

# Re-imagining Bhutan: an Introduction

## *UNDP Bhutan and BCMD*

The global pandemic revealed the unsustainability of our collective development path. At the beginning of 2020, the world was neither environmentally sustainable nor socially inclusive nor economically resilient. Then came the pandemic. Human development -- the integrated measure of education, health, and living standards -- is on course to decline in 2020 for the first time since measurement began.

Governments and societies are facing unprecedented policy, regulatory, and fiscal choices as they act both to save lives and set a course for a sustainable future. The choices made today, if made well, could be the tipping points that transform societies and the planet for the better. Most of the shifts happening now started prior to the pandemic but have been amplified and accelerated by the crisis.

Here in Bhutan, the proactive responses of the Royal Government under the leadership of His Majesty the King have been effective in managing the health impacts of the pandemic. However, COVID-19 has disrupted the economy and affected the livelihoods of the people. Containment measures such as travel restrictions, social distancing, and border closures have also affected businesses of all kinds beyond the tourism sector. The construction and manufacturing sectors, for example, are experiencing slowdowns due to labour and material shortages and from disruptions in transport.

The Royal Government made urgent decisions on simultaneous fronts. To stimulate economic growth, the Government announced fiscal and monetary measures and started implementing economic contingency plans in the areas of tourism, agriculture, and construction. The 12th Five Year Plan was re-prioritised, including front-loading of activities and mobilising additional resources. Important long-term strategic policies were also enacted. For example, the Build Bhutan Project under the government's Economic Contingency Plan began skilling unemployed Bhutanese in the construction sector and increasing wages and other incentives to shift long-term negative perceptions. To protect the food supply, the government has also been looking to raise local agricultural productivity and address market access constraints for producers.

But these immediate relief measures to support individuals and businesses have put fiscal pressure on the government. According to Bhutan's State of Nation report for 2020, this will result in a fiscal deficit of 6.2 per cent of GDP in 2019-20 -- the highest in recent years. The deficit is also expected to worsen to 7.4 per cent of GDP in 2020-21. Growth is also expected to decelerate to -- 6.1 per cent in 2020 and a sharp recovery is unlikely.

While the urgent task over the past year has been to save lives and respond to the complex socio-economic and humanitarian crisis, it is also critical to set a course for the future. Preparing for the recovery and the future of Bhutan requires both short and long-term thinking. In the face of the rapidly shrinking fiscal space and unprecedented economic headwinds, this future will likely require Bhutan to achieve more with less. This will include further reorienting of existing programmes and policies and harnessing all capabilities and resources available through whole-of-government and whole-of-society approaches.

Against this backdrop, UNDP Bhutan and BCMD organised a series of conversations from September to December, 2020 on a set of priority themes that are critical to Bhutan's future. Through a participatory process that engaged a diverse range of participants, the platform drew insights from some of the leading thinkers and practitioners across different fields and generated concrete long-term policy suggestions. These echo the aim of "no harm, no regret policies". Panelists were drawn from the international community of experts and local non-governmental thought leaders and practitioners. The panels also interacted with online audiences and videos of the conversations were made available online for wider viewing.

This issue of The Druk Journal draws and expands on this series of conversations. The pandemic has provided an opportunity for candid reflection on Bhutan's state of affairs in critical areas and to make bold policy suggestions. The conversation series and this issue both bring to light critical structural and policy issues, gaps in policy and action, and the need for a shift in societal mindsets that is relevant to current times. Below outlines the objectives of each conversation that was held and key recommendations that emanated from them.

## 1. Future of Work, Skills and Education

The first conversation revealed that the quality of the general education system has struggled due to a multitude of factors, including the relevance and currency of the curriculum and an archaic pedagogy. At the same time Technical and Vocational Education and Training (TVET) still enjoys a poor social status in society. The conversation also shed light on how TVET is largely confined to construction and farming and that TVET graduates are not allowed to run for office given the minimum qualification of an undergraduate degree. A clear lesson from the pandemic is to better equip the education system to prepare graduates with skills suited to the new economy and enable them to adapt and continue to learn over time.

### Key Recommendations

1. Conduct a study to forecast how technology will change the nature of work 20 years from now for Bhutan (the concept of Future of Work Lab) with emphasis on data, experimentation, and feedback.
2. Establish a Future Council that will anticipate and forecast socio-economic changes to advise the government.
3. Strengthen public-private collaboration and cross-fertilisation of ideas across sectors to address the issue of mismatch in skills and the needs of the labour market.
4. Revitalise agriculture, and small and cottage industries with technology to improve digital marketing, e-commerce and supply chain.
5. Focus on “multi-skilling” and nurturing an aptitude for “continuous learning” and resilience, so that graduates are better able to adapt to changing economic needs and future economic disruptions.
6. Strengthen authentic and inquiry-based learning; invest in a robust ICT infrastructure that supports blended and independent learning.
7. Mainstream TVET into high schools, introducing a lateral transfer of credits across streams to address societal attitudes towards technical and vocational careers.
8. Consider “micro-credentials” of specific skills and make them “stackable” over a period of time leading to certification or award of a degree. This has bearing on the current civil service policy that does not recognise degrees earned through distance learning.

9. Invest in human capital to build a technologically sound workforce and integrate payment systems with the rest of the world to facilitate a “liquid workforce” and capitalise on the global labour market.
10. Invest in quality early child-care and development to save future expenditure on health and education.
11. Introduce telehealth to improve access to medical services and reduce logistics costs.

## 2. Future of Economy

The panelists highlighted ways the pandemic has laid bare the vulnerabilities of Bhutan’s economy. The country’s economic foundation is based narrowly on hydropower and tourism and is also unsustainably reliant on imports from neighbours for essential goods such as food and fuel. The conversation further revealed the policy and structural constraints in the development of entrepreneurship and the local economy, including excessive bureaucratic involvement and regulation that stems the growth of the private sector and social enterprise. Diversifying the economy beyond hydropower and tourism is critical to the sustainability of Bhutan’s economy. Equally important is for the state to facilitate the expansion of markets internationally.

### Key recommendations

1. Reform approaches for accessing credit, including through using credit history and credit scores to help make access to capital more equitable (i.e., replace tying credit access to assets and collateral).
2. Strengthen the policy and regulatory framework for investment, especially to support venture and social impact funds. This can build on ongoing Royal Monetary Authority work (e.g., fund management rules and regulations).
3. Institutional reform and incentives to encourage different classes of investors (e.g., venture capital, private equity funds), including by expanding beyond domestic investors.
4. Formalise informal business and provide policy support to spur growth in the sector and reform the taxation regime to ensure companies do not face overly burdensome compliance costs.
5. Clarify the roles of actors in the process of private sector development to counteract “bureaucratisation of entrepreneurship”, such as through government providing policy incentives and a credible enabling

- environment but giving space for the private sector to experiment and operate.
6. Adopt a model of gradual transition from public to private ownership of state-owned enterprises, such as through cost-sharing and letting the private sector take equity over time (i.e., private sector gradually takes ownership through profit, so they bring in capital and the enterprise gradually transitions from public to private sector).
  7. Establish a nodal agency responsible for entrepreneurship support in Bhutan.
  8. Broaden support to entrepreneurship systematically across the business development cycle, from pre-seed and early stages through to scaling (e.g., through strengthened government initiatives, government organisations in DHI, and civil society organisations).
  9. Integrate co-ops, informal groups and rural entrepreneurs explicitly into supply chains to support sustainable development. This can be through linking with entrepreneurial partners in urban areas, with rural partners providing knowledge of organising and community mobilisation that can support urban business growth and market expansion.
  10. Support business intermediaries and mentorship initiatives for startups to help spur a culture of innovation and strengthen the appeal of entrepreneurship.
  11. Include a basic course on business and entrepreneurship for high school students (e.g., to eliminate the need for business school in order to write proposals).
  12. Explore prospects of another niche sector for Bhutan, such as establishing Bhutan as a diplomatic centre of South Asia (e.g., hosting institutional headquarters and high-level meetings between neighbouring and regional governments), or serving as the arbiter of quality for neighbouring large economies in South Asia or Asia (i.e., Bhutan can support external quality assessment and control as Switzerland currently does for Europe and much of the world).

### 3. Green Recovery

While Bhutan has successfully branded itself as a carbon-neutral country with strict environmental policies, the panel emphasised that the overall vision is yet to be translated into policies and practices. There is a need to harmonise policies and regulations across agencies within the bureaucracy.

The Government can further incentivise green enterprises and investments with subsidies, tax incentives and low-interest loans. These proposals also need to include new approaches and analyses to weigh short-term costs with long-term benefits. Participation from all sectors -- from the government (policymakers), civil society and private sector -- will be crucial for a green recovery with harmonised policies and coordinated services.

### **Key Recommendations**

1. Environmental safeguards, climate mitigation and adaptation should be viewed as a catalyst for development and not as a hurdle. Subsequently, existing government services and processes need to be streamlined and improved, reflecting the urgent need to adopt environment-friendly and climate-smart development models.
2. The resident development partners including the UN system can provide the necessary knowledge products and access to both financial and technical resources and the government could proactively engage the development partners.
3. Strengthen investment on projects that are of environmental priorities and provide direct support to 'green' firms/businesses.
4. Support behavioural changes while incentivising low carbon infrastructure development and investments.
5. Make evidence-based public policy and budgetary decisions, including understanding the linkages and interactions between incentives, regulations, risks and barriers, and encourage a shift in investments and incentives towards greener pathways.
6. Close the gap between policy-making agencies and implementing agencies in order to enable businesses and entrepreneurs to thrive and feel actively supported by the government in providing solutions to Bhutan's environmental and social concerns.
7. Harmonise the range of policies and regulations to remove inconsistencies and reconcile contradictions as a means of helping businesses and individuals avoid roadblocks in their attempts to grow and innovate.
8. Operate a mid-to-long-term perspective in decision-making, especially in weighing short-term costs with long-term benefits of investments.
9. Make recovery inclusive and participatory, such as by inviting all stakeholders to help design plans for the future -- including

- government (both policy-making and implementing agencies), civil society, and businesses.
10. Adopt an integrated approach to recovery by ensuring that policies and financing are well-coordinated and channelled to the right sectors as per national priorities.
  11. Deploy key incentives to encourage green businesses such as: 1) introducing favourable tax policies to encourage green businesses; 2) improving access to finance such as low-interest loans to green businesses; and 3) providing support to businesses in product development, research and capacity development.
  12. Introduce green financing in the banking sector to encourage the development of green projects to minimise the negative impact on the environment.
  13. Stimulate demand for green goods and services in tandem with developing policies and financing for a greener economy.
  14. In the food and agriculture sector, provide: 1) market assurance; 2) supply-chain management and logistics, and 3) research and capacity development for adding value to food crops.
  15. Relax rules or make exceptions to encourage businesses to innovate towards green recovery. Current rules and regulations related to licensing and access to finance look for established models rather than innovative approaches that by their nature are new.
  16. Bhutan can be a thought and an action leader on the environment and climate change across the world by taking advantage of opportunities created through the early adoption of environment and climate-friendly development models and capitalising on available financial and human resources.

#### **4. Social Protection**

The conversation on social protection made a strong case for building a social protection system based on a multi-tiered and life cycle approach as a way of strengthening Bhutan's resilience to future shocks and for building a more equitable and cohesive society. Such a system coheres with the country's philosophy of Gross National Happiness. But the discussion noted that the existing systems of social protection are fragmented and not inclusive. Another challenge for Bhutan will be to bring about innovative changes in fiscal policy to support such approaches. Building on the



critical role of His Majesty's Kidu programme, the panel further offered recommendations towards building an inclusive, sustainable and shock-responsive social protection system.

### **Key Recommendations**

1. Broaden the concept of social protection as a “social contract” rather than a “charity” through policy formulation on social protection systems wherein citizens share the responsibility of securing their own and fellow citizens’ welfare through taxes and contributory schemes.
2. Conduct dialogues with relevant government and civil society actors to develop a long-term social protection policy/strategy to anchor the ad-hoc social protection programmes as well as to outline clear complementary roles of the private sector/civil society organisations/citizens in designing and implementing social protection in Bhutan, with focus on the most vulnerable groups.
3. Provide a legal basis for the introduction of a universal social protection system and revisit the current pension system to expand its coverage beyond the civil service.
4. Pilot a model of social protection system developed around the life-cycle approach with a multi-tiered system that is a crossbreed of both contributory and tax-funded; prioritise programmes (i.e., social registry of citizens with demographic profiles, location, income etc.), and conduct an analysis of its cost over 10 to 15 years, with a clear investment case.
5. Diversify the economy and broaden the tax base to increase the fiscal space that will support a model of universal social protection system that is a good fit for Bhutan’s needs in the long run.

## **5. Anticipatory Governance**

The final panel discussion on anticipatory governance consolidated the essence of the preceding conversations. The panel deliberated on the ecosystem of anticipatory governance in the context of current challenges: 1) a risk-averse bureaucracy that stems innovation, 2) a dearth of quality data and accessibility issues, and 3) the need for a paradigm shift in planning. The Royal Decree issued on 17th December 2020 also further drives home the impetus to revisit the system of governance. First, the panel noted the limited space for innovation and creativity within the



government machinery. Considering the “VUCA” (Volatile, Uncertain, Complex and Ambiguous) era of the modern world, it is imperative that the governance ecosystem continually evolve and adapt to changes triggered by technological advancements, climate change, and emerging social-economic issues. Second, the panel focused on the impetus to harness the potentials of technology considering its transformative effects on society, economy, education, labour market and public service delivery. Lastly, the panel highlighted the need for openness to genuine cross-sector collaboration and citizen participation as crucial in building systems and policies that make society sustainable.

### **Key Recommendations**

1. Set up a foresight centre, an independent think tank to carry out foresight exercises and workshops on the possible futures, and carry out studies on how we can innovate current government functions by future-proofing policies and plans.
2. Set up an autonomous data hub centre that ensures near real-time data processes, accessibility and ensures its ethical use, enabling course corrections in real-time.
3. Establish a public innovation fund for the public sector and civil servants to innovate, build capabilities and grow an innovative and open work culture that is supportive of cross-sector collaboration, data sharing, intelligence sourcing, experimentation and feedback and citizen engagement.
4. Motivate public servants to innovate by considering a range of incentives. While extrinsic factors such as promotions and recognitions can be tied up to their capacities to innovate, intrinsic factors such as showcasing the value created as a result of their innovation can help them be aware of the impact of their work. Likewise, establishing a fail-safe environment for public servants grants them the opportunity to experiment with new ideas.
5. Integrate the use of the sandbox approach, which allows innovation and incubation of ideas to support the successful fruition of creative ideas. Innovation need not be grandiose and at an international level but should be good enough if it addresses a local need or an issue.
6. Develop apps to solicit citizen input and feedback on social issues, systems and initiatives of the government.

## Conclusion

Highlights from the discussions and recommendations have been compiled in a form of a policy brief, which was presented to the Royal Government so that the voices of the Bhutanese thought leaders and lessons from the international community can be reflected in national strategies to shape the recovery pathways for Bhutan and to ensure such pathways will be green, inclusive, and sustainable. The outbreak of the pandemic coincided with the first year of the Decade of Action before the global timeline of 2030 for the Sustainable Development Agenda, as well as the super policy year on climate change and biodiversity. While States around the world are struggling to maintain the momentum gained towards the SDG achievements by 2030, the COVID pandemic presents once-in-a-generation opportunity to do things differently and get them right. We hope that the conversation series provided a platform to generate forward-looking ideas to spark innovation and bold policy choices to build Bhutan back better and stronger.