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BHUTAN DEMOCRACY FORUM 2022

**Equitable Prosperity through
Inclusive Economic Growth**



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BHUTAN CENTRE
for MEDIA AND DEMOCRACY

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*Equitable Prosperity through
Inclusive Economic Growth*

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Introduction

Chencho Lhamu, Executive Director, Bhutan Centre for Media and Democracy (BCMD)

Bhutan Democracy Forum is a platform for elected leaders, policy-makers and citizens from diverse walks of life to deliberate on issues of national importance. It is a manifestation of democracy in action as citizens engage in issues of concern to play a part in offering constructive suggestions and recommendations.

I think the desire for equity and inclusivity are ingrained in our DNA and that His Majesty's vision of a "just and harmonious society" is a recognition of this innate human need.

The theme for today's forum originates from a place of concern. Pre-pandemic, Bhutan enjoyed the most rapid economic growth in the world at 18.5% but suffered the highest contraction at 10.08% during the pandemic. Our external debt is 126.8% of our 2021-2022 GDP. The situation is far from the vision of our monarch and our own needs.

Different sectors of society are to work in tandem to contribute to inclusive and sustainable development. However, the private sector is struggling; the civil society organisations are yet to be recognised as credible partners in development. Therefore, as we look beyond the pandemic, here is an opportunity to shape the policy environment that could take us closer to the national vision of a "just and harmonious society"

BCMD, in partnership with the RUB, has put together two eclectic panels of international and national speakers – one joining from New York and another from Sherubtse College. It is my honour to introduce to you the moderator for the Forum - Dasho Kinley Dorji. Dasho has served as the Chief Editor of the first national newspaper – Kuensel. He is a prolific writer with a sharp sense of wit and retired not long ago as the Secretary of the Ministry of Information and Communications.

Dasho Kinley Dorji, Moderator

The very important component of the vision of achieving a just and harmonious society is equity. Since the 1970s and 80s, we keep hearing about the policy of de-monopolisation and equality in our somewhat hierarchical society.

I will start the discussion on the premise that we don't have equity or that we need more equity in our society. That is the theme for today's forum. In the past, we have talked about Gross National Happiness (GNH) and its misconceptions - that GNH means we don't need money - but we have been corrected there and directed to understand that a sustainable economy is an important pillar of GNH. So, the prosperity of a society is important. Here, I am not talking about individual wealth.

At this stage, when we are coming out of the pandemic to reimagine or re-plan Bhutan's future with initiatives such as the economic roadmap, we hear the UN's buzzword on "leaving no one behind," and we have our government who declared a pledge to "close the gap". If I may quote His Majesty in one of his speeches, "The economic development of the state ultimately affects the livelihood of every common individual in the country. Therefore, it is important to achieve a sustainable economy that benefits every family and ensures the overall health of the nation." This is something that we have to keep in mind.

Today, we have two-panel discussions. We have Hamid Rashid from UN, Gopal Giri from RMA and Member of Parliament Kinley Wangchuk in the first panel. In the second panel, we have Rikesh Gurung representing the entrepreneurs, Tshering Dema from RENEW Microfinance Ltd. and Rinzin Wangmo, a lecturer at Sherubtse college.

I would like to invite Hamid to start.

PANEL I



Hamid Rashid (PhD)

Chief, Global Economic Monitoring, UNDEA

My presentation will be mostly about diagnostics, which is not necessarily any prescription or policy advice. I am speaking in a personal capacity and not representing the UN.

There are three overriding development objectives for small developing countries like Bhutan. The first objective is achieving and sustaining steady economic growth, which is necessary for shared prosperity, but it is not a sufficient condition. The second objective is reducing growth volatility and vulnerability, and the third is managing inequality because growth often comes with some side effects. We need to manage growth in a way that does not increase or exacerbate inequality. These goals can be mutually reinforcing and complementary, so we can pursue all three goals simultaneously to achieve the objectives of inclusive and sustainable development.

If we look at Bhutan's growth performance over the last three decades, it did very well during 2001-2010, but growth has decelerated significantly in the recent decade (2011-2020). Even if we exclude 2020, which was a bad year for the world economy, Bhutan's

growth performance in the last decade was roughly 60% of what it achieved during the previous decade. So, the question is whether growth is slowing down for Bhutan? Has its growth been more volatile or less volatile compared to other countries?

When compared to other countries within the region and among the LDCs, it has done relatively well. The average growth rate in the last 30 years was 6%, but others have done better. Laos People's Democratic Republic's economy is similar to Bhutan's, and its average growth is 6.6%. India's average growth is 5.8%, and South Asia's average growth is 5.5%. But what is significant about Bhutan's growth is that it has been more volatile in comparison to its peers. Bhutan's growth volatility has been 0.76, which is significantly higher than other countries with the same level of economic development. This is apparent from the shocks of the pandemic. Bhutan's economy shrank by 10.1% in 2020, but other least developed countries (LDCs) did not shrink as much. Average LDCs slightly grew in 2020. India's economy shrank by 7.3%, the global economy shrank by only 3%, but Bhutan's economy shrank by over 10%.

If you look at Bhutan's vulnerability to the global financial crisis, it barely affected Bhutan; Bhutan grew by over 6.7% during the global financial crisis, whereas in 2020, it contracted by 10.1%. So, over the last ten years, one might conclude that Bhutan has become more vulnerable to global shocks; this should not come as a surprise because the economy is more integrated through tourism and trade. This calls for better policy measures to manage those vulnerabilities.

The global data shows Bhutan as the sixth most indebted country among the developing countries in the world in 2019. It is not bad news for Bhutan because almost all the debt incurred was to invest in hydropower; it was not for consumption but for productive investments. However, if the average growth rate of Bhutan is what it has been in the last ten years, then the country's debt to GDP ratio and GNI ratio will exceed 200% by 2030, and at that point, debt will not be sustainable. Bhutan would need to think about a severe debt crisis or debt distress that may affect its growth pattern and slow economic growth. On top of that, large global shocks can tip the balance anytime. Bhutan has to account for that in its planning and policy considerations.

We need to recognise that equitable growth is steady and resilient. When growth is equitably distributed, it produces long-term benefits. Earlier views of economists from the 1950s and '60s argued that rising high growth has the side effects of increasing inequalities, but that has been proven wrong. An economy can grow fast and still keep inequality under check. Once inequalities are under check, growth becomes much more steady and resilient, and that is the sort of argument that needs to drive the policy considerations in Bhutan.

When an economy is overly dependent on one particular line of product or commodity export, hydropower export in the case of Bhutan, then it can be very vulnerable. We have seen that Bhutan is facing the risk of becoming a monoline economy, with just one critical product -- hydropower -- driving all economic activities. To move away from that, Bhutan can think about three ways to stimulate growth: i) by adding more labour, ii) capital and iii) efficiency to the economy. An efficient economy is a more resilient economy and is called productivity-driven growth. This is where Bhutan needs to focus since productivity-led growth is more resilient, inclusive and equitable. There needs to be more policy discussion as not every sector can contribute to productivity-driven growth.

Coming back to the issue of one line of exports, Bhutan's hydropower share in total exports increased from 33% in 2011 to 57% in 2020, a fairly sharp increase even in dollar terms. However, while hydropower export has increased, total export has declined during the same period, and it is alarming because it indicates hydropower has crowded out other exports. The share of non-hydro power exports as a percentage of GDP declined from about 25% to 11%. This means hydropower exports are dominating and the overall exports are not increasing as much. In GDP calculation, net exports in Bhutan, exports minus imports, have not improved as much as they should have.

Bhutan's story is that the agriculture sector, which employs almost 50% of the people, has very low productivity. One good measure is the gross value added by a worker. If you look at agriculture in Bhutan, almost 50% of employment is in this sector. But per worker, it generates 2,500 dollars compared to hydropower, which generates 77,000 dollars per worker employed. The hydropower sector, in my calculation, employs about 4,100 people, but it produces 350 million dollars of value-added every year. This is significant because with a small labour force there is a large economic output, whereas in the agriculture sector there is a large share of employment but small value addition. This is where the focus needs to be, as observed in the tourism sector too, which is quite labour-intensive but has low productivity. Similarly, other sectors such as hotel, transportation, wholesale, retail, and manufacturing also have low productivity.

60% of Bhutanese live in rural areas; the rural-urban divide in Bhutan is quite startling. The rural GDP per capita is around 900 dollars per person, whereas the country's overall GDP is \$3,200. If you calculate the urban sector GDP, it is about \$ 8,000 per capita. The urban sector GDP is about 10:1 - meaning the urban sector is ten times richer than the rural sector. This is challenging for a small economy because this inequality may grow big if there is no productivity growth in the rural economy.

The second challenge for Bhutan is that the population growth rate is low. If the projections are correct, Bhutan's population will grow by 0.8% per year between now and 2032, which will make Bhutan one of the slowest growing populations in the world,

even slower than that of the European Union and many advanced economies. This means that there will be an ageing population and more people depending on a small workforce. Therefore, relying on small sectors in terms of employment and hydropower to generate all the economic growth is risky. Growth has to come from other sectors -- especially those that can release an abundant labour force, are underemployed or under-utilised and have low productivity, so they can move to high-productivity sectors and can lead to greater productivity and inclusive led-growth in the long run.



Honourable Kinley Wangchuk
Member of Parliament, National Assembly

For today's deliberation on "Equitable prosperity through inclusive growth," of all the economic issues, the economic crisis and inequitable distribution of national wealth are grave concerns we share globally. For a nation, this is one key aspect to take care of or else we risk falling into the abyss of economic and social crisis. Bhutan is striving to achieve an equitable society through equitable development. Today, I also like to keep it in a personal capacity, but by default, I think I represent these three institutions automatically. I hope there is nothing to politicise, as I will be as honest and candid as possible. I have divided my point of view into three broad topics, all observatory in

nature. One is the political point of view, followed by the government's point of view, and the third is the legislative point of view.

The main reason that triggered the party Druk Nyamrup Tshogpa (DNT) to adopt “narrowing the gap” as a slogan was because in 2017 the World Bank published a Gini coefficient reading, and it was valued at 37.4, and as per the status, the gap between the rich and the poor was eight fold higher, which was quite alarming. The party thought that this was something that we need to do - narrow the gap. To be honest, “narrowing the gap” and “narrowing the gaps” have huge differences. We drew a consensus that we will keep it as “gap” but it means “gaps”. We have to look at public services and delivery issues as other aspects of the gaps.

Now with regard to the government's point of view, in the first six months, because of the budgetary independence, not much was achieved. But if you now look at the budget allocation, we have 60% of the budget allocated to local governments; to narrow the gap we focused on the local governments. Additionally, the water flagship was also an important programme initiated. If I speak from my constituency point of view, there is a budget of Nu. 50 million allocated to just two gewogs. This shows that we are working towards contributing to bridging the gap between the poor and the rich. As per the statistics, the local governments have more people underdeveloped and in low-income categories.

[Another gap is the access to markets for agricultural products.] Therefore, we have been mindful of the road condition; 205 roads were granular sub-base (GSB). We are also about to allocate more budget to come up with better road structures in the coming financial year.

The digital gap is also something that we really need to close. Through the Ministry of Education, we have provided laptops and desktops to almost all the nooks and corners of the country. Although the Mines and Mineral bill could not be passed, the government has found a middle path and handed over the dolomites and coals to the State-Owned Enterprises, which will also contribute to narrowing the gap.

However, from the legislative point of view, if you look at one of the important bills, which is customs and duty, there are problems. There is corruption and there are many issues, so we flattened the customs duty to 10%, which is a huge achievement from the Parliamentary point of view. To resolve the gap between the ruling and the opposition, we have created a conducive environment where the ruling and opposition work together with a clear heart. There are more to speak of, but I think I'll be able to address it during the question and answer session. Thank you.



Gopal Giri
Director, Macroeconomic Research & Statistics Department,
Royal Monetary Authority

Before we prescribe anything, I would like to set the stage with the fundamentals of the Bhutanese economy. Bhutan is still an import-led economy and we have a twin deficit problem. Historically, we have a peg exchange arrangement and the key drivers of domestic economic growth are led by the government's capital expenditure. Now, I would like to ask people to go back to the first Five Year Plan inception and compare it with the 12th Five Year Plan. Has the structure changed? To be honest, the fundamentals haven't changed much. It still remains the same and now we are heading towards the 13th Five Year Plan, and under these fundamentals, we are trying to prescribe economic policy options and pushing the private sector to act as engines of growth. I think we are asking someone to eat an elephant, without understanding if they have the appetite to do so.

These are the basic problems. It is important to understand the factors of production. When we do any economic activity we have to rely on the factor of the production. The basic factors of production are land, labour, capital and skills. Sometimes when we talk about inequality, I think Bhutan is blessed with His Majesty's leadership. We are not a

laissez-faire economy, we are a welfare state and a lot of the fundamentals have already been provided by the state. The land is provided by the state for the landless; His Majesty provides land kidu. Labour is one of the constraints that we have been facing, even today. We have been dependent on labour imports for major industries and the construction sectors. Capital is definitely a very important factor in production. Although today, I don't represent the Royal Monetary Authority (RMA), I'm here in my personal capacity, capital is a factor of production which drives other factors of production. We are definitely lacking in technology and that is why right now, even from His Majesty's initiative and the Ministry of Labour, a lot of skilling programmes are in this sector. These initiatives are intended to bring about more equity in society.

Sometimes when you look at the ease of doing business, access to finance is looked at in isolation, but it's important to understand how each factor of production is interlinked. It is important for private sectors to understand that even if access to finance is given, other technology fronts and bureaucratic processes make things very tight. This will limit access to finance. We call Cottage Small Industry (CSI) one of the important jewels but there are a lot of risks involved in this sector, therefore financial institutes have been reluctant to provide easy access to credit to these sectors. Combining all the factors of production together is a challenge and we haven't done this. So, to achieve high factor productivity for a higher and inclusive growth we have to look at the different processes like bureaucracy and licensing in a holistic manner.

Another thing I notice is our growth dynamics. The private sector is in its nascent stage and everything is driven by government expenditure. This is a lesson learned from the COVID-19-- if there were no hydropower and agriculture sector, our growth could have contracted below 10% and more. So the hydropower sector cushioned the economy from a deep recession. When talking about growth, without the government's capital expenditure there is no action, even in the domestic credit. We call it three triggers of economic growth, capitalised expenditure, private investment and domestic credit. The private sector has very limited space for economic growth and the government has to continue to be the driver until the private sector can do so.

The key lesson to learn from the recent pandemic is to question if hydropower is good enough to take our growth further. On the one hand, we are faced with high unemployment challenges, especially among the youth, and on the other, the private sector is still nascent and the pandemic combined has been putting tremendous pressure on the economy. Dr Hamid said that economic diversification is one of the solutions. I think diversification is definitely very important, but I think it is important for us to know alternative sources of growth besides hydropower. This is one of the interests of the finance sector-- to know how to link the finance sector to real economic development.

If you look at the banking sector, more than 60% of the loan comprises import and consumption loans. This is not going to help because we have to channel these resources to productive growth sectors that generate employment. When we talk of the earlier fundamentals, Bhutan is put in a very difficult situation right now. We have a peg exchange arrangement, we face impossible trinity issues, a trilemma, we have capital control and we don't have independence because of the currency peg. We also can't pump in as much liquid as desired at the cost of the peg, because of the hydro debt; if the peg is distorted, there is a risk for debt servicing, which is one of the challenges because we cannot pump in as much liquidity for economic recovery. Therefore, by looking at the situation from this perspective, we have to understand the calibrations required to achieve this smartly for Bhutan.

Now moving forward, when you talk of inequality, I see the finance sector playing an important role in this because financial inclusion itself is a means of bringing an equitable and inclusive society. We know that Bhutanese finance management is very poor compared to Indian culture, maybe it is because of the demography-- we are a younger population-- so we don't care about the future and present consumption is more important than the future consumption. Therefore, financial inclusion should also include financial literacy. We have to give these values to our younger generations to help them manage their funds to the best of their ability. So that in the long run, Bhutan will be financially independent. Right now, Bhutan depends on aid and grants for financing our capital expenditure. To become financially independent, we need to understand how we put our efforts into bringing our productivity gain to a higher level, add value to our skills, become more productive and generate good income. This entire gamut of issues from the income generation to the tax revenue paid to the government is not working in our case.

To conclude, I think these are the areas we have to look at with this.

PANEL II



Rikesh Gurung
Founder and Managing Director, The Green Road

After being in business for seven years, building about 120 kilometres of plastic road, reusing more than 700 tonnes of plastic waste and employing more than 65 people, my company is able to sustain itself; but I don't think it can ever thrive if the economic situation remains as it is.

Every time a law is passed, you take the privileges away from entrepreneurs. I say this because last year on October 31st, I stopped my plant in Jigmena, which was established in 2014. I was asked to apply for another land, (I leased the land for my plant from the Dzongkhag Office) there was an ad hoc circular that came from the Royal Commission for Urban Development stating that no private individual will be allowed to take

government lease land. Therefore, my plant hasn't been running for seven months. I think it is just a matter of time before I start relieving my employees. This has really affected me, although I like challenges I didn't know that it would take a toll on my health.

Every time we have a new government, they talk about economic growth that is resilient and green, which is good as it benefits the society but it has also become divisive as the vast majority of the GDP goes to a very small fraction of the society. That is also where everything comes to a halt because we focus on acts and policies. I'd like to share an example. An entrepreneur started a company, a Manufacturing Unit in the startup centre and availed a loan of 1.2 million through the Cottage Small Industry (CSI) bank. After running the business for six months, she got a notice saying that the plastic ban implemented in 1999 was reinforced so she has to stop her business. So after three years, she is running around to make ends meet. I couldn't help her and or her husband who had mortgaged the family land in Mongar as collateral, now both of them are litigated.

The officials were saying that the notice was not sudden and there are acts and policies. However, if they are keen on taking up these policies and acts, there are policies and acts in the National Environment Commission (2009) stating that the government may establish fiscal incentives for environment protection and compliance, however my company (Green Road) till date has not benefited from this.

Last year, I was appointed as the independent director of a State-Owned Enterprise called Green Bhutan Corporation Limited. It was alarming for me because even though we claim 70% forest cover, our forest isn't healthy. In the last three to four years almost 5000 of the catchment area that produces water has dried up in the country which is a very serious concern as we talk about hydropower projects. I came up with this strategic plan for the SOE to really diversify income. I found that if we grow agarwood in an area of 1,000 hectares we can generate more income than the hydropower sector. So, there are opportunities that we can really explore.

Coming back to the earlier conversation, the circular actually left me ossified. It was a tricky situation to be in. When I say the government, I mean the ruling party. The bureaucrats, the government and the private sector don't get along well and are unable to perform better. Sometimes, I imagine that I'll be able to do much better if I go abroad. It is very sad that when the last lockdown happened, 32 of the entrepreneurs doing the business for the last five to six years quit their business and sat for the IELTS exam. That is very concerning.

In terms of the government, they are in a situation where there is no income coming in, so they came up with the Goods and Services Tax (GST) regime, which was to be implemented this July. I've been part of that review team and I shared that if India took

19 years to study GST to implement it in the 20th year, then this can't be implemented straight away,
As Dasho said, we Bhutanese seem to know everything. When I started my business in 2010, it took me three years to get my licence, and now people claim that they know more about my business than I. This is the kind of society that we are living in, and it's quite sad really.

We have Mr Gopal here today and I wanted to talk about the interest rate. We talked about financial inclusion at the CSI forum and I questioned about bringing the interest rate down to 3% to 4%, to encourage businesses in the rural areas. The person told me that 3% won't be enough to cover the administrative costs. However, Japan currently stands first in entrepreneurship development and the interest rate is just 0.40%. The Japanese earn more than what we earn. So why can't we do that?

There are a lot of things to consider - GST and innovations in a lot of fields like agriculture and the environment. I understand that they want to bring about big developments in the country but neglecting the small ones and not giving opportunities won't take us far. If we talk of employment opportunities, the private sector employs 70% of the working group of the population but this is where we are heading.



Rinzin Dema
Economics and Statistics Lecturer, Sherubtse College

I would like to share some aspirations of our youth and my views on how academia can prepare them for inclusive growth. What I have observed with my close association with young people over eight years at Sherubtse and elsewhere are -- first, the youth are striving for an increase in freedom from the system and from the controls of adults as our system restricts students to plan and carry out activities independently. I feel our leaders should be bold enough to take risks and facilitate activities in the interest of students and promote more civic engagement for the students.

Second, the current education system is more on imparting subject knowledge, be it in schools or tertiary educational institutes and our focus on 21st-century skills is minimal. So once they get out of the education system they are not able to make significant decisions in their lives. They're not able to navigate their personal, societal and economic problems and also the academic challenges in the institute. Right now, when a student has a brilliant idea we often become sceptical about it and start thinking about its adverse outcomes. For instance, when a student engages in collaborative activities, which might require their presence elsewhere, the first thing we ask ourselves and the students is if it would not affect their studies or attendance. We are too focused on academics and I think this obstructs them from realising a sense of responsibility.

Third, while I converse with the young people, each of them has different needs, values, strengths, interests and weaknesses as well. Some of them dream of becoming civil servants while others want to be an entrepreneur. However, it is very sad to see their dreams already dying before they even start budding. This is because of society's pressures and expectations. While they feel and understand that the nation needs them, they are certain that their ultimate destination is going abroad for economic opportunities. The youth expect the adults to listen and respect their opinions as well. These democratic values should start from educational institutes because these people are going to practise the same someday.

We need to work towards ensuring inclusive education, giving everyone equal opportunity to learn irrespective of their gender, economic capacities and physical abilities. Besides the provision of technologies and tools as a learning aid, we also need to design inclusive infrastructure in the institutes, including tertiary education institutes for disabled students.

From the economic perspective, how can we make education more inclusive for students coming from diverse backgrounds? According to the 2020 TVET report, it showed that a majority of the TVET students/trainees, as high as 60% of them, are sons and daughters of farmers with no formal education background followed by children from armed forces and private-sector workers. So what does this indicate? Is our education inclusive? Are we giving equal opportunity to all? I think there is an opportunity for the policymakers to intervene and make education more inclusive and avoid problems of representation at a

higher level.

I would also like to emphasise gender in education. Over the years we have received increasing enrollment of girls both in school centre tertiary education. In the arts and social sciences, we have somewhat equal enrollment however, if you look at science courses there is still lesser enrollment. In Jigme Namgyel College of Engineering, we have as low as 30% female enrollment and the College of Science and Technology in Kharbandi doesn't even have 30% female enrollment. So, we need to start thinking about why there are fewer women in STEM education and how we can improve their involvement and participation? We may be able to do it through positive discrimination, so rather than selecting these students entirely based on merit, we can have a certain quota for women in STEM education through positive discrimination. This is the era of technology and a digital-driven world, and due to inequality, the disparity of gender in terms of income will widen because of the work they will be taking up later. Further, the disparity in representation at all levels is likely to rise as well. Therefore, positive discrimination must also apply to other subjects in arts and social sciences making it inclusive of all gender. We must keep quotas for males wherever necessary as well.

There are different avenues from which students learn life skills, one of these is their participation in sports and co-curricular activities. We can see that female participation is less in sports, so we should encourage and facilitate such activities for female students. That can be done again through positive discrimination, sometimes we just need to give them a push rather than leaving it to themselves. For example, we have a football field and the opportunity to play football is given equally, however, every time a woman tries to go and play the field is populated with men. There is no way that a woman can play with her male counterparts at the same time. So why don't we allocate particular time for women to come and play? For the first few days, we might see the football field empty, however gradually few will start playing and then more and more will start turning up to play. Therefore, such positive discrimination should be practised even here to ensure inclusive economic growth at a later stage.



Tshering Dema
Deputy CEO, RENEW Microfinance Pvt. Ltd

I come from a sector that caters mostly to the rural community, but I think what I will talk about will also apply to every section of the population. From my experience, providing microfinancing in 11 Dzongkhags for the last seven years, what I have learnt is that rural people or Bhutanese in general need to be more proactive. I think the inactiveness or the reactiveness comes from the fact that the government has been taking care of us historically. So even today, medical expenses and education are paid for unlike in India. I feel that this lack of proactiveness is because we have this mindset that the government is responsible. Of course, the government is accountable, that is why we elected them. However, I feel that putting your and your family's future into the hands of the government is not a very wise thing to do. If that were the case we wouldn't be discussing all the challenges that we are discussing today. There are so many challenges and issues that we want the government to address, but we also have to understand that there is only so much the government can do and I think it is our responsibility to make a better life for ourselves and for our families.

Therefore, as a microfinance service provider, in my experience, especially in the agriculture sector there has always been this issue of not having access to the market. It

is due to the transportation issue or lack of cold storage, so people want the government to install it and they want the government to fix the roads. However, I feel like the community can come together and decide if someone can take up the business of installing storage in their community. If the roads are bad they can proactively come together and fix them. I understand that it is expensive to take over these projects, but I feel like waiting on the government does not help either. I think the government will act but it takes time for them to act. That is why I feel it's important that if we want equitable and inclusive economic growth we take the responsibility. The government and the regulators will do their part, but it is our responsibility to do ours.

I also feel that there is this lack of urgency in our people, we are pretty laid back and I do not mean any disrespect to anyone when I say this. Even if you are unemployed or take some time to find a job, you can always depend on your family to take care of you, so this mentality affects our sense of urgency even for the entrepreneurs. I have also attended several pitching sessions and I've observed that our entrepreneurs do not come as business people, they come as people seeking "favour". I think no investor would want to put their money in your business if you do not bring something substantial to the table. They have to be convinced that you mean business and are not asking for a favour. If I give a typical example, I've seen a lot of pitchers say that we are a local company promoting local produce, so please support us. Investors will not invest their money to support your local produce, you have to bring value to the table. If you cannot compete in quantity then you have to compete in quality. If you want to thrive, there has to be something that you should be able to bring to the table.

One more challenge that I've seen is that it is difficult for entrepreneurs to find the right kind of balance. A lot of the time, the pitchers are too timid and when you're not confident then the investors will not have confidence in your endeavour. Then there's the other side where the entrepreneurs are too arrogant, which is not good either. I think it's very important to find that balance; you have to be respectful and stand your ground to show that you mean business.

We hear from our fathers and uncles who shared that when they graduated, companies would come to them asking them to join their company but that's not the case anymore. Bhutan is getting very competitive, so if you're just good enough it will be an issue and the unemployment rate will continue to increase. So this is the reality; you have to have your own back, you cannot depend on your family and you cannot depend on your government, because there is only so much that they can do for you. This is more from the demand side.

Now if I talk from the supplier side, from the government and from the regulators, I think we try to replicate what other countries have implemented in Bhutan, assuming that it

will be successful. However, so many policies have not worked in our context, so it is important that our governments spend more on research and development. We have to study the market to see what is applicable in our context and in our community. We have to talk to the people and have discussions with the relevant people who would actually be affected by these policies. I think this is what the government could do from the supply side.

From my experience, we also need to provide financial literacy as well as business literacy. I know the Minister of Agriculture and other agencies are doing a lot in the rural community to boost the agriculture sector, giving access to the market and technology. However, if the client is from a rural community, most of whom are illiterate and if they do not know how to make a forecast for their business or if they do not know how to budget their income and expenses, the business will only take them so far. So it is critical that we invest in financial literacy too. If you provide the needed financial and business literacy the loan will take care of itself. The client will know how much they earn and need to pay for the Equated Monthly Instalment, and their ability to take this loan, so the client will make sound decisions for themselves.

I think even banks and financial service providers like us need to think outside the box and not follow the conventional way. For example, we have the collateral that decides if you get the loan or not, instead of a more holistic evaluation. We also have to sit with the borrower and talk to them to understand their business plans, their income, and their capacity. I think a consultation with the borrowers is imperative because we want to be responsible lenders. If there are more questions then I will be open to them.



Q&A and Discussion Session



Kinga Tshering, President of Druk Thuendrel Tshogpa: I remember 10 years ago, you spoke in a similar forum and wrote a paper. That was in the context of the Rupee crunch in Bhutan, and now here we are 10 years later. What is the difference that you see during these two specific points in time? What have we implemented upon your recommendation back then or have we not implemented and what has been the impact that you saw?

Dr Hamid Rashid: It's a very good question but there's no easy answer to it. I try to follow Bhutan on a regular basis, not only as a head of global economic monitoring in the UN but also out of personal interest in Bhutan. What I have seen is that there is not much change in the policy messages in the last 10 years. I discussed this in 2011-12, the challenges for Bhutan in terms of the resource curse, which has now materialised. Bhutan is more dependent on hydropower than it was in 2010-11 and that has affected Bhutan's full growth potential. So, there needs to be some serious rethinking in the policy circle about how we avoid further downward slide of the economy and further concentration on just one sector. This will require immediate sacrifice or trade-offs even if it requires shedding a 1% or 2% growth rate by investing in sectors that have more potential. For example, Bhutan has the lowest electricity tariff rate (per kilowatt/hour) in the world. I've seen the tariff rates in neighbouring India and other countries in South Asia which are priced at the lowest possible level. Electricity should be harvested for the right use to generate new sectors of the economy but I haven't seen this new sector's development in Bhutan. I have heard about the IT sector, however, when I look at Bhutan's export of services it is still very limited; there are no IT exports from Bhutan. So that is something that Bhutan can think seriously about how to utilise other countries in the region or even beyond that don't have cheap electricity. Although I wouldn't say that the crypto mining sector would be good for Bhutan, as it has crashed globally, we can focus on related sectors like blockchains and other technologies, which are energy-intensive. Bhutan has to think beyond hydropower, it hasn't thought beyond hydropower during the last 10 years. Thank you

Aum Pek: Bhutan is slated to move into the middle-income category. I would like to hear your views on this, the pros and cons in the light of the current situation.

I think Bhutan is a middle-income country group already and is considering graduating from LDCs but these are fungible thresholds. A low-income country is eligible for concessional financing, a middle-income country can borrow in blended terms -- meaning it can be partly concessional, partly hybrid and partly market rate. So it is very tricky for a country like Bhutan to join the group of middle-income countries; it could face significantly higher borrowing costs. One good thing is that almost all external debt is in Indian rupees but if the borrowing is in dollars, then the middle-income country's status will affect its borrowing cost. Just to give an idea, LDCs borrow from the World

Bank or other multilateral development banks at under 1%. The moment they become middle-income countries, their borrowing rates increase to about 3% - 4%. If you borrow from the international capital markets that can be 7% - 9% in dollar terms. Therefore, borrowing costs increase exponentially once it becomes a middle-income country. I think there is also a grace period in between but as far as I know, Bhutan hasn't been borrowing in dollar terms in significant amounts, so there is no need to worry for now.

Sri Naryan, Election Commission of Bhutan: Good morning, Bhutan is a kidu-ridden country or a welfare state. My question is to Mr Gopal, how can Bhutan change its welfare state status?

Gopal Giri: Each one of us continues to depend on the state from every front. I think that notion should not be prolonged in the longer term. We are talking about graduating to a middle-income country and we are still dependent on the state for basic necessities. Due to the economic vulnerability index, we are not able to meet the threshold of graduation, this is a problem as it mirrors inefficiency in economic fundamentals.

Question from a student: The speaker has mentioned hydropower as being a major source of income for the country. Does the government also look at the long-term environmental impact of hydropower? I consider the environment to be a long-term asset of the country. Are people and the government aware of the impact of hydropower on the environment?

Gopal Giri: Bhutan is an environmentally rich country, and hydropower is the main natural endowment. We know that nature conservation is very important because we depend on natural resources and as you rightly mentioned hydropower is not free from vulnerabilities; climate change will impact the hydropower sector. If we lose the river sources, a huge investment that we have put in hydropower is going to suffer. This might have a lot of implications on debt service repayment in the longer term if we are not able to make a repayment by that time.

That's why now the important question is, should we diversify our economy away from hydropower and how to identify the sources of growth. That's the challenge we have.

Kinga Tshering: This is a valid concern in terms of the environmental impact, however in Bhutan, there are no big dams for hydropower; it is all run-off from the river dams, so there's no major impact on the stream. Additionally, there's a very strong Water Act, which says that there should be a minimum flow of 10% of the river. I think, yes these are valid concerns, but the contribution Bhutan is making to the regional and global renewable energy source diversification is huge. During the pandemic, the maximum contribution to the revenue is from hydropower, so hydropower has been COVID-proof



Sri Naryan, Election Commission of Bhutan asking a question.

and market fluctuation-proof. We have a guaranteed market with India. I think there's no other project we can pay back in 12 years and then earn billions of ngultrum for the government.

Kinga Tshering: Then just a follow-up question with Mr Gopal, one is the interesting component that during COVID only Bhutan has registered negative -10% economic growth. So what are some of the things that make Bhutan special in terms of registering the highest negative growth?

And regarding your argument on pegging that we may end up paying higher for the imports we are making, I think there is a substantial cost that you're bearing whether it's from the export or tourism or the money that you are getting from grants or from donor aid. So you are paying the money whether you have the peg or not. I want to request and see if the central bank has done any study on not utilising the only option that we have, which is the currency peg.

Gopal Giri: We have to look at endogenous and exogenous factors affecting the growth. The endogenous factor, like hydropower, has been a cushion and continues to be the main driver of growth. On the other hand, we are exposed to exogenous factors like tourism and hospitality. The drag on this sector has been severe during this pandemic

phase, which is the first shock of the pandemic. The second shock was faced by the mining, construction and transport sectors. It is important to understand that sectors are not in isolation and that they are closely linked. The good thing in our case is that hydropower continued to be resilient during the pandemic, without it, we would have been in dire circumstances. Bhutan's growth paradox is that we have high growth driven by hydropower but we still have high unemployment. Hydropower is a capital-intensive industry. The service industry suffered during the pandemic, many were laid off. So the question to ask again is should we go for diversification during the shock phase?

Regarding the pegging, the exchange rate is very important for us at this juncture as everything is tied to India's economy; more than 80% of the trade is with India (import and export). When looking from the debt perspective, the latest is 123% of GDP, that is 80% of debt is denominated in the Indian rupee. Pegging is in favour of Bhutan because of the stable exchange rate in comparison to other currencies. If our currency was not pegged we would be in deep trouble in terms of debt servicing and trade; this is the cushion we have. The Indian economy is a big economy and the exchange rate volatility is not much when compared to other vulnerable countries. That is the advantage we have as a small country. When we talk of de-pegging we have to wait for the right time, that is when we have a competitive edge in terms of our exports. If our economy's competitive rate increases then we can talk of moving to a semi-float exchange rate, it is not the time



Kinga Tshering, President of Druk Thuendrel Tshogpa asking a question.

right yet. We haven't built the capacity and the balance of payment also has to change, only then can we talk of de-pegging.

Karma Gyeltshen, National Council: I want to ask Mr Gopal, if every government comes and reduces tax what will be the economic impact?

Gopal Giri: This is a very important question. If The Ministry of Finance doesn't have money then all will suffer, we call it the fiscal space, they have very limited money to spend in the economy's development. Tax waivers and deferral eat away the revenue base of the country and without revenue base development, the immediate impact is on the country's economic development.

Student: Elsewhere in other countries, when economies contract, the government's central bank plays an important role in coordination, bringing fiscal monetary policies. This is not happening in Bhutan, why?

Gopal Giri: I think most countries increase the balance sheet of the bank, inflate as it is effective and within domestic control. Most of the advanced economies are doing this. Talking from the exchange front, in Bhutan's case it is unique, for example in Bhutan if you play with the balance sheet, it is like shooting an arrow at a steel wall, as the arrow will bounce back and harm us. Therefore, we have to be calibrated. If you increase the balance sheet, the government will spend causing imports to increase, which hits our reserve, and the balance of payment will deteriorate. We are very careful about the extent to which we can sustain our reserve.

Question: Is the government doing enough to support entrepreneurs?

MP Kinley: As far as policies with regard to private sector development and entrepreneurial scopes are concerned, I think the National Credit Guarantee Scheme (NCGS) programme from the government has played a vital role. We have also been focusing strongly on Cottage and Small Industry (CSI) banks. From NCGS and CSI jointly, many aspiring youth entrepreneurs have been given opportunities to access loans. I think this is one way to actually make it inclusive and directly cater to the needs and aspirations of doing business in Bhutan. I think this is one way to close the gap.

Question from audience: If we are to experience inclusive growth, what policy reforms are important, and what is being done so that other sectors share responsibility as well as enjoy inclusive growth?

MP Kinley: In addition to the water flagship programme, we have also focused on land development, this is also a youth entrepreneurial and engagement programme. Farm

Machinery Corporation Limited (FMCL) has undertaken a huge land development programme in addition to what the government has already initiated. Bhutan is driven by an agro-economy, so if we work hard we could meet food self-sufficiency, which has remained a myth. That is why our plans and policies are shifting toward a self-sufficiency economy and to create a diversified market, not only within our country but also outside. The pandemic, however, has been a bottleneck to the government's policy, but eventually, I think we will be able to address this.

Phub Tshering, Tshogpa, Thromde: What opportunities can be given to local governments to contribute to the betterment of the community?

Gopal Giri: When you talk of the theme of inequality and inclusiveness, sometimes we forget the social capital and its strength. Sometimes social capital itself is a very important factor that we need to understand. The community will have the strength to do things and not necessarily depend on the government to solve the problem. I think if we outline clearly what the local government can do and can't do, I think they can be a helping hand to the government. RMA's impact investment frontier is a part of financial inclusion that focuses on impact investment. Impact investment mobilises the social capital within the community that can impact and benefits the community so that we lessen our reliance on the government.

Kinlay Dorjee, former Thimphu Thrompon: Right now the problem faced by local governments is that they are fulfilling their duties and responsibility according to the rules and regulations to make a difference. In a thromde situation, based on my experience, one of the reasons is because elected persons misuse their power through favouritism and people become reluctant to come forward to participate in community development. The main reason for such a problem is because of lack of governance in the local government. If we want proper function and community participation, proactive facilitation must be provided by the local government and different institutions such as Dzongkhag and Thromde should work together or else we risk affecting community participation.

Namgay, Programme Officer, Desuung: We have noticed that usually there's a disconnect between our educational institutions and our industries. For instance, our business schools are not producing entrepreneurs, quite, unfortunately. Our colleges may not be feeding into the labour market. So what can an entrepreneur do? How can colleges create some sort of connection and feeding of talent into the market?

Rikesh: I think you must be aware that the new curriculum for class 11 onwards is focused on promoting entrepreneurship. It was launched about two years ago. So as a part of promoting the culture of entrepreneurship, entrepreneurs are usually invited to all the schools and colleges. Earlier about two to three years ago "entrepreneurship"

was basically trying to employ yourself and to get self employed but with the increasing number of graduates every year, entrepreneurship should be taken as a career choice. I believe that the support from relevant stakeholders should come in.

Although entrepreneurship is about promoting and pushing youths, last year the Ministry of Education procured some 4.6 million worth sanitary pads for schools for the menstrual day this year. However, the Ministry didn't buy these products from our local entrepreneurs. We have Cheche pad supported by Loden and UNDP. We talk about promoting entrepreneurship but we don't have support coming from the government.

When I say the government, it is not the ruling party, it is the bureaucrats who tend to follow these procurement policies, which affects the entrepreneurs. The whole idea of the economy is to support the needs of humans and I think it's time that we have to reimagine and have a bigger ambition of how we want to develop and have a different set of indicators.

Tshering Dema: To everyone, be curious and ask questions, I think a lot of things can be changed if we ask questions and not remain complacent. To the government, I would say consultation is critical.

Rikesh: I've been requesting the government to have this relaxation on the procurement policies, sharing that if you're not able to change fiscal incentives or GST, then it'll take a lot of time to really bring about changes. The government relaxing the procurement could really benefit entrepreneurs and I think it's only about going forward, no matter what kind of policies or regulations.



Group photo with the panelists and attendees.

Vote of Thanks

From the discussion we know that for a successful society and equitable prosperity, voices from all sectors of the society are required. This must be taken into consideration while developing policies or regulation, then only we can have this equitable society. RUB and BCMD have been organising Bhutan Democracy Forum for the last many years to create a platform to bring people together from all walks of life to discuss on topical issues of the country.

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