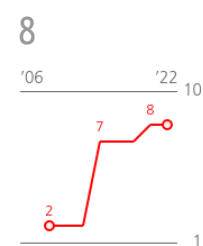
The 2018 elections marked the first time in Bhutan's history that the opposition in parliament was strong. The DPT, which formed Bhutan's first democratic government after the 2008 elections, won 17 seats (36%) in the new parliament. In 2008, the opposition had won only two seats, and 15 seats in 2013.

Bhutan's constitution gives equal roles to both houses of parliament in matters of legislation. In 2019 – 2020, the two houses clashed openly. The National Assembly

Performance of democratic institutions



Commitment to democratic institutions



has tended to overlook or ignore some legislative initiatives by the National Council. For example, in January 2020, the National Assembly refused even to deliberate upon the Impeachment Procedure Bill 2019, which had been passed by the National Council. The two houses also had a standoff over the Minister and Equivalent Post Holders' Entitlement Bill 2019, also passed by the National Council in summer 2019. The two houses of parliament also clashed over several other issues including the Crime Bill, pay raises for government employees and the removal of grade thresholds for class X (10th class) students to advance to higher class. The recurrence of such differences have raised some concern over the performance of parliament. Bhutan's parliament moved to the digital realm in 2020 when the Finance Committee of the National Assembly held its first public legislative hearing on the Mines and Minerals bill online.

## 5 | Political and Social Integration

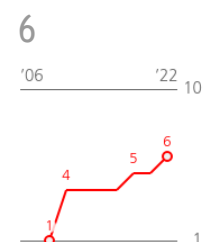
Bhutan's party system is young, without strong links to or deep roots in society, and low ideological and programmatic polarization. Parties have small memberships, which ranged from 142 to 799 members for those in the 2013 National Assembly election. In the 2018 election cycle, the four political parties that participated in the primary round reported higher memberships. The newly established DNT, which has formed the new government, reported over 11,000 members. The other three parties ranged from 1,275 to 5,520 members.

In 2018, the DNT won a majority in the National Assembly elections, beating both the ruling and opposition parties of the previous parliament. As the general round of National Assembly elections is between the top two parties, the runner-up party is recognized as the only opposition party in parliament, making other parties that participated in the primary round largely irrelevant in the governing process.

The policy platforms of parties have differed little as the Election Commission ensures that parties follow the principle that "national interest prevails over all other interests" and demonstrate that they are promoting national unity. Three members of the Election Commission, including the chief election commissioner, are appointed by the king from a list recommended by leaders of the legislature and the chief justice of Bhutan. They must also be seen to be pursuing the national development philosophy of Gross National Happiness. Party platforms have been distinguishable only by differences in the strategies highlighted to achieve Gross National Happiness and varying emphasis on particular elements of it; this was true also in the 2018 elections. However, with the center-left DNT taking power, political parties have begun highlighting popular agendas and voters are seen to be expecting more from them.

Political parties receive limited funding for each candidate from the Election Commission (\$2,167 in 2013) and from members' contributions with a ceiling of

Party system





\$8,333 in 2013. The amount remained the same in the 2018 elections. Political parties contest seats only in the National Assembly. The National Council elections are non-partisan and political parties are also banned from participating in local-level elections.

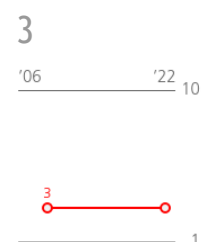
There are few interest groups in Bhutan and they are of marginal importance in a country where the state has such a commanding presence. Currently, there are 41 public benefit organizations and 11 mutual benefit organizations. There is some influence from business organizations such as the Bhutan Chamber of Commerce and Industry and especially the Association of Bhutanese Tour Operators. However, the private sector is yet to emerge as an influential player. NGOs have been developing but remain few in number and focused on the environment, as well as on women and children's affairs. Some NGOs, such as the National Women's Association of Bhutan and the Royal Society for the Protection of Nature, receive royal patronage. There are no trade unions.

Opinion poll survey data is very limited. In the 2010 Gross National Happiness survey conducted by the Center for Bhutan and GNH studies, 92% of respondents indicated an intention to vote in the next election, which survey reporters interpreted as a commitment to democracy. It may equally indicate a recognition of civic duty. A national human development report, "Ten Years of Democracy in Bhutan," launched in March 2019 by the prime minister, Lotay Tshering, and the U.N. Under-Secretary-General, reported on the results from a survey. It showed that more than 80% of Bhutanese enjoyed their right to express their views, and 75% reported being able to enjoy their constitutional rights.

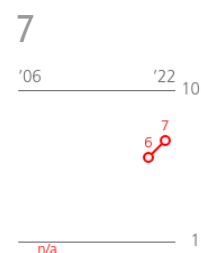
Compared to 2013, voter turnout was higher in both the National Council and National Assembly elections in 2018. In April 2018, 54.3% of registered voters cast their ballots in the National Council elections, an increase of nine percentage points from 2013. In the primary round of the 2018 National Assembly elections, voter turnout was 12 percentage points higher than in the previous election, at 66%, an encouraging sign of greater participation. In the general round of the National Assembly election in October 2018, voter turnout was 71.46%, an increase of five percentage points from the 66% voter turnout in 2013. These figures can be interpreted as reflecting greater awareness and support for democracy.

Traditionally, decision-making focuses on building consensus using mediation. This occurs in both the policy process and in the operation of the judiciary. The traditional acquiescence of society to the state and its acceptance of the state's legitimacy may have been transferred to the new democratic institutions as its latest manifestation. The rise of competitive political parties and elections have increased personal contacts between political leaders and the public. The rapid increase in internet penetration and access to social media in the country has also reportedly increased discussion of politics and policy matters.

#### Interest groups

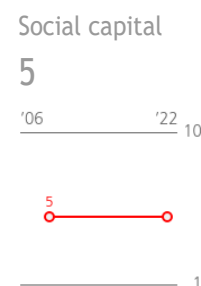


#### Approval of democracy



The DNT government, the opposition DPT, and the king and queen of Bhutan worked closely to address the health and economic challenges posed by COVID-19, and these efforts had wide public approval. The government provided economic relief in the form of relief distributions, tax deferrals, and helping the return of Bhutanese nationals working abroad. Bhutan made noteworthy progress in digital government by moving to 82nd position from its 111th ranking in 2018 in the E-participation Index (EPI).

Traditional rural Bhutanese society had a variety of civil society organizations. These were locally based, often around Buddhist monasteries and focused on community functions such as mutual support, water management and religious festivals. Some of these survive today, although urban-rural migration and modernization have led to the disappearance of some of these organizations or at least hampered their work. Kinship networks retain their importance even in urban areas and are characterized by close interaction and the provision of help in times of crisis. However, traditional rural community solidarity has not been replaced by new autonomous organizations in urban areas. There are some NGOs and sports clubs, but modern forms of voluntary association are still few in number. The 2015 Gross National Happiness survey recorded a small but statistically significant increase in happiness since 2010, but the scores on community relationships and psychological well-being were “significantly worse.” For example, in 2015, only 26% of respondents reported that they trust most of their neighbors compared to 46% in 2010. There was a corresponding rise in respondents who trusted a few of their neighbors – from 14% in 2010 to 34% in 2015.



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In 2018, Bhutan’s improved GNI qualified the country to graduate from its “least-developed country” (LDC) status according to UNCDP. The GNI threshold of three-year average for graduation is \$1,242 per person. Bhutan also improved its Human Asset Index, another indicator of vulnerability associated with LDC status, from 45 in 2000 to close to 73 in 2018, driven mainly by an increase in gross secondary education enrollment. Bhutan’s graduation date from its LDC status has been postponed to 2023, however, following the government’s request for more time to prepare for this transition. Upon graduation from the LDC, Bhutan will no longer qualify for development assistance meant only for LDCs. In 2018 – 2019, the country’s economy grew by only 4.4%. The forecast for 2020 – 2021, considering the country’s struggle with the COVID-19 pandemic, according to the Asian Development Bank (ADB), ranged between 5.2% and 5.8%





Bhutan's HDI value for 2019 is 0.654, which ranks it 10th among 37 countries in the medium human development category. Bhutan also improved its ranking from 134th in 2018 to 129th out of 189 countries. This is quite a feat compared to the country's HDI value of 0.510 in 2005. Bhutan's progress results from increased life expectancy, greater number of students staying in school, and an increased per capita income. Since 2005, Bhutan's life expectancy at birth increased from 64.9 years to 71.8 years in 2019. The expected number of years of schooling almost doubled in the same period. Even though Bhutan's 2019 HDI is above the average for South Asian countries (0.641), however, when adjusted for inequality, the country's HDI falls to 0.46, a loss of 27.2%, which is above the average loss for South Asia 25.9%. In 2017 – 2018, Bhutan maintained an impressive economic growth rate of over 7.5%, making it the fastest growing economy in the developing Asia region. The growth rate for 2018 and 2019, according to the ADB, was 3.8% and 4.3% respectively. The ADB has lowered the GDP growth estimate for 2020 to 0.9%, projecting a contraction of the economy for 2021 by -3.4%. This reflects the impact of the pandemic. Bhutan's population growth rate has declined well below the replacement rate of 2.1. At this rate, Bhutan's population growth would become negative in the next seven years, a concern noted by Bhutan's government. Prime Minister Lotay Tshering attributed the drop to population control measures implemented two decades ago. According to the ADB's April 2020 outlook, 8.2% of Bhutan's 73 million population live under the national poverty line of \$1.90 purchasing power parity a day.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	2450.4	2446.9	2530.5	<b>2409.3</b>
GDP growth	%	4.7	3.1	5.5	<b>-6.8</b>
Inflation (CPI)	%	5.0	2.7	2.7	<b>5.6</b>
Unemployment	%	2.4	2.3	2.3	<b>3.7</b>
Foreign direct investment	% of GDP	-0.7	0.1	0.5	-
Export growth	%	6.5	4.6	14.4	-
Import growth	%	-0.9	8.2	-6.6	-
Current account balance	\$ M	-540.4	-478.2	-500.8	<b>-381.2</b>
Public debt	% of GDP	111.7	110.5	106.6	<b>120.7</b>
External debt	\$ M	2607.9	2552.0	2703.8	<b>2869.0</b>
Total debt service	\$ M	82.5	87.3	61.6	<b>58.3</b>

Economic indicators		2017	2018	2019	2020
Net lending/borrowing	% of GDP	-4.2	-2.5	-	-
Tax revenue	% of GDP	12.5	16.0	-	-
Government consumption	% of GDP	16.8	17.1	18.3	-
Public education spending	% of GDP	7.2	6.9	-	-
Public health spending	% of GDP	2.4	2.4	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

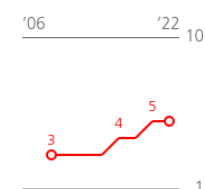
## 7 | Organization of the Market and Competition

In Bhutan's economy, the state plays a major role through SOEs that contribute 50% of the tax revenue. Hydropower accounts for 85% of that revenue. The SOEs, including Druk Holding, provide employment for about 12,600 people, of whom about 3,600 are in finance ministry-owned SOEs. There is government involvement in pricing in such items as gasoline, bus fares, propane and even meat. There are few large private companies and a small, unregulated commercial informal sector. Generally, market access and demand for Bhutan's goods and services are rather favorable due to the country's completely open access to the Indian market as part of one of the most liberal trade agreements in the world. However, market-based competition is still at a rudimentary level in a very small economy.

The informal sector dominates the economy, with only 23.1% of employment categorized as "regular paid" in the Labor Force Survey Report 2015. In 2016, the World Bank estimated Bhutan's informal sector employed 80% of the work force. According to the Labor Force Survey Report 2019, agriculture remains the principal source of income and employment for the majority of the population, employing 51.1% of the active work force. Yet, in 2018, agriculture accounted for only 16% of GDP. There is still a strong subsistence character to much of agricultural production. The service sector in 2018 employed 34.9% of the workforce, followed by industry, employing 14%. Bhutan has continued to introduce regulatory reforms to improve the business environment and access to foreign finance for the private sector. In the "starting a business" category of the World Bank's Doing Business report 2019, Bhutan ranked 91 out of 190 countries. Since 2013, the time it takes to start a business has been cut by two-thirds. Starting a business takes 12 days and eight procedures with a cost of 3.5% of GNI per capita. The shortage of Indian rupees is the main hurdle for businesses. With the passage of the Mines and Mineral Act 2020, the

Market  
organization

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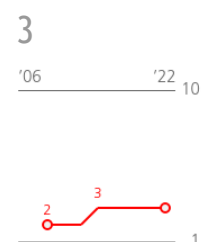
government has reaffirmed the principal role of SOEs, as the act gives the government-appointed Mining Regulatory Authority sole control over the sector. In 2019, the State Mining Corporation Ltd earned BTN 1.43 billion, realizing a 108% dividend from its coal and gypsum mines.

With the absence of a significant private sector, the state has founded a number of enterprises. Some of these have been privatized and others corporatized. A substantial SOE sector remains, presiding over some monopolies such as television, electricity, sand, timber, and postal services. There is a limited number of large private sector corporations. There are no laws on anti-competitive practices, monopolies and cartels but the Consumer Protection Act was passed in 2012. It sets out the rights and responsibilities of consumers and is administered by the Office of Consumer Protection. There appears to be low awareness of the act and there are reports of goods being sold above the maximum retail price. Nevertheless, the act has given a slight boost to competition in the economy.

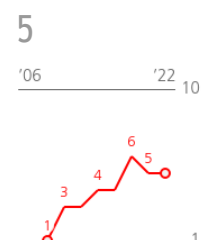
Private sector organizations feel that there is still no level playing field. In 2015, instead of a competition law the government of Bhutan decided to adopt the National Competition Policy (NPC). The decision was taken after a careful evaluation of enforcement capacity under the active assistance of UNCTAD. The NPC was drafted to create fair competition, prevent business monopolies, and encourage small- and medium-sized enterprises via the prerequisite for the government to conduct an impact assessment for new legislation with regard to competition, and existing laws and practices. Infrastructural facilities and public services are explicitly excluded from the rules of the NPC. The Mines and Minerals Act 2020 gives a monopoly to a government-owned authority over exploration and marketing of mines and minerals. Bhutan has moved up slightly in the World Economic Forum's Global Competitiveness Index. It was ranked 97th out of 138 economies in 2016 – 2017. In the 2018 Competitiveness Index, Bhutan ranked 82 out of 140 countries. Among its South Asian counterparts, Bhutan ranked second behind India.

Bhutan has made modest efforts to promote trade liberalization. It enjoys observer status in the WTO. In 2017, the government decided not to join the WTO at this time, echoing its decision in 2009. The impact of WTO membership on Bhutan's Gross National Happiness (GNH) program and doubts about Bhutan's ability to benefit from WTO membership are two major concerns. Bhutan lacks internationally competitive economic firms. WTO membership could lead to more imports and deficits. Bhutan is a founding member of the South Asian Preferential Trade Area (SAPTA), the South Asia Free Trade Association (SAFTA) and a member of the Bay of Bengal Initiative for Multi-Sectoral Technology and Economic Cooperation (BIMSTEC). Bhutan has yet to join the land transport agreement known as the Bangladesh, Bhutan, India and Nepal (BBIN) Motor Vehicle Agreement. On the bilateral front, Bhutan has a free trade agreement with India, a preferential trade agreement with Bangladesh and a trade and cooperation agreement with Thailand.

### Competition policy



### Liberalization of foreign trade



Bhutan's effective tariff rate is “very low.” In 2015, the average tariff rate was 2.82 but it rose to 4.13 in 2019. This situation is reflected in the World Bank's “trading across borders” ranking of Bhutan at 26 out of 190 countries. Bhutan scores low on the Logistics Performance Index, ranked 135 out of 160 countries in 2016. The landlocked situation of Bhutan creates difficulties shared by comparable Asian countries such as Nepal and Mongolia, but Bhutan has the added issue that it has no direct cross-border trade link with its northern neighbor, China. The bulk of Bhutan's imports and exports are from countries with which Bhutan enjoys free trade or preferential trade, notably India, which accounts for over 80% of Bhutan's trade.

Foreign investments receive the same treatment as similar domestic investments. Foreign ownership is allowed in education services (except technical and vocational institutions), private health care, five-star hotels, infrastructure, research and development, head office services and information technologies. Up to 51% foreign ownership is allowed in the financial services industry, while up to 74% foreign ownership is allowed in all other activities. Exceptions to this liberal policy include media and broadcasting, the distribution of services in wholesale, retail and micro trade, as well as mining and the sale of minerals in primary or raw form. The country has difficulty attracting foreign direct investment (FDI) to its landlocked nature, small domestic market, distance to global and regional markets, weak economies of scale, narrow economic base and vulnerability to natural disasters. Also, the government seeks to keep the amount of FDI flow below the GDP of Bhutan. Prime Minister Lyonchhen has expressed fear that should FDI of over BTN 100 billion be invested in Bhutan, it would distress the economy. Local businesses report difficulties in gaining access to finance. There was some modest liberalization of foreign direct investment rules in 2014, but entry and exit barriers to domestic markets remain especially high for foreign companies.

Until 2010, state banks held a monopoly in Bhutan. There are now five banks including four commercial banks and the Bhutan Development Bank, which is concerned with financing rural development. Financial market development has improved markedly in recent times according to the World Economic Forum, from a rank of 111 out of 144 economies in 2014 – 2015 to 79 in 2016 – 2017. The banking sector has been advancing “steadily” according to the ADB. There have been high rates of credit growth in recent years and an increase in non-performing loans, especially after the government enforced restrictions on Indian rupee credits in 2012. This led to the ratio of bank non-performing loans to total gross loans to rise from 3.9% in 2011 to 11.38% in 2016. According to the World Bank, as of March 2018, the gross non-performing loan ratio was 14.6%, two percentage points higher than a year before, which in turn lowered the profits of financial institutions. However, the assets of banks have increased by a greater amount. According to the World Bank, the bank capital to assets ratio was 17.8% in 2015. Access to financing has been consistently identified as the biggest problem for small and medium enterprises in surveys by the World Bank and the World Economic Forum. Most lending is

#### Banking system

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collateral-based, requiring up to 2.5 times the value of the loan in such items as land, equipment or personal assets. Such requirements are the highest among SAARC countries and among the highest in the world. Loan rates were cut in 2016 following recommendations of the World Bank's Financial Development Action Plan. In order to ease access to Indian rupees, in August 2019, Bhutan began the first phase of making RuPay payment cards available to Bhutanese. In the second phase, Bhutan's banks are expected to issue RuPay cards to Bhutanese citizens allowing them to access the RuPay network in India.

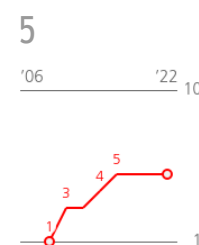
## 8 | Monetary and fiscal stability

The Bhutanese currency, the ngultrum (BTN), is pegged to the Indian rupee (INR) with one BTN equal to one INR. This makes Bhutan vulnerable to shifts in the Indian economy, especially the rate of inflation, which is directly impacted by the rate of inflation in India. Inflation in 2012 was the highest ever at 10.32%. The shortage of Indian rupees resulted in temporary bans on certain imports such as cars and the scarcity of some goods such as building materials.

Since 2012, inflation has dropped steadily to reach its lowest level ever at 3.22% in 2016. Inflation was at 3.6% in 2018, 2.8% in 2019 and 3.0% in 2020, according to the ADB. Inflation is projected to rise to 6.4% in 2021. The Indian rupee is recognized as legal tender in Bhutan although only for notes of up to 100 INR. The introduction of a general services tax (GST) in India has had a positive impact on lowering inflation; the GST removes all levies on goods exported out of India. In 2018, Bhutan reported an annual average inflation rate of 2.69%, the lowest inflation since the National Statistics Bureau (NSB) began tracking it 15 years ago.

The Royal Monetary Authority (RMA) is Bhutan's central bank. It is separate from the government and is empowered to regulate the availability of money and its international exchange, to promote monetary stability, to supervise and regulate banks and other financial institutions, and to promote credit and exchange conditions and a financial structure conducive to the balanced growth of the economy. In July 2020, Bhutan passed a goods and services tax (GST) act introducing a standard single rate of 7%, which would subsume sales tax and modify the excise system. The GST is a consumption-based tax and is supposed to eliminate the cascading taxation effect.

Monetary stability



According to an ADB report in April 2019, Bhutan’s tax base is narrow. This will increase fiscal pressure as Bhutan prepares to graduate from LDC status in 2024. With tax revenue amounting to only 15.6% of GDP, the government is limited in its fiscal maneuverability.

Hydroelectricity is the main source of government revenue but hydropower development is capital intensive and requires both huge borrowing and long waiting times before projects generate income. To accommodate this advance expenditure, a stabilization fund was established in November 2017 to set aside at least 5% of hydropower revenue annually to smooth out budgetary volatility.

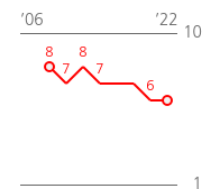
Fiscal deficit has remained an issue. In FY 2019/20, Bhutan ran a budget deficit of -2% and -6.2% of its GDP, respectively. According to June 2020 data, the country’s public debt stood at \$8.5 billion, which is slightly over 100% of its GDP. Some \$189.66 billion of public debt is external. The World Bank judged Bhutan’s risk of external debt distress as “moderate” due to “unique and mitigating circumstances” that include the majority of loans for hydropower construction owed to India and the Indian government covering all financial and construction risks. India also buys Bhutan’s surplus electricity. As hydropower projects come on stream, debt is expected to decline substantially to below 50% of GDP by 2026. However, this situation does constrain the fiscal space in which the government operates.

In 2019, the trade balance in current prices was recorded at a deficit of BTN 29.124 billion, 16.34% of GDP. In 2018, the trade deficit increased by 13.03%. However, according to provisional figures from the Ministry of Finance, Bhutan’s trade deficit declined by 32% in the first half of 2020 compared to figures for the same period of from the previous year, when the trade deficit decreased to BTN 12.84 from BTN 19 billion. The increase in exports was driven mainly by an increase in the export of electricity to India, due to the commissioning of the Mangdechhu Hydroelectric Project in June 2019. In November 2020, Bhutan had a foreign reserve of \$1433.9 million.

In May 2020, the government had to make major changes to the 2020/21 budget to limit the impact of the COVID-19 pandemic. Individual agencies received recurrent budget allocations as block grants to allow them to utilize the fund according to their own needs and priorities. To offset the current account deficit, the government borrowed from multilateral banks and the domestic market. In September 2020, Bhutan issued its first-ever sovereign bond worth BTN 3 billion with a three-year maturity period; all the issued bonds were purchased. As of August 2019, remittances sent by Bhutanese working abroad had shrunk to half the amount received in 2018. In 2018, Bhutan had received a record BTN 3 billion in remittances. Since the launch of the money transfer platform RemitBhutan in 2016, remittances have generally increased.

## Fiscal stability

6



By September 2020, the government had spent BTN 2.9 billion for the COVID-19 pandemic response since March 2020. The expenses occurred mainly for the purchase of COVID-19 test kits, personal protective equipment, quarantine facilities and other essential items of relief. The government revenue dropped by 14%. The government responded with a re-prioritization of 12th Five-Year Plan activities to offset COVID-19-related expenditure increases and income loss.

## 9 | Private Property

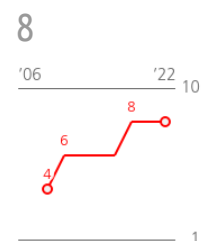
The constitution guarantees Bhutanese citizens the right to hold property. There are well-maintained records of land holdings and ownership. The Land Act of 2007 provides comprehensive coverage of the regulation and administration of land and is administered by the National Land Commission. There are few large landowners and foreign ownership of land is not permitted. The World Bank ranked Bhutan 51 out of 144 economies in registering property in 2016 and 2017, well above its overall doing business ranking of 73 in 2017 and 82 in 2019. Property rights are viewed as secure in all surveys and the acquisition of property is not mentioned as a problem by businesses. However, the ACC has expressed concern about possible corruption relating to land matters. The Lhotshampa, that is, people of Nepalese origin who cannot become citizens, do not enjoy these property rights.

Bhutan recognizes people's rights in relation to their intellectual property and, according to the WIPO has 24 legal texts related to the safeguarding of intellectual property. These range from the Copyright Act and Legal Deposit Act through to the Seeds Act and the Industrial Property Act. Bhutan is signatory to a large number of international treaties that WIPO identifies as governing intellectual property rights.

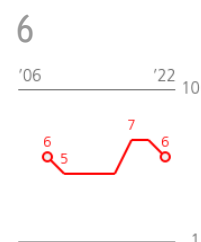
The state continues to play a dominant role in modernizing Bhutan. With the absence of a significant private sector, the state has founded a number of enterprises. Of the 16 SOEs under the Ministry of Finance, some have been privatized and others corporatized. The World Bank's (2019) "Bhutan Development Report – A Path to Inclusive and Sustainable Development" finds the small domestic market, sparse population and high transportation costs pose high comparative risks for private investment. Yet, Bhutan does offer some competitive advantages for private sector development, including political stability, good governance, low levels of corruption, access to electricity, an abundance of natural resources and preferential access to the huge Indian market. Bhutan released the National Intellectual Property Policy 2018, which includes a new system, called the geographical indication, to protect product designs.

In recent years, private sector competition has entered the airline industry, banking and the media, but the areas remain severely constrained. Government efforts to boost innovation in the private sector have met with low levels of success. There are about 28,000 registered businesses in Bhutan. Of these, 92% are micro-businesses; 76%

Property rights



Private enterprise





employ less than five persons. These disadvantages resulted in low rankings in the global ease of doing business survey until 2012, when Bhutan was ranked 148. Due to a changed methodology and incremental regulatory reform, Bhutan climbed rapidly to 70 in 2014 and 73 in 2016. In 2019, its rank declined again to 89th. The earlier improvement in ratings, however, has yet to be reflected in increased FDI or a strong small- and medium-sized enterprise sector. Bhutan's ranking of 82 out of 140 countries in the Global Competitive Index 2017-18 shows significant improvement, but the country still remains well inside the bottom half of the rankings.

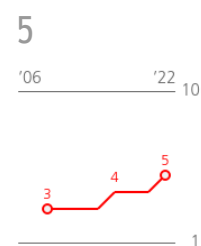
In 2019, the government formed a 10-member private sector development committee under the Ministry of Economic Affairs to help Bhutan's Chamber of Commerce and Industry to expand private sector firms' involvement in the economy. Bhutan's tourism sector, employing around 50,000 people, was the worst affected by COVID-19. The government assistance may not save many tourist sector businesses, especially high-end hotels.

## 10 | Welfare Regime

The state provides free education and health care to all citizens. It does not provide other welfare benefits such as social security payments, conditional cash transfers or food subsidies. Public servants, the military, employees of state-owned enterprises and some private sector employees do have access to pension programs, but the rural population and those in small-scale enterprises do not. The king gives the traditional gift of kidu (land and citizenship) to some vulnerable people on a regular basis. The most important social safety net in both rural and urban areas is the family. Obligations to look after one's kin are strong but may be weakening with urbanization. Local religious institutions may provide some assistance to individuals and communities, while NGOs and external organizations sometimes give temporary relief for some of the needy. As part of its 2018 campaign pledge to reduce the gap between rich and poor, the new government led by the DNT has promised to establish a second national referral hospital, provide free Wi-Fi, launch the Sung Joen app (a free chat app), and pay a breastfeeding allowance to mothers not entitled to paid maternity leave.

Following the detection of COVID-19 cases in March 2020, Bhutan created a national COVID-19 response fund to ease the financial stress on citizens, as well as a high-level task force to focus on infection control, the economy and security. The RMA's remedial measures included providing working capital, waiving interest on loans and issuing micro-loans for agriculture. The Ministry of Health produced a preparedness and response document that details the health care sector's capacities in terms of surveillance, early detection, control and prevention, response and recovery. The government also provided two rounds of relief to the hardest hit segment of the population. The Druk Gyalpo's Relief Kidu, launched on April 14, 2020 to provide

### Social safety nets





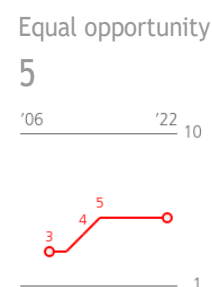
income support to individuals whose livelihoods were affected by the COVID-19 pandemic, has granted BTN 1.4 billion to 34,384 individuals so far (including a child support kidu of BTN 50.2 million). The Relief Kidu will continue for three months, from January to March 2021, and will grant BTN 10,000 and BTN 7,000 as full and partial payments, respectively.

Despite the nationwide lockdown, Bhutan's Ministry of Health maintained medical services in all its health centers in critical areas of maternity care and childcare, immunization, reproductive health, emergencies, care for vulnerable populations, including persons with disabilities, and medication for the ongoing management of chronic diseases. Yet, problems in accessing health services remain. At least one in three children under the age of five, according to 2019 UNICEF's State of the World's Children Report on Children, Food and Nutrition, suffers from malnutrition, which includes lack of adequate nutrition, hidden hunger or excess weight.

In 2020, Bhutan fell to the 131st position in the World Economic Forum's Global Gender Gap report, a decline from its rank at 122 in the 2018 report. Leadership positions are still dominated by men. In 2013, two of the four parties contesting the primary election for the National Assembly were led by women but both parties failed to capture enough votes to participate in the general election. In 2018, a party led by a woman participated in the primary but failed to advance to the general election. In the 2013 to 2018 parliament, only four of the 47 members of the National Assembly were women and there were only two women in the 25-member National Council, with both women in the National Council appointed by the king. In the 2018 elections, seven women were elected to the National Assembly. Two women were also elected to the National Council. Compared to 29.6% female representation in Nepal's parliament, women comprise only 8.3% of members of parliament in Bhutan. Women occupy 36% of all public service positions but only 6% at the executive level.

Women increasingly participate in the workforce but lag behind men, with ILO estimates used by the World Bank recently (2016) putting the female participation rate at 59% (however, this is high in contrast to other Asian countries). The ILO model estimates this rate to have reached 67% in 2018. More women continue to work in agriculture than men. Women's literacy rate is 57% compared to 75% for men. The proportion of women with secondary education and in the labor force is well below the equivalent proportion of men. The gap in education is starker at secondary and higher education as the enrollment of girls in primary education is on a par with that of boys. Only 6% of women in Bhutan have attained at least a secondary-level education as compared to 13.7% of men.

Discrimination based on language and religion is common among the few minorities. The U.S. State Department's 2017 Human Rights Report on Bhutan, which cited informed sources, estimated the number of stateless families to be 1,000, mostly Nepali-speaking people in the south. Stateless persons are denied access to many state services including health care, education and employment opportunities. In 2019, Bhutan decriminalized "unnatural sex," a milestone for the LGBTQ+ community.



## 11 | Economic Performance

Quantitative indicators show Bhutan's economy to be performing reasonably well. Between 2012 and 2019, Bhutan maintained an average yearly GDP growth rate of over 6%. Bhutan's GDP grew by an average of a little over 7% in 2017/18, which made it one of the fastest growing economies, according to the ADB. Growth in agriculture has been low or stagnant despite over 50% of the population depending on agriculture for their livelihoods. Foreign direct investment has been low and volatile, ranging from a peak of \$75.3 million in 2010 to \$8.3 million in 2014 to \$33.6 million (1.6% of GDP) in 2015. The economy suffered setbacks due to COVID-19 in 2019/20. The growth rate for 2018 and 2019, according to the ADB, was 3.8% and 4.3%, respectively. The ADB has lowered the GDP growth estimate for 2020 to 0.9%, projecting a contraction of the economy for 2021 of -3.4%. The estimated GDP loss in the first six months of the COVID-19 crisis in 2020 was almost BTN 5 billion. By May 2020, more than 6,500 Bhutanese had returned home from other countries due to COVID-19. Unemployment, especially youth unemployment at around 25% in 2020, remained a serious challenge.

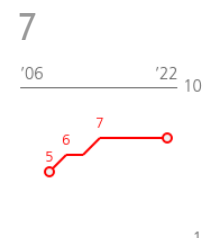
Public debt increased from 118.1% of GDP in 2019/20 to 126.5% in 2020/21 (projected). According to the September 2020 statistical bulletin of the RMA, outstanding external debt was BTN 223,294.803 million. Most of Bhutan's external debt, 72%, is owed to India.

The government has implemented a program to attract FDI in order to build up the private sector. Most recently, the Foreign Direct Investment Policy was revised to allow small-scale production and manufacturing partnerships with foreign investors and to fast-track the approval process.

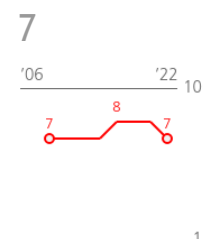
## 12 | Sustainability

The constitution declares that it is "a fundamental duty of every citizen to contribute to protection of the natural environment, conservation of the rich biodiversity of Bhutan and prevention of all forms of economic degradation." Bhutan ratified the 1992 U.N. Framework Convention on Climate Change (UNFCCC), the 1997 Kyoto Protocol, and the 2015 Paris Agreement. Bhutan achieved the Millennium Development Goal 7 on the environment. About 80% of its land area is covered by natural forests. Over 50% of the country is designated as protected as national parks, nature reserves or biological corridors. Starting on April 1, 2019, Bhutan began enforcing a two-decade old order banning the use or sale of plastic carry bags and doma (edible gift) wrappers. In 2019, the UNDP honored the king with a special award in recognition of his leadership, including in environmental conservation.

Output strength



Environmental policy



However, there are serious environmental problems including solid waste disposal, impact of road construction, loss of prime agricultural land to urbanization, illegal logging, over-exploitation of non-timber forest resources, livestock in excess of the land's carrying capacity in some areas, and a growing number of vehicles. In 2020, about 65% of the households lacked access to waste collection services. Even in urban areas, one-fourth of households are without access to waste collection. The figure is as high as 85% in rural areas.

Access to water is also a serious issue. According to a report in Kuensel Online (June 2019), only 1.53% of the Thimphu residents have 11 to 18 hours of water supply, with 29% receiving less than two-hours of water a day. The government plans to implement a water flagship program supported by the EU to ease the shortage by 2021. Bhutan's water resources are also under threat. Its glacier-fed rivers, streams and lakes, the main sources of water, are melting. Bhutan is at risk for high-magnitude earthquakes. A simulation in November 2020 by EquiP-Bhutan estimates that in the worst-case earthquake scenario, at least 9,000 people could die and thousands more could be injured and displaced.

There have been considerable improvements in the availability of education. Universal primary education has been achieved and secondary education has grown considerably in recent years with the gross enrollment ratio reaching 78%. Boys and girls are equally represented at all levels of secondary education. Tertiary enrollments are also increasing but account for only 9% of the age group. Bhutan has two universities – the Royal University of Bhutan and Khesar Gyalpo University of Medical Sciences of Bhutan.

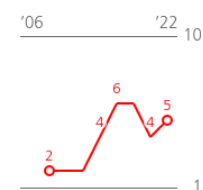
Many students attend college and university in India. In 2017, the adult literacy was 66%, up from 63% in 2012. These figures reflect the late development of mass education in the country. Among young people aged 15 to 24, the literacy was 93% in 2017. The amount spent on education was equivalent to 7.1% of GDP in 2017. Bhutan's U.N. Education Index was 0.496 for 2019.

The Bhutan Education Blueprint 2014 to 2024 identifies education as the highest priority, and seeks to enhance access, quality, equity and system efficiency. Books and equipment supply to remote areas remains a challenge and teaching is not regarded an attractive career choice, leading to a shortage of specialist teachers. In 2017 to 2018, 18% of the national budget was allocated to education. The government also introduced measures to improve education by providing greater opportunities for teacher training and more standard exams for students. In 2018, Bhutan also announced a policy to provide a laptop to every teacher in the country and to connect all schools to the internet by 2023. The policy received a special boost in 2019 – 2020 as Bhutan's was forced to offer online delivery of classes as a result of COVID-19.

On March 27, 2020, the Ministry of Education launched “Bhutan e-Learning” to provide lessons on TV for students from pre-primary through 12th grades. In November 2020, the Indian prime minister, Narendra Modi, announced a plan to

Education policy /  
R&D

5



launch a Bhutanese satellite into space to provide a third international internet gateway for Bhutan.

In April 2020, the country also announced the long-awaited New National Education Assessment Framework. The framework will allow for assessment of students' progress at key stages. The framework is expected to help to provide equitable, inclusive and quality education and lifelong learning opportunities. The framework will require changes to the prevailing curriculum and instruction. In February 2019, Bhutan also launched the Bridge Bhutan Project with the goal of achieving 80% adult literacy by 2024 by reaching out to illiterate adults.

## Governance

### I. Level of Difficulty

Bhutan is a landlocked country with a small market spread across a complex and largely mountainous terrain. Road infrastructure is constantly being improved and the east-west axis across the country is motorable and used by buses, trucks and private cars. However, landslides are a hazard in the rainy season, while roads can be blocked by snow in winter. Earthquakes have sometimes caused considerable damage to roads. Climate change has increased the risk of flash floods and landslides.

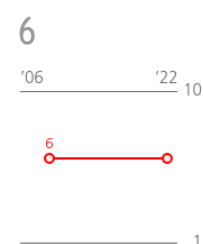
Domestic air services, begun only in 2012, are very limited and unaffordable to most of the population. International air services have begun to react to the increase in tourist numbers and to the number of Bhutanese traveling abroad. Until 2013, there was only the government-owned Drukair. A private airline, Tashi Air, began international operations in 2013. However, further growth of air travel is hampered by the limited capacity of the main airport in Paro. Air traffic is directed by the Indian military.

Bhutan has been successful in fighting poverty, cutting the rate from 23% in 2007 to 12% in 2012 and down to 8.2% in 2017. Poverty has been reduced in rural areas where living conditions, amenities and dietary behaviors have improved during the period of 2007 to 2017. However, many rural households subsist near the poverty line. About 30% of all households in Bhutan are headed by women who attend to responsibilities that prevent them from taking up employment opportunities. Youth unemployment is increasing (10.7% in 2015 to around 25% in 2020) as young people often lack the skills required for modern occupations. Youth unemployment for females is higher than for males.

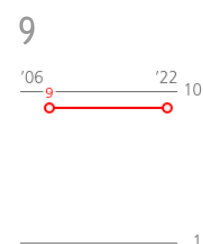
Bhutan has historically been administered under traditional forms of civil society, where organizations took on functions such as ensuring the security of livelihood, managing water rights or preparing festivities. These organizations were based in local communities and sometimes associated with monasteries. Many still exist today but struggle under rural-urban migration and the consequent depopulation of remote areas.

Modern forms of civil society such as NGOs and professional associations are a recent development in Bhutan. They are governed by the Civil Society Organizations Authority (CSOA), which operates under the terms of the Civil Society Organizations

Structural  
constraints



Civil society  
traditions



Registration Act 2007. The development of modern civil society has been gradual. In 2010, the CSOA website listed ten public benefit organizations (PBOs) and one mutual benefit organization (MBO). By 2018, the number of PBOs had grown to 35. There were nine MBOs in 2018. PBOs included organizations for women, youth, the disabled, senior citizens, environment, animals, sports and health. MBOs are mainly industry-related associations operating in handicrafts or tourism.

Following the expulsion and flight of up to 100,000 Lhotshampa residents, the ethnic tensions and conflicts of the early 1990s have abated. Citizenship requirements have been clarified and appear to be widely accepted, although some Lhotshampas still only have resident status. Most of the refugees in Nepal have been resettled to third countries, and as a result their political activities and organizations have little or no effect in Bhutan. Still, the issue of minority-majority relations could lead to future tensions in Bhutan's society. There are no religious conflicts in Bhutan. Buddhism is perceived to be the religious foundation of the country, and while religious freedom is guaranteed in the constitution, missionary activity is banned and government permission is required for new religious buildings. There is no political mobilization on a class basis. Decision-making is generally consensual in nature and overt conflict is avoided. Citizens accept and expect the guidance of a strong state.

Conflict intensity

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## II. Governance Performance

### 14 | Steering Capability

The state has a guiding philosophy of national development based around the concept of Gross National Happiness (GNH), the idea of which originated from Jigme Singye Wangchuck, the fourth king, and to which all political parties and other domestic political actors adhere. There is a long-standing utilization of five-year plans to give strategic direction to national development in the context of GNH. In 2018, Bhutan completed the 11th five-year plan (2013-2018) and began its 12th (2018-2023). The 11th five-year plan focused on strengthening institutions, systems, capacity-building and enhancing the quality of goods and services. According to the Gross National Happiness Commission (GNHC), the 12th plan will emphasize the three Cs – that is, coordination, consolidation and collaboration – to ensure that the plan achieves its goals. Due to the loss of revenue due to COVID-19 and unexpected COVID-19-related expenditures, the government had to readjust some of the 12th plan's schedule.

The increasing costs of funding the five-year plans, over BTN 300 billion for the 12th five-year plan, present a challenge to government finances. In addition, some of the outputs, most notably the growing number of educated but out-of-work young people,

Question

Score

Prioritization

7

'06 '22 10



are creating new policy problems. In 2017, the World Bank funded several development projects in Bhutan to promote economic growth. Projects included the Bhutan Living Standard Survey; the Preparation of Strategic Program for Climate Resilience; the Food Security and Agriculture Productivity Project, which aims to reduce reliance on food imports; and the Youth Employment and Rural Entrepreneurship Project, which aims to create more jobs.

Little or no internal strife in the previous or current cabinets has been reported. However, this is to be expected in a country where consensus is highly valued, hierarchy is respected and conflict politics are avoided. The opposition parties in the national assemblies have questioned government actions, but the greatest scrutiny has come from the non-partisan National Council. As the electoral rules only permit two parties to be present in the National Assembly and members cannot switch parties, the numerically superior party forms the government and will always be able to out-vote its opposition. This supports the government in implementing its policies, although rigorous scrutiny from the National Council has resulted in rejecting some proposed legislation. In 2019 – 2020, differences between the two houses of parliament became more public and contentious. The National Council appears to be acting as a quasi-opposition to the ruling party, but such a role may conflict with the national emphasis on consensus and advancing GNH goals. COVID-19 interrupted the implementation of regular policies, especially in the areas of education, business, and the goals of the 12th five-year plan.

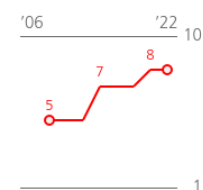
The civil service is responsible for the implementation of policies and has demonstrated effectiveness in this regard. Inefficiencies and corruption have lately raised concerns. Yet, the steady improvement in welfare indicators can be largely ascribed to the civil service, which assumes most responsibilities for education, health, infrastructure, agriculture and most other services. It is bureaucratic in its organization and procedures and its component agencies have decentralized staff working in the districts (dzongkhags). There are skill deficits in some areas of civil service operation. Efforts to modernize it have been moderately successful and are continuing. The implementation of policies in remote areas remains a challenge. The 12th five-year plan seeks, for the first time, to allocate 50% of the planned budget to local bodies.

Bhutan has demonstrated a capacity to learn from its own experiences and from those of other countries (not only neighboring India). The most remarkable item of policy learning has been the transition from a long-standing authoritarian political regime to a constitutional monarchy. The transition has been smooth and reflects the country's ability to adapt imported institutions to fit the Bhutanese context. However, some authoritarian practices remain, such as the difficulty of obtaining information from the government and constraints on the media.

Through multilateral organizations (e.g., the UNDP, UNICEF, World Bank and ADB) and a small group of bilateral donors and western NGOs, the government has

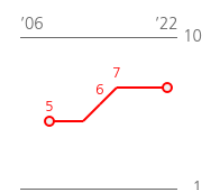
#### Implementation

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#### Policy learning

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been able to access international experts who have provided policy advice, program design assistance and guidance on good practices. Government officials travel overseas to boost their own knowledge and understanding of particular issues and practices. A considerable number of students relative to the country's population have been going overseas for training and education. These activities range from vocational skills to significant numbers of postgraduate coursework degrees and, more recently, higher research degrees. Australia's University of Canberra has been offering public administration and business administration programs at the master's level in Thimphu, in association with the Royal Institute of Management. The government continually engages in a search for innovative policies. For example, the 10-year Bhutan Education Blueprint (2014–2024) aims to increase access, quality, equity and efficiency in education. The 12th five-year plan (2018–2023) aims to improve coordination between government organizations. The adoption of this goal is rooted in the government's experience from the implementation of the previous plan. In response to COVID-19, Bhutan took quick steps to adapt education and some government services to remote delivery modes.

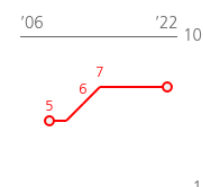
## 15 | Resource Efficiency

Bhutan's public administration system has been traditionally bureaucratic, focusing on hierarchy, seniority and process. The government has engaged in a process of public management reforms to improve the performance of its bureaucracy. The civil service focuses on upwards accountability. This has contributed to low levels of corruption, although corruption remains a concern. The civil service is governed by the Civil Service Act of 2010, which lays out the details of all human resource management activities, including recruitment, duties, remuneration, promotion and discipline. The act is administered through the more-detailed Bhutan Civil Services Rules and Regulations and concentrates human resource management authority in the Royal Civil Service Commission (RCSC). This organization administers human resource tasks for all civil service organizations and runs the entry exams for the civil service. Entry is only open to university-level graduates through nationwide exams. There have been growing calls for improving the efficiency and transparency of the civil service.

Development assistance in the form of grants has played a significant role in the budget, accounting for an average of 13.5% of GDP between 2003 and 2012. Such funding will be harder to come by when Bhutan graduates from the designation of least developed to a middle-income country in 2023. Bhutan relies on India for considerable budgetary support. In 2017/18, Bhutan received 48% of India's foreign aid budget; this was a decline from 63% in 2015/16. According to the IMF, Bhutan has maintained "comfortable" levels of reserves in recent years, adequate for debt repayments, but may need to change some practices to meet future challenges. Bhutan received foreign assistance from South Asian and other countries to meet its COVID-19-related needs.

Efficient use of assets

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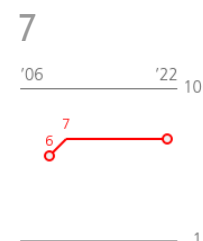
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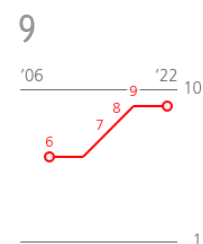
The civil service is governed by the Civil Service Act of 2010, which sets out details for all human resource management activities, including recruitment, duties, remuneration, promotion and discipline. The relatively small scale of government, the preference for consensual decision-making and the guiding frameworks of five-year plans have led to a good degree of policy coherence. The Commission for Gross National Happiness plays a major role in coordinating and managing such coherence. However, government organizations still work according to clearly delineated functional responsibilities that may sometimes hamper more whole-of-government approaches. There is administrative decentralization to the country's 20 districts (dzongkhags). Civil service officials are posted by central government agencies to work in dzongkhag administrations with locally elected officials to produce plans at the dzongkhag and local (gewog) levels, which feed into the overall national plans of action. Despite this decentralization, there is still a strong centralized feel to government decision-making and hierarchy remains a major organizational principle in Bhutan.

The government of Bhutan has a good record in containing corruption. Six factors explain this. First, smaller governments such as that of Bhutan are easier to monitor and audit. Second, there has been a concerted effort by the government over several years to raise the standards of accounting and auditing to international levels. Third, an Accounting and Auditing Standards Board of Bhutan was introduced in 2010 to assist in raising Bhutanese standards in these activities. Fourth, the idea of service to the state and king is ingrained in the civil service and acts to prevent corruption. Fifth, the ACC established in 2006 has been a notable force in promoting the anti-corruption message and in investigating and prosecuting corrupt officials. In October 2020, Bhutan's High Court convicted the current home minister of insurance fraud; the case was brought to court by the attorney general. In recent years, the ACC has been very active in investigating and prosecuting corruption cases against civil servants, politicians and the military. The Royal Audit Authority (RAA) has been a leading force for financial accountability. The RAA reports to the Public Accounts Committee of the National Assembly. Sixth, there is widespread concern among citizens about corruption, leading to a low tolerance for activities that are viewed as corrupt. The Office of the Attorney General (OAG) received 1,348 applications for cases to prosecute in 2017, the highest number to date. Out of that number, 1,318 were forwarded by the Royal Bhutan Police, 23 by the ACC, and seven by the Royal University of Bhutan, the Ministry of Agriculture, and the Ministry of Works and Human Settlement. Financial irregularities in public expenditures remain a major problem. As of March 2018, the RAA reported unresolved irregularities involving BTN 407 million. In 2020, the Public Accounts Committee found BTN 4.3 billion worth of spending pending audit issues. According to the RAA, most of these financial irregularities occurred in major hydroelectricity projects. Hydroelectricity is Bhutan's top GDP generator. To curb corruption, in 2018, Bhutan's National Assembly made several recommendations to review and amend the Anti-Corruption Act of 2011 with the aim of more clearly defining various types of corruption.

#### Policy coordination



#### Anti-corruption policy



In January 2020, the RAA established new regulations. These came after parliament in a joint session passed various resolutions to strengthen the system of accountability. In September 2020, the OAG created a Governance and Corporate Legal Service Unit comprised of experts in corporate and financial law to reform the existing government procurement and contracting system and to review the dispute resolution process for commercial disputes. The ACC and the OAG have clashed over their respective roles and responsibilities. For example, the ACC appealed a High Court judgment in a tax evasion case directly to the Supreme Court after the OAG refused the appeal. The ACC also directly prosecuted and won the Trongsa land fraud case after the OAG had dropped it.

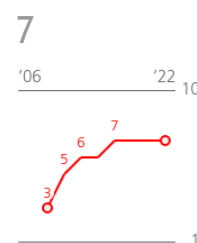
## 16 | Consensus-Building

There is broad agreement among political elites and the bureaucracy on the overarching policy directives set in the country's Gross National Happiness plan. The third national elections in 2018 marked the further consolidation of democracy. Unlike in 2013, when voter turnouts were lower than in 2008, the turnout in 2018 was higher in elections for both National Council and National Assembly. The rural population participates actively in local governments. The ruling party, the DNT, has continuously called on the opposition to collaborate as a team. The opposition, however, demanded cabinet positions as recompense. Differences have surfaced between the ruling and the opposition parties, as well as between the National Assembly and National Council, over policy issues, which could be interpreted as signs of a maturing democracy.

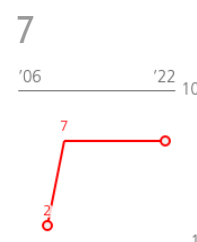
Bhutan's economy is still dominated by SOEs. Restrictions on entrepreneurship, such as credit access, permit acquirement and the costs of trading across borders, hamper the establishment of a market economy. Commitment to the philosophy of GNH also limits how far governments are willing to go in promoting a market economy. In-depth knowledge of the intricacies of a market economy is scarce among the population and most enterprises are simple and small. COVID-19 further undermined the financial viability of private enterprises, especially those working in tourism.

Democratization is widely supported. The monarch's solid support for democratic rule and high levels of deference to the monarchy among political parties and the public ensures stability. The monarchy is the only potential domestic veto player in Bhutan, but the king has remained resolute in his support of democratic political arrangements. India is the main potential external veto player and supports democratization in Bhutan. The main vocal opposition to the government is to be found among exiled populations of Nepali descent but, so far, such opposition groups have had no impact on politics inside Bhutan.

Consensus on goals



Anti-democratic actors



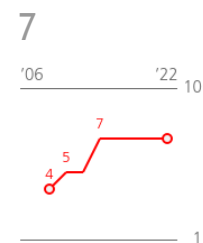
Bhutan withstood a critical challenge to government authority in the early 1990s, which came from the Lhotshampa population in the south of the country. This resulted in up to 100,000 members from this group being expelled or fleeing to refugee camps in Nepal. Most have now been resettled in third countries, especially the United States. In the 1990s, militant groups from India's state of Assam used Bhutan as a sanctuary. They were driven out in a joint action by Bhutan's security forces and the Indian Army in 2003. Since then, there have been some attacks on Bhutanese vehicles in Assam (including in Bodoland) and there have been occasional kidnappings by Indian criminals in Bhutan's southern border regions. Other ethnic groups in Bhutan cause no conflicts.

Potential conflict within society is largely mediated through consensus-building mechanisms. Consensus is also the cornerstone of National Happiness Index (NHI) policies. NHI is the overarching framework to which political parties are required to adhere. Bhutan's courts are also becoming more involved in resolving potential conflicts.

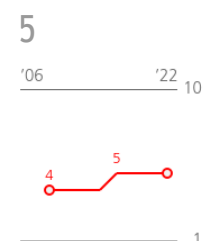
Traditional civil society in Bhutan was community-based and dealt with local matters such as water rights, human security and festivities. Modern civil society in the form of NGOs and professional associations is new to Bhutan. The constitution states that the "state shall endeavor to create a civil society." The Civil Society Organizations Act 2007 distinguishes between public and mutual benefit organizations as well as foreign CSOs. There is no reference to traditional organizations. CSOs are few but their numbers have risen from ten public benefit organizations in 2010 to 35 in 2018. There were nine mutual benefit organizations in 2017. CSOs may be consulted by the government in their areas of specialization such as women's affairs, youth and environment or because they comprise a professional association. However, their impact on policy may have more to do with their support and participation than their organizational capacity. NGOs have been banned from activities directly relating to politics, and so must pursue any agenda with care. There are no trade unions. For many areas of policymaking there are no NGOs. Thus, the overall impact of civil society on the policy process is very limited and selective.

Since the departure of an estimated 100,000 people from the south of the country in the early 1990s, a variety of organizations, often based in refugee camps in Nepal, have strongly criticized the Bhutan government. Some international human rights organizations have also been critical of the government on this matter. Despite a series of meetings between the governments of Bhutan and Nepal, no agreement has been reached regarding these refugees' return to Bhutan. Rather, Western countries, in particular the United States, have taken in about 90,000 people from the refugee camps. There is no process of reconciliation, but – with the resettlement of most refugees – the salience of this issue has dwindled. There are no relevant contentious groups.

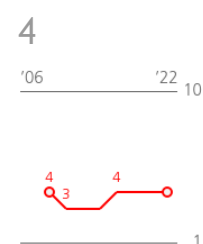
Cleavage /  
conflict  
management



Civil society  
participation



Reconciliation



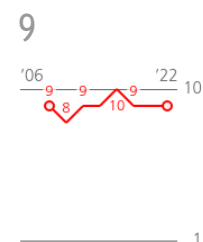
## 17 | International Cooperation

GNH provides the cornerstone for Bhutan's development strategy. The 12th five-year plan seeks to strengthen the role of local bodies in development through a decentralization of roles and resources. The government is strongly dependent on international support and seeks to align international assistance with targets set under the country's five-year plans. India remains the major supplier of financial and other support to Bhutan. Bhutan is the largest recipient of India's foreign aid budget, receiving 48% of it in 2018-19 and 57% in 2017-18. India also underwrites Bhutan's five-year plans. India provided INR 45 billion for Bhutan's 11th five-year plan – about 68% of the total external assistance received. In December 2018, India committed INR 45 billion for Bhutan's 12th five-year plan (2018 – 2023). India has provided financial assistance for Bhutan's hydropower construction. Other aid suppliers include the major international financial institutions, the World Bank and the ADB as well as some U.N. agencies including UNDP and UNICEF. In addition to India, bilateral donors – including Japan, Norway, Denmark, Austria, Australia and Switzerland – have undertaken small programs in Bhutan. Most of these programs provide aid in the form of grants.

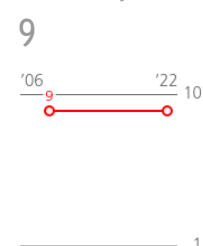
Aid is effectively channeled into activities that are specified in the five-year plans and contribute to the achievement of the SDGs. Bhutan's transition from a least-developed to a middle-income country has been postponed from 2021 to 2023 at the request of Bhutan's government in view of the challenges posed by the less favorable terms and conditions for international financial assistance that come with this status. Bhutan received aid from numerous international sources to help it manage with the COVID-19 pandemic. The United Nations, the United States, Singapore, the ADB and members of SAARC were the major contributors.

Bhutan is considered a very reliable partner by the donor community. As evidence of this perception, the ADB rated Bhutan the best performing country in 2012 in terms of the efficient implementation of projects and the effective utilization of funds. In 2014, the World Bank described Bhutan as a “development success,” producing good results from World Bank-funded programs. The country has also generated great international interest and has a good reputation from its novel alternative development philosophy of GNH. Bhutan maintains diplomatic relations with more than 50 countries. The International Civil Aviation Organization (ICAO), after its validation mission in August 2018, red-flagged Bhutan for a lack of effective implementations of applicable ICAO standards. ICAO rules require countries to have independent control over air traffic; Bhutan's air traffic at the Paro International Airport, however, is currently managed by the Indian Air Force.

Effective use of support



Credibility

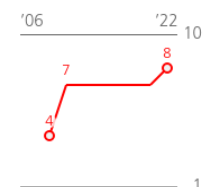


In 1985, Bhutan was a founding member of the SAARC and has played an active role in its affairs ever since. Together with the other SAARC members, it signed the South Asian Preferential Trade Arrangement (SAPTA) in 1993. It has hosted a variety of SAARC conferences and events and in 2011 held the organization's chair. The SAARC Development Fund and the SAARC Forestry Center are based in Thimphu. Bhutan signed the South Asian Free Trade Agreement (SAFTA) in 2004. This agreement seeks zero customs duties between members by 2016, although an extra three years was originally allowed for Bhutan. The government of Bhutan has signed agreements on narcotics, terrorism and human trafficking with its regional partners. It has also joined the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which includes India, Nepal, Bangladesh, Sri Lanka, Myanmar, and Thailand.

Bhutan is developing ties beyond India with other members of the SAARC. In April 2019, Bhutan and Bangladesh signed five bilateral agreements to expand cooperation in the areas of inland waterways, health, agriculture, tourism and public administration training. This was followed in December 2020 by Bhutan and Bangladesh signing five preferential trade agreements to provide each other with mutual duty-free access to their products. However, Bhutan's major cooperative efforts are with India. Approximately 80% of Bhutan's imports and exports are from and to India. In March 2020, Bhutan joined SAARC leaders in framing a regional response to COVID-19. The measures included a COVID-19 emergency fund, a common telemedicine framework and \$7.7 million for COVID-19 response projects. In 2019, the country recorded a slight decline in the number of FDI projects. Bhutan had approved only 12 such projects as of November 2019. In 2018, 16 FDI projects were approved.

## Regional cooperation

8



## Strategic Outlook

As Bhutan's democracy becomes increasingly institutionalized, the system will likely generate apparent differences between the major stakeholders, especially on issues that relate to popular expectations. The lagging growth of the private sector, made worse by the COVID-19 pandemic, limits the availability of jobs for Bhutan's young people. Youth unemployment is reported to be over 25%. This leaves significant numbers of young people disaffected. The government has made significant commitments to education and these need to be more actively supplemented by vocational training and cultivating firms willing to employ trained young people. The country's excessive dependence on hydroelectricity has dampened the growth of other sectors and this leaves the economy vulnerable to fluctuations in the electricity market. Bhutan therefore needs to place higher priority on the development of agriculture, small and cottage industries, and strengthen its tourism sector. Two royal edicts of February 2021 called for overhauling Bhutan's education and civil service in order to prepare its youth for future employment and to streamline government bureaucracy to increase efficiency.

With changing contours in regional and international relations, Bhutan also has faced challenges to its security and territorial inviolability. The end of the Doklam standoff between India and China in 2017 did not conclude Bhutan's border issues with the latter. In 2020, China made fresh claims on Bhutanese territories. Bhutan's dependency on India in both economic and defense matters leaves the country with little autonomy to deal with these claims. Bhutan has little alternative to continuing its close relations with India while expanding its international leverage through broader diplomatic contacts, as it has done recently by establishing diplomatic relations with Australia and Germany.