

# BTI 2012 | Bhutan Country Report

<b>Status Index</b>	1-10	<b>4.58</b>	# 91 of 128	
Political Transformation	1-10	4.80	# 80 of 128	➔
Economic Transformation	1-10	4.36	# 98 of 128	➔
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	0.7	HDI	0.522	GDP p.c.	\$	5329
Pop. growth <sup>1</sup>	% p.a.	1.7	HDI rank of 187	141	Gini Index		46.7
Life expectancy	years	67	UN Education Index	0.336	Poverty <sup>3</sup>	%	49.5
Urban population	%	36.8	Gender inequality <sup>2</sup>	0.495	Aid per capita	\$	179.9

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

## Executive Summary

The November 2008 coronation of Bhutan's fifth king, Jigme Khesar Namgyal Wangchuck, marked the belated centenary celebrations of the Wangchuck dynasty. The transformation of Bhutan from absolute to constitutional monarchy in the course of a 10-year period was achieved without violence. The Druk Phuensum Tshogpa (DPT) party's electoral victory, giving it 47 of 49 seats in the National Assembly, has been balanced by the counterweight to the elected government provided by the National Council. There have been major changes in the Royal Civil Service Commission, including the development of a new selection process based on competitive examinations. Equally important was the 2009 creation of the Civil Society Organization Authority, which oversees the implementation of the Civil Society Organization Act 2007. However, this report does not consider Bhutan a democracy due to the "shadow powers" and the (mostly informal) prerogatives still possessed by the monarchy.

The 2008 constitution underscored the independence of the Bhutanese judiciary and codified the role of the Supreme Court. Following the enactment of the constitution, a landmark case was brought by opposition party leader Tshering Tobgay. Overturning a High Court judgment, the Supreme Court ruled that the government was not allowed to raise taxes without the approval of the parliament. The verdict marked a major step toward defining the role of the Supreme Court and a law based on defined constitutional rights and responsibilities.

The range of media outlets is increasing, and Bhutan's ranking by Reporters without Borders is steadily increasing. However, a review of business in Bhutan suggests that a lack of transparency persists, notably in the area of tax policies. A 2009 survey of companies operating in Bhutan reported demands for the payment of bribes, especially in the course of interactions with local authorities and officials. However, the Anti-Corruption Commission continues to make an impact and actively prosecutes cases of bribery.

Bhutan has experienced a range of other challenges, notably a series of earthquakes and the global economic downturn, which affected the number of tourists coming to Bhutan, as well as intermittent acts of political violence by anti-government groups.

## 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 by royal decree (*kasho*) and a cabinet of ministers was appointed. This initial step toward institutional reform was followed in September 2001 by the announcement that a written constitution would be prepared on orders of the king. On 25 March 2005, the draft constitution was publicly released. In a series of presentations and meetings with ordinary Bhutanese men and women throughout the kingdom and abroad, the king and his government presented the draft constitution to the people. On 18 July 2008, the constitution was formally enacted.

The constitution established a parliamentary system with the right to form political parties, for the first time in Bhutanese political history. It established the basis for a governing party, elected by simple majority, and an opposition party. The former National Assembly debated and enacted a range of legislative measures associated with the formation of political parties, the conduct of elections, and the establishment of an Anti-Corruption Commission.

A major concern among policymakers was to educate the Bhutanese population about parliamentary elections and processes. Therefore, during April and May 2007, mock elections were held with fictional political parties to help educate the voters. In the first round, four parties competed against each other. The two parties with the largest share of the votes then entered a runoff competition. The Druk Yellow Party “won” 46 of the 47 seats. This fictional party was associated with traditional, pro-monarchy values, while the defeated Druk Red Party was associated with industrialization and development. The outcome of the mock elections was in retrospect to prove very similar to the general elections held in 2008.

Elections for the newly created National Council were held in December 2007 and January 2008. These paved the way for the main elections in March 2008. The first elections were contested between two newly formed political parties – the Druk Phuensum Tshogpa (DPT) and the People’s Democracy Party (PDP).

A third party, the Bhutan People United Party (BPUP) was disqualified from competing in the elections when its registration was annulled by the Election Commission. The BPUP declared itself to be a party for the *nyamchung* (downtrodden). Under Article 15 (4) (b) of the constitution, membership of a political party may not be based on “region, sex, language, religion or social origin.” Accordingly, the BPUP were held to be in breach of this article. In

addition, the Election Commission declared that the BPUP's charter "had no clear ideology, vision and mission, indicating the lack of leadership with capability to envision goals and objectives of the group."

The results of the March 2008 elections were surprising. The PDP achieved only two seats, while the DPT won virtually total control of the National Assembly. However, while it achieved only two seats, the PDP did receive a reasonable number of votes. Therefore, while the election results reflected a range of concerns expressed by many ordinary Bhutanese about the future of their country, the nature and long-term impact of the political reforms, and the role of the monarchy, it is important to recognize that the apparent rejection of the PDP must be placed in wider context.

Although Thimphu, the capital, is developing rapidly, the country remains dominated by agriculture and a rural society. Education has been accelerating a rural-urban migration that began in the 1980s and has been intensifying since the mid-1990s. This has led to the rapid development of the capital, Thimphu. Until the early 21st century, the Royal Civil Service offered employment for school and college graduates. Since 2000 – 2001, the number of graduates has outstripped the number of posts available. There is growing concern over the limited private sector's ability to provide employment alternatives. Recent reports from Thimphu suggest that new social problems are emerging, including the impact of urban life on the structure of Bhutanese families and the increasing social pressures associated with insufficient employment opportunities. Therefore, although Bhutan continues to make improvements in the provision of education, and adult literacy is increasing, new primarily urban-focused policy concerns are emerging.

The so-called southern question, relating to Lhotshampa refugees who fled or were expelled from Bhutan in the early 1990s, remains unresolved. Although the governments of Bhutan and Nepal agreed to a joint program aimed at verifying the status of refugees, the verification process ceased following attacks on Bhutanese officials in December 2003. The resettlement of refugees in the United States, Canada and Norway has been undertaken, and although this provides an opportunity for the refugees to rebuild their lives, it has also provided new platforms for the refugees to criticize Bhutanese authorities.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The elected DPT government exercises sufficient control over Bhutan's territory. However, the Royal Bhutan Army under the king remains a small force. The founder of the country, the Zhabdrung Ngawang Namgyal, created local militias that were resurrected in 2003. India continues to maintain a considerable armed presence, coordinated by the Indian embassy in the capital Thimphu. Threats from various Indian guerrilla organizations ousted from a series of camps along the southern border in late 2003 remain. Their presence from the mid-1990s on influenced the development of these areas, and India increasingly brought pressure on the Bhutanese government to act against them. The radicalization of Lhotshampa refugees living in exile similarly presents an unresolved threat to the stability of Bhutan.

Monopoly on the  
use of force

7

There are three main minority groups in Bhutan: the Ngalong, who reside in the west, the Sharchop, who dominate the eastern region, and the Lhotshampa, traditionally resident along the southern border. Aside from Dzongkha, the official language, Nepali, and the increasingly important English, around two dozen listed languages are spoken in various parts of Bhutan. Aside from the Nepali, all groups share similar cultural traditions, are Buddhist and collectively form the majority of the population. Dzongkha, the language of the Ngalong, was traditionally the language of government between the 17th century and early 20th century. It was made the official national language in 1960. The Lhotshampa are generally thought to have started settling in Bhutan in the late 19th and early 20th century. Additional waves of migration from eastern Nepal occurred during the 1930s and 1950s.

State identity

6

From the mid-1980s onward, the Bhutanese government sought to promote a homogenous national identity. Concerns over the preservation of Bhutan's identity meant that the government developed a "One Nation, One People" ideology that emphasized shared customs and history. In 1985, conditions for citizenship were

tightened as part of the process of manifesting the state's identity. The provisions of the 1985 Citizenship Act have been codified in Article 6 of the constitution. The 1985 act, together with a census conducted in 1988 and a royal edict reemphasizing the practice of driglam namzha (a code of conduct) provoked conflicts between the government and members of the Lhotshampa community, which ultimately led up to 100,000 Lhotshampa to leave Bhutan. There are no longer conflicts between the government and the remaining Lhotshampa population. The development of Bhutan since the mid-1960s has gradually encouraged marriage across ethnic-linguistic groups, and especially among younger Bhutanese has promoted a strong and inclusive sense of national identity.

Under Article 3(1) of the constitution, "Buddhism is the spiritual heritage of Bhutan, which promotes among others the principles and values of peace, non-violence, compassion and tolerance." Accordingly, Buddhism is not privileged as the state religion. Rather, the constitution promotes secularism and religious tolerance. The monarch is deemed to be protector of all faiths in Bhutan, which includes Hindus and a small, if increasing, number of Christians among its population. Proselytizing is prohibited under the constitution.

No interference of religious dogmas

7

A key aspect of the new system of government created by the 2008 constitution was the removal of all representatives of the state-sponsored Central Monk Body from the political process. Monks, nuns and other religious figures are not permitted to vote. Although there was initial concern that the category of "religious person" would include lay people, known as gomchen, the chief election commissioner clarified the provision, saying that lay people engaged in religious activities would be able to vote.

Bhutan's basic administration remains largely unchanged. The fortified monasteries/administrative centers (dzong) remain the focus of regional and district government. The country is divided into four regions (dzongdey). These larger units are further divided into 20 districts (dzongkhag). Some districts (e.g., Chhukha) are divided further into sub-districts (dungkhag). Each district is divided into gewogs (village blocks) and chiwogs (sub-units of the gewog). The two largest towns, Thimphu and Phunstholing, each have a mayor and municipal administration.

Basic administration

7

Following a decentralization of planning and development authority to the district and gewog levels that started in the 1980s, responsibility for the design and delivery of services at the local level rest with district development committees (DYT) and gewog development committees (GYT).

## 2 | Political Participation

The recent constitutional changes created Bhutan's first comprehensive electoral framework. Prior to 2007, there were no legal political parties in Bhutan. The 2005 – 2007 creation of a new electoral framework for regular, free and fair elections based on universal and equal suffrage represented a major transformation of the Bhutanese political landscape. In the 2008 elections, 79.4% of registered voters turned out to cast their votes.

Free and fair  
elections

7

The Election Commission believed that there were approximately 400,626 Bhutanese over 18 years of age who would be eligible to vote in the 2008 general election.

After several rounds of voter registration, 318,465 voters were ultimately registered by March 2008. The final register of voters was 82,000 short of the possible voting population.

Although the PDP received 32.9% of the popular vote, it won only two seats in the new National Assembly. The DPT received 67.1% of the votes and 45 seats. While broadly approving of the way elections were handled, international observers did make recommendations for the improvement of future elections, addressing issues that arose over the course of the balloting.

In May 2010, the Election Commission announced that the process of preparing a voter list for local government elections could not be completed until other work, including the revision of local level district boundaries, was finalized. The process of "delimitation" follows on from the Local Government Act 2010, and proposes changes at the local level. In addition, the Election Commission noted that extra time will be required to educate people about the changes, to conduct training and to address various logistical problems.

The current government, elected in March 2008, controls 45 of the 47 seats in the National Assembly. The National Council provides the only effective check to the government. However, there are no individuals or sections that hold veto powers which might undermine the democratic process. The monks and central body were removed from the political process by the constitution. The Royal Army and police force present no threat to the government. Finally, although there remains a small aristocracy that continues to command respect, the power that let it pose a potential threat in the early 20th century was effectively tamed by the Wangchuck dynasty.

Effective power to  
govern

2

Despite this progress, the king remains the ultimate authority and possesses an absolute veto (which he does not use openly, however). Bhutan is a constitutional,

not a parliamentary monarchy. While the 2008 elections represented a significant step toward democratization, Bhutan is still not a democracy.

The right to freedom of association is set out under Article 7(12) of the constitution, which provides that “Bhutanese citizens shall have the right to freedom of peaceful assembly and freedom of association.” However, membership in associations that are deemed “harmful to the peace and unity of the country” is prohibited. This caveat reflects the prohibition on the formation of political parties based on ethnicity, religion or region set out in Article 15(4). The right to freedom of association is balanced with the freedom from being compelled to belong to any association. It should be noted that Article 7 does not specifically provide for a right to peaceful demonstrations. Although the right of freedom of association could be interpreted more broadly, it is currently unclear if this right, in light of the qualification set out above, enables peaceful demonstrations. Public demonstrations and protests have not been part of Bhutanese politics, with the exception of a period during the early 1990s.

Association /  
assembly rights  
5

Article 7(2) of the constitution states that “a Bhutanese citizen shall have the right to freedom of speech, opinion and expression.” During the period under review, the Bhutanese media continued to develop. There are three main newspapers: Kuensel, the Bhutan Times and the Bhutan Observer. The Bhutan Broadcasting Corporation remains the country’s only television channel. Internet accessibility is increasing across the country, and the government does not seek to control access. Satellite channels are available, though a few have been banned due to their perceived negative effect on children and young adults.

Freedom of  
expression  
6

According to the draft report of the Media Impact Study 2008, the media is increasingly viewed as critical player in the political process, as well as a simple source of news and information. Journalists are free from extralegal intimidation, arbitrary arrest and physical violence. While the state does play an active censorship role, the media does avoid commenting on certain culturally sensitive issues or topics out of respect for wider social values. The media’s role in the promotion of democratic values and debate is developing gradually.

### 3 | Rule of Law

The constitution elaborates a separation of powers, providing for the most effective such separation in Bhutan to date. However, the monarchy retains its residual authority and prestige. In formal terms, the executive, legislature and judiciary are independent of each other, though with the legislature currently dominated by the DPT, it will be difficult for it to act as an effective balance to the executive. A Supreme Court has been established, tasked with upholding the constitution and ensuring the effective separation of powers. The first Supreme Court case was

Separation of  
powers  
5

initially brought by the leader of the opposition party in 2010; in the course of this suit, a High Court decision was appealed to the Supreme Court in January 2011. The top court ultimately ruled against the government, and the written decision specifically restated the importance of the separation of powers.

Finally, as noted above, the National Council has provided a critical counterweight to the government.

Under Article 21(1) of the constitution, the Bhutanese judiciary is independent and charged with upholding the rule of law. The structure of the judiciary has slightly changed following the formation of the Supreme Court. Below the Supreme Court lies the High Court of Justice located in Thimphu; in each district are district-level courts located in the main administrative center. The decisions of lower courts can be appealed upwards, and each level of the court system maintains its independence.

Independent  
judiciary  
6

Former Chief Justice Lyonpo Sonam Tobgay retired in 2009, and was subsequently appointed by the king as head of the Supreme Court. Under this figure, the Bhutanese legal system and its personnel have developed substantially, and a fair, transparent legal system has been created. The new role of the Supreme Court as guardian and interpreter of the constitution will be important in maintaining both the credibility of the judiciary and the new political framework created by the constitution.

Nevertheless, it needs to be emphasized that “modern” legal constitutions, and thus the constitutionally described legal system, remains of limited relevance to much of Bhutan’s society.

The Anti-Corruption Commission has continued to educate the public as to the importance of reducing corruption. Bhutan remains less corrupt than its neighboring countries. In a 2009 report published by the ACC, 63% of Bhutanese companies identified corruption as a major problem. Of course, this perception may reflect an increasing awareness of corruption based on the increasing number of cases reported. The Office of the Attorney General continues to prosecute cases with vigor.

Prosecution of  
office abuse  
8

The fundamental civil rights of all Bhutanese are set out and guaranteed by Article 7 of the constitution. These include the freedoms of speech, opinion and expression as well as the right to vote. Bhutan abolished the death penalty in 2005 and Article 7(18) enshrines the illegality of capital punishment. The standard civil rights set out in Article 7 are balanced in Article 8 by duties incumbent on the Bhutanese citizen. Among the exiled opposition groups, it is argued that despite the terms of Article 7, Lhotshampa refugees are not recognized and are discriminated against by Article 6,

Civil rights  
6

while Lhotshampa who continue to live in Bhutan are subject to indirect discrimination, particularly if not citizens.

Article 9(17) provides that the state will “endeavor to take appropriate measures to eliminate all forms of discrimination and exploitation against women including trafficking, prostitution, abuse, violence, harassment and intimidation at work in both public and private spheres.” The National Assembly endorsed two Convention on the Rights of the Child optional protocols, on the sale of children, child prostitution and child pornography and the involvement of children in armed conflict. In addition, two draft bills, the Child Care and Protection Bill (CCPB) and the Adoption Bill would provide a comprehensive child protection legal framework.

#### 4 | Stability of Democratic Institutions

Bhutan became a constitutional monarchy in the 2000s and introduced competitive elections in 2008. The path of democratization was unusual, as it was a uniquely top-down process. During the first national elections held in March 2008, 79.4% of registered voters voted. As noted above, the National Assembly was subsequently dominated by the DPT, which won 45 of the 47 seats. In the absence of a stronger opposition in the National Assembly, the National Council, which forms legislature’s second tier, has been remarkable as a counterweight to the government. Bhutanese are gradually becoming more engaged in the democratic process, and it is thus important that key institutions promote democratic values. To date, this has been the case. Nevertheless, the potential and real prerogatives of the monarchy constrains the performance of democratic institutions (at least informally, if not openly).

Performance of  
democratic  
institutions

2

The PDP and DPT both publicly agreed to work in pursuit of the “gross national happiness” and welfare of all Bhutanese. The fifth king has been instrumental in emphasizing the constitutional role of the throne and distancing the monarchy from a governing role. Similarly, the judiciary has seen major change, with younger judges who have undergone comparatively modern legal training appointed to the High Court in Thimphu, replacing traditionally trained judges and bringing with them an understanding of the role of the judiciary and the rule of law. The Supreme Court’s role as guardian of the constitution is beginning to take shape, and the court has demonstrated its support for the constitutional system established in 2008.

Commitment to  
democratic  
institutions

2

#### 5 | Political and Social Integration

Prior to 2007, all political parties were illegal, and were associated with violent opposition toward the government. Under the terms of the constitution, only two

Party system

4

parties are allowed to enter the National Assembly; the party with a simple majority of seats forms the government, while the second-place party forms the opposition.

Registration of political parties was permitted only in 2007 and represents a major transformation of the political structure and process. The first legal political parties were registered by the Election Commission in September and October 2007. A third party was disqualified. Detailed regulations were prepared and promulgated by the Election Commission.

The first party to register was the People's Democratic Party (PDP), led by former minister Sangye Ngedrup, uncle to the fifth king. The second, the Druk Phuensum Tshogpa (DPT) party, is led by former minister Jigme Thinley. Each party issued lengthy manifestos. The PDP became associated with development and industrialization, while the DPT was viewed as more conservative. Since the formation of the current government, there have been no new elections, and no new parties have emerged. Under the terms of the constitution, new parties may only be formed before a forthcoming national election. However, it is possible that individuals are considering possible agendas and manifestos in preparation for the next national election.

The right to freedom of association is formalized under Article 7(12) of the constitution. However, membership in associations that are deemed "harmful to the peace and unity of the country" is prohibited. This caveat mirrors the prohibition on the formation of political parties based on ethnicity, religion or region set out in Article 15(4). As civil society continues to develop in Bhutan, private individuals and interest groups have sought to tackle specific issues, such as the provision of education to disabled children. A number of organizations are dedicated to the support of women, notably the Tarayana Foundation and RENEW. However, due to the nature of Bhutan's society and its economic system, interest groups in the modern meaning of the word are largely lacking or are of marginal importance.

Traditionally, decision-making takes place on a consensual basis. A historical tradition emphasizing mediation and consensus building continues to inform today's approach to decision-making and policy development, remaining central to the judicial process and more widely across government.

Following the elections in March 2008, both parties undertook to work together to "promote the gross national happiness of Bhutan," demonstrating the ongoing importance of consensus. However, the weakness of the opposition party, with only two of the 47 seats in the National Assembly, has been the subject of comment by Bhutanese in a range of online blogs and comment threads. These forums do not promote deep debate, but they have revealed a deepening engagement with and interest in the state institutions, with the cabinet and the judiciary being the subject of critical comment. The limited legislative power of the opposition party has

Interest groups  
3

Approval of  
democracy  
n/a

required the National Council to provide a counterbalance to the government. This role has been commented on favorably by the Bhutanese, and indicates strengthening public support for the new democratic institutions and political framework. However, due to the lack of reliable survey data, it is impossible to say how strong approval of democracy in fact is in Bhutan.

Bhutan never possessed a significant aristocracy, and this social class ceased to have any political power in the middle of the 20th century. The constitution affirms the equality of all Bhutanese, and in general Bhutan's society is fairly egalitarian. However, at least one-third of the population is poor. The majority of the population continues to live in the countryside and to rely on agriculture for its subsistence. As a result, strong kin and community networks are important. This is demonstrated at the local level by village meetings called to discuss relevant issues and help required by members of the community. In times of familial or community crisis, the sharing of resources and the provision of material assistance remain essential, reflecting strong social bonds within communities. However, there is still a need for stronger civil society.

Social capital  
5

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Bhutan's level of socioeconomic development is gradually increasing. The urban population has increased to 35.6% of the whole, but the majority of Bhutanese continue to earn a living from agriculture. Poverty remains a key barrier, as 49.5% of the population lives below the poverty line. However, this not the extreme form of poverty found in neighboring India or Bangladesh. Average Bhutanese life expectancy has increased from 63.4 to 66 years, and the adult literacy rate is 52.8%. The enrollment of females in primary, secondary and tertiary education settings continues to improve. Bhutan's economy remains dominated by agriculture, and most of the population live in rural areas, often far away from the country's few roads. Agriculture's importance is shrinking only on the macro level, because of the rising value-added attributable to the comparatively new hydro power plants. The extant poverty, especially in far flung areas, reflects the structure of the economy rather than that of a feudal society.

Question  
Score

Socioeconomic  
barriers  
3

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	1196.0	1257.5	1264.7	<b>1516.1</b>
GDP growth	%	17.9	4.7	6.7	<b>7.4</b>
Inflation (CPI)	%	5.2	8.3	4.4	<b>7.0</b>
Unemployment	%	3.7	-	-	-
Foreign direct investment	% of GDP	6.2	2.3	1.4	<b>0.8</b>
Export growth	%	2.6	-14.0	48.2	-
Import growth	%	-0.1	2.3	32.9	-
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	793.0	685.5	751.9	<b>898.2</b>
Total debt service	\$ mn.	31.8	81.5	75.5	<b>84.2</b>
Cash surplus or deficit	% of GDP	2.5	-1.4	0.5	-
Tax revenue	% of GDP	7.5	8.4	9.2	-
Government consumption	% of GDP	19.1	19.0	21.4	-
Public expnd. on edu.	% of GDP	-	4.8	-	-
Public expnd. on health	% of GDP	5.2	5.5	5.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Agriculture remains the predominant source of income and employment in Bhutan. However, the 10th Five Year Plan notes that growth in agriculture, livestock and forestry will be just 2%, rather than the targeted 4%. The sector's estimated contribution to GDP is just 16%.

The financial sector remains underdeveloped, contributing a 4.9% GDP share in 2007. It is not expected to increase to above 5% during the course of the current

Market-based  
competition  
3

Five Year Plan. A need to improve payment and credit systems has been identified, but implementation of reform and structural changes has yet to be undertaken.

The private sector is still comparatively small, and recent surveys have criticized bureaucracy that impedes the development of businesses.

There is a recognized lack of diversity in business. Large corporations remain in the hands of a few individuals, and government monopolies remain. The tendering system that should ensure an even playing field for bids has been questioned, and the Anti-Corruption Commission is concerned that the system is open to abuse. The comparatively small size of the private sector and the lack of a culture of regulation are both challenges to the development and application of tighter competition laws. However, this is an important hurdle that needs to be addressed by a range of government and regulatory bodies, in order to ensure that some business practices formerly engaged in are recognized as unlawful.

Anti-monopoly  
policy

2

The main obstacle is the small size of the economy. This leads to “natural monopoly” conditions, barring the presence of overwhelming competition from Indian enterprises.

A substantial volume of foreign goods are imported, with few practical obstacles. However, there is little information available on tariff and nontariff barriers. Exports, beyond hydroelectricity to India, remain minimal and of low value.

Liberalization of  
foreign trade

3

The banking system in Bhutan remains underdeveloped. There is little data available that would enable comment on the extent to which banks comply with or meet international banking standards.

Banking system

2

The Royal Monetary Authority (RMA) has oversight of the banking system, and has been developing new regional clearing houses. The RMA is developing a Credit Information Bureau to provide credit and financial information to individuals and financial institutions. The legal framework is in the process of being legislatively strengthened and enforced. However, the operations of the two banks in Bhutan continue to lack transparency.

## 8 | Currency and Price Stability

The pegging of the Bhutanese currency (the ngultrum) to the Indian rupee is a source of vulnerability, as the country’s inflation rate now moves in tandem with India’s. Primarily reflecting the increase in global commodity prices, the consumer price index in Bhutan rose at an annualized rate of 8.9% in the fourth quarter of 2008, averaging 6.4% for fiscal year 2008. However, in 2009, the rate fell to 4.4%.

Anti-inflation /  
forex policy

3

Bhutan's budgetary surplus increased to 0.5% of GDP in 2009. Government expenditure increased from 20.8% of GDP in 2008 to 22.0% in 2009. External debt decreased from \$775 million in 2007 to \$692.4 million in 2008. GDP growth in 2009 was slow and estimates for 2010 suggest that it has continued to decline. The global economic downturn in 2008 may have been a cause of this decline. As a small country Bhutan relies heavily on imported goods affordable thanks to export earnings from the export of electricity to India, generous foreign assistance terms and high foreign exchange reserves. The number of foreign tourists has been stagnating, although the rising number of Indian tourists may not be reflected in the official statistics. Indian visitors can pay with Indian rupees, as the currencies of the two countries are fixed at a 1:1 rate and rupees are used in Bhutan along the ngultrum. The country's private sector remains weak, though the number of small and medium-sized enterprises granted operating licenses has increased. Rising prices – notably for foodstuffs – and the high level of interest charged on bank loans could lead to overall increases in inflation.

Macrostability  
8

## 9 | Private Property

Article 7(9) of the constitution guarantees citizens' rights to hold property. A full cadastral survey was completed in 2003. Bhutan remains a primarily rural country, and agricultural land is therefore the main type of property owned by people. In Thimphu, land values have increased significantly as private individuals have built a mix of residential and commercial properties. Land ownership remains governed by the Land Act 1979, which in theory restricts land holdings to 25 acres, though some larger landholdings exist notably among members of the royal family.

Property rights  
6

Bhutan's private sector remains underdeveloped. The state continues to own the main industries, and the lack of a strong private sector has restricted the development of new avenues of employment for the increasing numbers of educated school and college graduates. A 2010 World Bank and International Finance Corporation (IFC) report found that company start-up costs and the price of applying for licenses in Bhutan were cheaper than the regional average, but that the process was time consuming and bureaucratically complex. A 2009 survey found that 15% of senior management time is spent dealing with the requirements of government regulations in Bhutan, the highest such share within the South Asian region.

Private enterprise  
5

## 10 | Welfare Regime

Kinship and social ties remain intrinsically important in Bhutanese society. However, new elements of social tension are appearing with the movement of individuals from the countryside to the towns, notably Thimphu, in search of work.

Social safety nets  
3

There have been increasing reports of street begging, a new phenomenon in the country.

Although the role of the Central Monk Body has changed and its political role has been eliminated, monasteries and local religious institutions continue to fulfill an important social role, providing assistance as required to individuals and communities. Government welfare programs are limited, and the practice of granting kidu (compensation) has been subject to increasing oversight by the government. Kidu can range from grants of land to more practical assistance provided to individuals or communities who have suffered misfortune. No recent reports provide details on the share of GDP spent by the government on social security or other welfare programs. Pensions were introduced in 2001 but are limited in scale.

Gender equality in primary and secondary education has been achieved, with the ratios of girls to boys in primary and secondary education at parity. However, women's enrollment in tertiary institutions continues to lag.

Equal opportunity  
4

The constitution allows for female members of the royal family to inherit the throne. Female representation in national and local government settings remains low. Today, only 10 of 72 parliamentarians are women. There are no female cabinet ministers. At the local level, few women have been elected to representative bodies. However, women today account for 29.5% of civil service employees, up from 19%. Employment remains primarily agriculture-based, and unemployment among urban women is significantly higher than among men, at 9.5% compared to 5.3%.

Among ethnic minorities, concern about indirect discrimination against members of the Lhotshampa community remains. However, a considerable number of Lhotshampa were elected to the National Assembly and National Council, suggesting that such claims need to be treated with caution. Certainly, there is a sense across the country that there is a need to move forward rather than focusing on the events of the early 1990s.

## 11 | Economic Performance

Bhutan's economy has continued to develop, but gradually. Tax revenue continued to increase during the period under review.

Output strength  
6

Bhutan has South Asia's second-highest per capita GDP, after the Maldives, standing out if compared with neighboring India or Bangladesh. Electricity as an export item is reasonably safe; Bhutan receives abundant rains, and neighbors will be dependent on energy imports for the foreseeable time.

## 12 | Sustainability

Bhutan's physical environment is fragile; however, the government is aware of this, and continues to pursue environmental policies. Concerns are increasing over the threat of flooding from glacial lakes, which could threaten populations living along river banks. Tensions have emerged between the declared desire to protect wildlife and the environment and the pressures of development.

Environmental  
policy  
7

The ecological and social impact of the hydroelectric power stations is more minimal than that experienced by the Western Himalayas, due to the low population density along the slopes of the Eastern Himalayas.

Until the 1950s, the only education available in Bhutan was monastic, and 391 monastic schools remain today. From the 1930s onwards, some Bhutanese boys were sent to be educated in missionary schools in Darjeeling. Formal, secular education was introduced as part of the reforms instigated by the third king. There are now 24 private, 261 community, 81 primary, 89 lower-secondary, 44 middle and 24 higher-secondary schools. In addition, there are 10 tertiary institutes operating under the auspices of the Royal University of Bhutan, seven vocational and 747 non-formal educational centers. The government currently spends about 5.1% of GDP on education.

Education policy /  
R&D  
2

According to the sources available, the country's literacy rate is 52.8%. Data from the World Bank Development Indicators from 2005 – 2008 estimated the literacy rates for males to be 65% and 38.7% for females. The extent of access to higher education in Bhutan remains low, with 8.2% of relevant age group participating as compared to 20% to 25% in most other developing countries. In part, this reflects the development of the country's modern education system, with its early focus on basic education and continuing need to create tertiary education capacity. While gender parity at the primary and middle secondary levels has been achieved, it remains a challenge at the higher secondary and tertiary levels, a fact noted by the government in its 10th Five Year Plan (2008 – 2013). Some low-level R&D activities do take place, but no data on this subject is available.

Finding employment for the fast-growing number of school graduates remains a significant problem.

## Transformation Management

### I. Level of Difficulty

Bhutan is a landlocked country, with the People's Republic of China to the north and India to the south. Its border with China has not been wholly settled. The country is divided by high mountain ranges, running north to south. The east-west road extends from the Indian border at Phuntsholing through the center of the country, with a series of spurs. Road access remains limited. Roads are vulnerable to damage by landslides during the monsoon season (June –September). In addition, the country has experienced a number of earthquakes that have caused extensive damage in the remoter eastern districts. These are all factors outside the control of the government. However, the government is examining both its response to natural disasters and seeking to improve the road network.

Structural  
constraints  
6

The introduction of the Civil Society Organization Act 2007, which had been under consideration since 2000, created a stronger legal basis for civil society groups in Bhutan. However, implementation of the act has been slow. The Civil Society Organization Authority was finally formed in April 2009. The five members of the authority were elected by stakeholders in March 2009.

Civil society  
traditions  
9

The authority is responsible for oversight and implementation of the Civil Society Act 2007. At the time of the authority's formation, there were 28 listed members. Only one of the listed members was from eastern Bhutan, with the remaining 27 located in western Bhutan. Therefore, civil society is developing gradually in Bhutan. Once the authority is fully functioning, it may provide the necessary support to encourage new organizations across the country.

There are also traditional social institutions formed along religion, kinship and/or geographical lines that are not listed civil societies under the Civil Societies Act, but nevertheless play an important role in traditional societies. Many of these are associated with the monasteries.

The regional tensions that emerged in the mid-1990s have significantly eased. Article 6 of the constitution sets out the basis for full citizenship: Individuals must have been born to two full Bhutanese citizens, been born in Bhutan prior to 31 December 1958 and appear in government records, or be naturalized. This can

Conflict intensity  
5

cause problems for individuals with residency permission but who are not recognized as Bhutanese citizens, especially those Lhotshampas who are unable to meet the qualification requirements set out in the 1985 Citizenship Act

There has been no movement by the governments of Bhutan and Nepal to resume the joint verification process for the refugees in eastern Nepal. The issue of the remaining refugees who have not been relocated under the program supported by the United States, Canada and Norway remains unresolved.

A key pressure on the government is the need to develop the private sector. The rising number of educated young college graduates in combination with the lack of employment opportunities has created a major social and political problem. Whereas the civil service was for several decades the main employer of graduates, there are not enough jobs today for the increasing numbers of highly educated graduates.

## II. Management Performance

### 14 | Steering Capability

The election of the first democratically elected government in March 2008 and the subsequent enactment of the constitution in July 2008 firmly placed responsibility for the identification and development of strategic priorities with the government. Bhutan has entered a new five-year plan that continues an outcome-focused approach to the development of its infrastructure and priorities. The government continues to draw on, in an informed way, a range of internal and external advisors and experts.

Bhutan has been fairly consistent in setting and pursuing goals in the areas of development, environment and education.

The government faces no effective opposition in the National Assembly. However, its policies have been challenged by the National Council through that body's supervisory capacity. The power to appoint committees is set out in Article 10(11) of the constitution and Chapter IX of the National Council Act. Committees are classified into three categories: standing, ad-hoc and joint. Standing committees are constituted through standing orders or resolutions passed by the National Council. There is currently one joint committees comprising members from both houses.

Question  
Score

Prioritization  
5

Implementation  
5

These committees actively scrutinize legislation and government proposals and have been the main forum of challenge to the government, which dominates the National Assembly.

Overall, the current government has been able to develop and direct its strategic priorities. The policy pursued by the civil government has been in line with earlier targets and objectives. Especially if compared with other countries of the region, implementation has been fairly consistent.

The Bhutanese government continues to demonstrate that it is able, when it is willing to acknowledge the need, to learn from its own experiences. This was reflected in the recent changes to the Civil and Criminal Procedure Amendment Bill, passed by the National Assembly in 2010.

Policy learning  
5

The presence of UNDP and UNICEF, as well as contacts with other foreign governments and NGOs, enables the government to access a range of experts who review policies and provide advice on current best practices. Policymakers typically seek advice on issues identified as strategic priorities, such as child welfare and the recently passed Child Protection Act. An increasing number of parliamentary delegations designed to promote and enable knowledge exchange have visited the country, including a delegation of Australian parliamentarians to the National Assembly in July 2010.

At present, the pool of potential academic advisers within Bhutan remains small. However, the Bhutanese authorities have built up very good international links that enable them to invite key individuals to provide advice on particular issues.

The facts that English is the primary language of instruction, that the country has been sending students abroad for higher studies, that TV and the Internet are being used by the government for dissemination of information (after a somewhat late start), and that Bhutan participates actively in the South Asian Association of Regional Cooperation (SAARC) show an overall readiness to open up and to learn. This is helped by the fact that Bhutan enjoys good relations with almost all countries.

## 15 | Resource Efficiency

Bhutan continues to carefully manage its two main economic resources: hydroelectric power and the forests. Bhutan has considerable hydroelectric potential, with some estimates placing the country's potential hydropower resources as high as 30 gigawatts. There are currently four hydroelectric projects in operation. GDP increased following completion of the Tala project. Notwithstanding the country's significant investment in hydroelectricity production, around 90% of the country's household energy needs continue to be met through biomass (such as

Efficient use of  
assets  
6

wood fuels). The forests are actively maintained and their resources controlled by the Forestry Department. The government's goal is to increase the energy sector's average GDP contribution to more than 15% over the period of the current five-year plan. The plan seeks to enhance the hydropower sector to the point that it contributes about 36% of all national revenue. The plan also seeks to enable electricity provision to all country residents by 2013, and to increase installed hydropower capacity to 1602 megawatts by 2013.

Bhutan mines dolomite and limestone for export to India, as well as slate and gypsum. Four mines are operational in Samtse, run by Bhutanese companies. There is also some marble, lead, zinc, copper and iron. However, most mining takes place on a small scale. New legislation and guidelines for mining may be introduced by the government in the future. The Natural Resources Development Corporation was formed out of the Forestry Development Corporation, and tasked with overseeing sand quarrying in Bhutan.

Bhutan has managed to amass foreign exchange reserves sufficient to fund imports for many months. Compared to other countries in the region Bhutan has been very cautious, if not overcautious in financial matters.

As far as human resources are concerned, the picture is less rosy. Dams and roads are built by Indian contractors and Indian labor; Indian labor is not only used to do unattractive jobs, but is also available to perform tasks that are more demanding. This leaves little room for Bhutan's own labor force, which expects attractive positions in an urban environment.

The current government has been able to coordinate policies and create sufficient policy coherence. In part, this reflects both the prior experience of the prime minister and his cabinet and the scale of Bhutanese government. Collaboration among key government officials has been instrumental in ensuring this coordination. Although the National Council has offered a robust critique of government policies, the government has overall worked successfully toward a resolution of potential problems and conflicts. However, a need for greater transparency in the decision-making process remains.

Policy  
coordination  
7

The Anti-Corruption Commission (ACC) was established in 2006, and its chairperson, Neten Zangmo, was reconfirmed in August 2010. The ACC has made a substantial impact in Bhutan. It has established an effective legislative and administrative framework that promotes integrity, works to prevent office abuse, and detects and punishes culpable public officials. A broader program focuses on educating the general public on the role of the commission and – more importantly – on what constitutes corruption. This approach recognizes that certain aspects of Bhutanese custom may inadvertently promote certain forms of corruption. The

Anti-corruption  
policy  
6

commission has been fulfilling its duties without interference from the state, ensuring that cases are fully investigated and prosecuted.

This independence can be illustrated by some of the work carried out by the ACC. Bhutan's relatively small economy remains dependent on the state. State-owned companies dominate many spheres of the private sector, and there are reports that these are run rather inefficiently. According to a survey by the ACC in 2007, the main forms of corruption identified by Bhutanese are nepotism, favoritism and the misuse of public funds. In a 2009 report published by the ACC, 63% of Bhutanese companies identified corruption as a major problem.

A 2009 survey of companies operating in Bhutan reported demands for bribes, especially during the frequent interactions with local authorities when doing business. The survey also noted that the publicly declared war on corruption underlined the government's intentions to promote private-sector development. However, in roundtable discussions with small and medium-sized enterprises (SMEs) conducted by the ACC, some companies complained that the ACC is overly focused on petty corruption at the expense of addressing large-scale problems.

The ACC website no longer allows anonymous allegations of corruption to be submitted. If an individual wishes to report "corruption," he must be willing to provide not only details of the incident and the nature of the corruption, but also personal details. This is to prevent false accusations; if an allegation is made and found to be unsubstantiated, or if it is considered to have been made maliciously or on the basis of false information, the informant may be prosecuted under Section 66 of the Anti-Corruption Act 2006.

## 16 | Consensus-Building

Despite the weakness of the opposition party, the PDP, in the National Assembly, the new political framework has been accepted. There are no challenges to the democratic system as established by the constitution. The manifestoes of both parties competing in the 2008 election were very similar, reflecting a general consensus within Bhutan about the key long-term goals for the country. The subtle differences reflected differences as to the speed and scope of the policy proposals presented to the electorate.

Consensus on goals

6

The most vocal critics of the government remain in exile. The illegal political parties and organizations that emerged during the 1990s have no legal status in Bhutan. The guerilla forces that once settled in areas of southern Bhutan were driven out in December 2003 as part of a military campaign conducted by the small Bhutanese army.

Anti-democratic actors

7

Internally, legislation continues to restrict citizenship, thereby preventing potential veto players from participating in elections. The terms of the 1985 Citizenship Act have been reinforced by the constitution. As a result, any reforms to the definition of and process of attaining citizenship will require a constitutional amendment.

Conflict at the local level has traditionally been addressed through consensus-building mediation. However, as Bhutanese history demonstrates, regional and local tensions have always existed. The emergence of a stronger state in the 20th century and the subsequent control exerted over public protest movements served to contain conflict. Tensions emerged between the government and the Lhotshampa in the early 1990s and with the Sharchop communities later in the mid-1990s, but were quickly crushed. These tensions have now abated, though a potential threat continues with the remaining refugees in eastern Nepal.

The expression of dissent remains problematic, as it is viewed as a failure to show loyalty or as “acting against the Tsa Wa Sum” (understood as king, country and people). The Tsa Wa Sum, originally mentioned in the Supreme Laws issued in 1958, came to prominence as concerns developed over the security and integrity of Bhutan during the 1980s. Furthermore, the constitution’s Article 15(4) prohibits the formation of political parties based on ethnicity, religion or region.

Despite the passage of the Civil Society Organization Act in 2007, the development of civil society has remained slow in Bhutan. Notably, only one of the 28 members of the Civil Society Authority is from eastern Bhutan.

Although the educated middle class tends to be viewed as the most promising wellspring for the development of civil society, it should be emphasized that rural people have traditionally worked in a consensual manner at the grassroots level, engaging in activities including the provision of support to the needy. Therefore, the potential for the development of civil society exists across all sections of Bhutanese society, and as political consciousness is transformed and invisible hierarchical barriers to comment and criticism removed, civil society may develop. A number of established organizations such as the Tarayana Foundation and RENEW serve as excellent examples of local NGOs.

The resettlement of up to 60,000 Lhotshampa refugees by the governments of the United States, Canada and Norway began in 2008. Tensions over the resettlement program led to violence and intimidation by political organizations in the refugee camps directed against those who chose to apply for resettlement. Reports from refugees settled in the United States have indicated that they face a range of problems that have prevented integration and hampered their efforts to build new, constructive lives. The longer term implications of the resettlement program are still unclear. Although the refugees have the opportunity to become citizens of their new host countries, they may remain a vocal source of opposition to the Bhutanese

Cleavage /  
conflict  
management

5

Civil society  
participation

4

Reconciliation

3

government. The resettlement program may therefore fail to remove or neutralize the tensions entirely.

## 17 | International Cooperation

The 10th Five Year Plan began in 2008, and sets out the government's main developmental objectives. The principal objective is poverty reduction. The plan takes international goals into consideration, and reflects the important and generally successful working relationship between the government and international donor organizations. It highlights the key strategic focus of the government's policies through 2013. More specifically, as well as setting out economic and employment goals, it states social and human development goals to be achieved by 2013. This focus is important and is central to the current government's policy development.

Effective use of  
support  
9

The introduction of the parliamentary system enhanced Bhutan's credibility with outside donors and the international community. A series of high-level visits from parliamentarians has confirmed the widespread recognition of the political transformation undertaken in Bhutan. While the main party did not, as suggested by international observers after the 2008 elections, transfer some seats to the losing party, this has not undermined the credibility of the government. This reflects the general view that the government is both credible and reliable.

Credibility  
9

However, the ongoing refugee situation in Nepal casts a shadow across Bhutan's reputation. Despite the resettlement operation, a sizeable refugee community continues to exist in eastern Nepal. These individuals' future remains unresolved, and although the reduction in their numbers may appear to address the issue, problems may persist for Bhutan on two fronts. The international community may continue to view the unresolved refugee issue negatively, especially as resettled refugees draw attention in their host nations to the plight of the remaining refugees. Moreover, the resettled refugees could provide valuable material support for opposition groups.

India remains the principal country with which Bhutan interacts. Official meetings between the two countries, such as the visit by the speaker of the Lok Sabha, India's lower parliamentary house, reflect this close relationship.

Regional  
cooperation  
7

For a small country, Bhutan plays an active and engaged role in South Asia regional activities. Bhutan is a founder and member of the South Asian Association for Regional Cooperation (SAARC), the South Asian Preferential Trade Area (SAPTA) and the South Asia Free Trade Area (SAFTA). The 16th SAARC summit, hosted by Bhutan in Thimpu, dealt with climate change; in May 2010, the first SAARC public accounts conference, supported by the World Bank, took place in Bhutan. The SAARC Forestry Institute is located in Thimpu.

However, Bhutan's good relations with others partially reflect its highly dependent state; any attempt to improve relations with China either through settlement of outstanding border questions or by improving transit transport links would not be viewed favorably by India. This tension is recognized, and has been handled by Bhutanese authorities with diplomatic tact.

## Strategic Outlook

A report by EU election observers following the 2008 election contained 42 recommendations in addition to observations of the balloting process itself. Notably, one recommendation advised the National Assembly to consider awarding "compensatory seats" to the PDP, in order to bring the distribution of seats closer into conformance with the nationwide proportional vote. While the Assembly declined to act on this recommendation, it was noted by many ordinary Bhutanese, and the imbalance remains one of the criticisms of the current government.

The National Council has provided an important locus of challenge to the DPT government. The weak opposition provided by the PDP could have negatively affected the credibility of the DPT. However, the counterweight provided by the National Council has been recognized and valued. There remains a need to learn lessons from the failure of the PDP, and for potential new political parties to be clearer in their proposed manifestoes and engagement with the electorate. In future elections, emergent parties will need to consider what factors may attract or repel voters. However, this is structurally difficult. Only two parties may operate once the elections have been held and the government and opposition parties elected. All other parties, if there are more than two, are required to dissolve themselves until the next election is called. This makes it very difficult for other new political parties to develop legally or outline their manifestos and proposals before the next elections. This legal provision therefore undermines the development of a range of political parties and a deepening of public engagement in the democratic process.

The constitution (Article 23(3)) lists qualifications for candidates with respect to age (25 to 65 at the time of nomination) and education ("necessary educational and other qualifications prescribed in the Electoral Laws") that restrict access to political office. In addition, those married to non-Bhutanese citizens are prevented from becoming candidates, a fact highlighting the wide-ranging implications of the citizenship rules and their application. More broadly, policymakers should create a legal unit within the Election Commission tasked with handling legal reforms and legal issues surrounding future elections. This would strengthen the role of the Election Commission. Similarly, the Supreme Court, with its ability to interpret and uphold the constitution, should be allowed to emerge as a robust, independent institution. With the coronation of the fifth king in November 2008, there is a need to ensure that the new political structure is secure, and that participation in political debate is encouraged. The new government should seek to enhance and promote the development of civil society.

Although there has been a major program of refugee resettlement in the United States, Canada and Norway, the Lhotshampa refugee question continues to remain unresolved. Approximately, 40% of the community's refugees remain in the refugee camps in eastern Nepal, in a stateless bureaucratic limbo. The potential for radicalization by extremist pseudo-Marxist groups will continue to present a threat to Bhutan's integrity. The need for a permanent resolution should remain a key priority of the elected Bhutanese government.