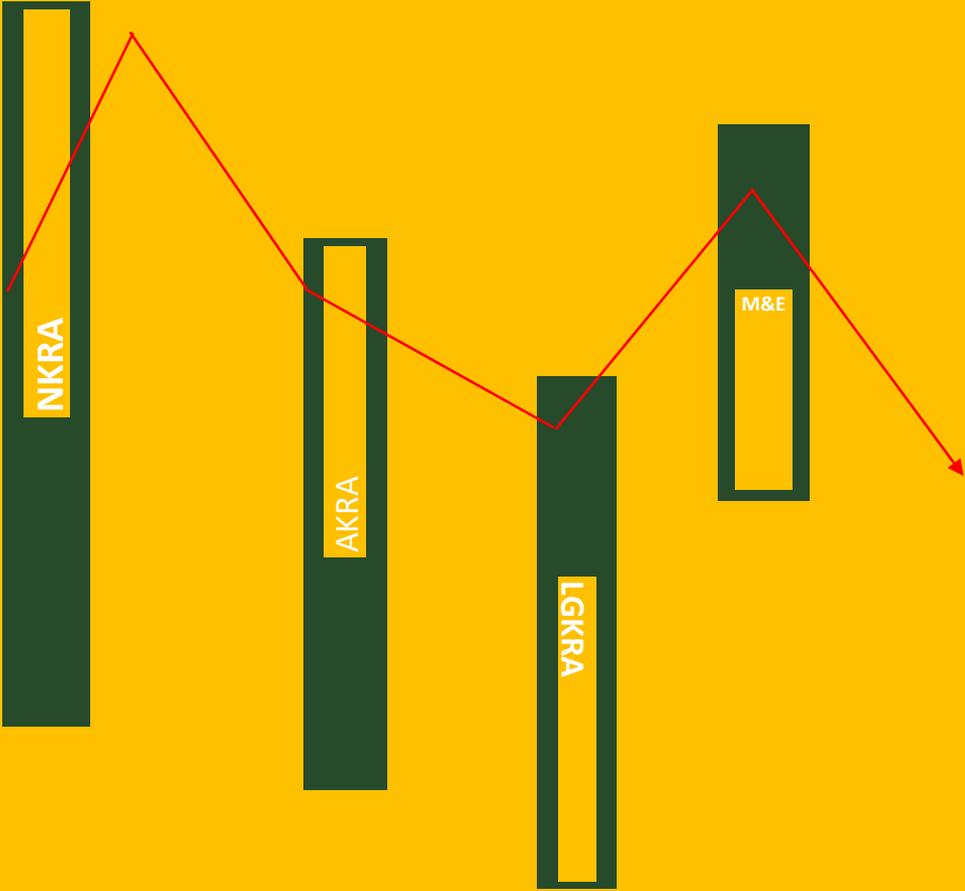


# Review of Planning System in Bhutan



Gross National Happiness Commission

The findings and recommendations expressed in this research are those of the authors and do not necessarily reflect the views of the organization (GNHCS).



December 2021

Gross National Happiness Commission

Tashichhodzong

Thimphu, Bhutan

[www.gnhc.gov.bt](http://www.gnhc.gov.bt)

## Authors

1. Pema Bazar<sup>1</sup>
2. Sonam Yarphe<sup>2</sup>
3. Lekema Dorji<sup>3</sup>
4. Gaki Wangmo<sup>4</sup>
5. Tashi Duba<sup>5</sup>
6. Karma Tshering Samdrup<sup>6</sup>
7. Ngawang Chophe<sup>7</sup>

---

<sup>1</sup> He is currently serving as a Deputy Chief Planning Officer in the Local Development Division at the GNH Commission.

<sup>2</sup> He is currently serving as a Deputy Chief Program Coordinator in the Development Cooperation Division at the GNH Commission.

<sup>3</sup> She is currently serving as a Senior Planning Officer in the Plan Monitoring and Coordination Division at the GNH Commission.

<sup>4</sup> She is currently serving as a Senior Planning Officer in the Development Cooperation Division at the GNH Commission.

<sup>5</sup> He is currently serving as a Senior Research Officer in the Research and Evaluation Division at the GNH Commission.

<sup>6</sup> He is currently serving as a Senior Research Officer in the Research and Evaluation Division at the GNH Commission

<sup>7</sup> He is currently serving as Senior Planning Officer in the Plan Monitoring and Coordination Division at the GNH Commission.

## Preface

This publication is an outcome of research efforts put forth by a group of officials from the Gross National Happiness Commission Secretariat over the past one month to delve deeper into issues raised from different sections of the society on the Five-year Plans (FYPs) especially with regard to the relevancy of the FYP cycle; the modality of plan formulation; monitoring and evaluation in the context of accountability and sustainability; and addressing some of the challenges related to economic growth in the context of plan implementation during the interim government and intervening period when the government is not constituted.

These researches were commissioned as an initiative to build a culture of research and innovation in the secretariat and propel discussions for the thirteenth and subsequent plans. It is also with the aim to sustain deliberations around the concerns mentioned and expectantly contribute to decision making and growth of the nation's planning capacity. It is hoped that some of the findings and recommendations will help shape the 13<sup>th</sup> Plan as a transformative and robust development plan implemented on a strong Monitoring and Evaluation Framework in the context of enhancing accountability.

(Rinchen Wangdi)  
**Secretary**

# Table of Contents

<b>PART I: Review of Planning System in Bhutan.....</b>	<b>1</b>
<b>Executive Summary .....</b>	<b>2</b>
<b>Background .....</b>	<b>4</b>
<b>Introduction.....</b>	<b>4</b>
♦ Origin of Development Plans and Current Planning Framework .....	4
♦ Planning Process in Bhutan .....	5
<b>Issues with Development Planning in Bhutan .....</b>	<b>7</b>
♦ Overall Planning Ecosystem- Plan Objective, Sectoral Planning and Scattered Budgeting.....	7
♦ Budget Allocation and Ceiling .....	9
♦ Limited Evidence Based Approach and Data .....	10
♦ Approach to Decentralization in the Planning Framework .....	11
♦ Monitoring & Evaluation Systems .....	12
♦ The “Dead Space” and Dip in GDP.....	14
♦ Other Issues .....	17
<b>Recommendations.....</b>	<b>19</b>
♦ Strengthening GNHCS .....	19
♦ Plan Objective to be Specific & Reduce NKRA.....	20
♦ Strengthen Planning/Budgeting System and Allocation of Budget Ceiling by Bringing in Macro-perspective.....	21
♦ Spatial Planning.....	21
♦ GNHCS to Review the Division of Responsibilities Framework .....	22
♦ Review, Revamp and Implement the National Monitoring and Evaluation Manual (NMEM) 2006 .....	23
♦ Review Current Modality of APA and FYP M&E.....	24
♦ Strategic Engagement in Resource Mobilization .....	24
♦ Review the RAF and institute a Performance-Based Grant System .....	25
♦ Addressing the Dip in Economic Growth During the “dead space” Period .....	25
<b>References .....</b>	<b>28</b>

## Abbreviations

AKRA	: Agency Key Result Areas
APA	: Annual Performance Agreement
ADB	: Asian Development Bank
CNDP	: Comprehensive National Development Plan
DoRF	: Division of Responsibilities Framework
DHI	: Druk Holdings and Investments
DT	: Dzongkhag Tshogdu
DYT	: Dzongkhag Yargay Tshogdu
ERM	: Economic Road Map
FY	: Fiscal Year
GPMD	: Government Performance Management Division
GPMS	: Government Performance Management System
GNHC	: Gross National Happiness Commission
GNHCS	: Gross National Happiness Commission Secretariat
GNH	: Gross National Happiness
GT	: Gewog Tshogde
GYT	: Dzongkhag Yargay Tshogchung
IWP	: Individual Work Plan
KPI	: Key Performance Indicators
LG	: Local Government
LGKRA	: Local Government Key Result Areas
LUC	: Linked Urban Centres
MAX	: Managing for Excellence
MFCC	: Macro-economic Fiscal Coordination Committee
MoF	: Ministry of Finance
M&E	: Monitoring and Evaluation
NKRA	: National Key Result Areas
NMEM	: National Monitoring and Evaluation Manual
PlaMS	: Planning and Monitoring System
PPD	: Policy and Planning Division
PMO	: Prime Minister's Office
RBM	: Results-Based Management
RMA	: Royal Monetary Authority
TYRBP	: Three-Year Rolling Budget and Planning

## Executive Summary

---

Over the years, we have seen the planning framework evolve through extensive consultations and lessons learned from past five-year plans. As a result, every FYP is a national development document that captures the aspirations and hopes of the people of Bhutan with a view to plan and implement better than previous years. Each plan period presents us with an opportunity for retrospection and improvement.

This critical examination of the current planning framework specifically points to some pertinent issues that are inherent in our planning process and governance structure.

First and foremost is the overall planning ecosystem starting from the formulation of the plan objective. It is observed that most plan objectives have been broad till date and cover several themes regarding development, governance and society, and has led to numerous National and Agency Key Result Areas. While this has created a favorable condition for sector-based planning and budgeting, the plan is also not being focused on a particular theme or priority area and results are scattered.

It is observed that the lessons from the past plans have not strongly influenced the subsequent plan formulation. The culture of knowledge management is very poor in the government system. Research backed plan formulation has not been infused in the planning system. Currently, there is no database that supports the culture of research and innovation in the organization.

It is also noted that in every plan period there has been incremental functional and financial decentralization at the local level. However, infrastructure, services, and resource management by LGs are of varying degrees of efficiency and quality, signaling that enhanced decentralization has not been followed by concurrent human resources and capacity.

A “dead space” of almost ten months (3 months of interim government and 7 months until the new government assumes office) occurs in the transition period for the next plan implementation.

While Monitoring & Evaluation is one of the most critical aspects in

pursuing development activities, it is found to be weak in the planning cycle and needs to be accorded increased priority. It is observed that while there was a very strong M&E framework envisioned through the National Monitoring and Evaluation Manual 2006, implementation in its true spirit has petered out with the assumption of a web-based computerized system (PlaMS) being the implementation of the document in entirety in the 10<sup>th</sup> FYP. The institutional set-up at the GNHC has never been pursued seriously.

With regard to the planning cycle, it is also observed that the five-year or three-year planning cycle is not an issue if the NMEM 2006 is reviewed and implemented in entirety specifically through the three-year multi-year rolling plan and budget.

It is recommended that GNHC as the authority on planning should be restructured to take on additional roles such as spatial planning; think tank; and strategic resource mobilization agency. It should also rebrand itself as a credible institution on M&E by building an independent M&E system.

Some of the recommendations include: revising the Division of Responsibility Framework; revising the Resource Allocation Formula and institute a separate Performance-Based Grant System for LGs; and implementing long-term strategic projects that transcends beyond the five-year term; and separating donor financing and domestic financing projects to accommodate the government's priorities.

## Background

---

### Introduction

The Royal Government of Bhutan has been following the five-year planning cycle since its inception in the 1960s. With emerging technologies and complex developmental needs, there has been a recurring discussion regarding the current five-year plan system. The issues highlighted pertain to planning timeframe, project duration and implementation, monitoring, and accountability.

In response to the need of the hour, the Gross National Happiness Commission Secretariat (GNHCS) as the central planning agency, has taken immediate measures to study and carry out a thorough analysis and validation of the planning system as a whole, and accordingly come up with recommendations to improve the system. This preliminary report focuses on identifying the issues and challenges of the existing planning system, including exploring opportunities and approaches for a transformative and robust planning system.

### Origin of Development Plans and Current Planning Framework

Until the advent of the development philosophy of Gross National Happiness (GNH) in 1972 when His Majesty the Fourth King proclaimed that GNH is more important than GDP, planning in Bhutan was sector based and area-based<sup>8</sup>. The sectoral based planning at the ministries complemented and supported the area-based Gewog and Dzongkhag programs. As a result of this approach, coordination has been a key and common theme throughout the country's planning process.

Gross National Happiness as a development framework was institutionalized into the planning process from the 9<sup>th</sup> FYP (2002-2007) onwards. Ever since, the planning process has been guided by the development philosophy of GNH, four pillars and its nine domains. Additionally, the Results Based Management<sup>9</sup> (RBM) approach has been adopted into the planning

---

8 Area-based planning refers to the planning within a geographical boundary of the Dzongkhag (district) or a Gewog (county)

9 Results-based management (RBM) is defined as orienting all action and use of resources towards achieving clearly defined and demonstrable results.

framework since the 10<sup>th</sup> FYP. The strategic planning framework for FYP outlines the key deliverables of the plan defined as the National Key Result Areas (NKRAs) at the national level, Agency Key Result Areas (AKRAs) at agency level and Local Government Key Result Areas (LGKRAs) at local government (LG<sup>10</sup>) level. These results contribute to achieving the FYP objective. To measure the progress of these results, each NKRA, AKRA and LGKRA has corresponding Key Performance Indicators (KPIs) with baseline and targets for the plan period. In order to achieve the results, central programmes and LG programmes are implemented. Central agencies and LGs ensure coordination, consolidation and collaboration for synergy and efficiency during all stages of planning and implementation.

## Planning Process in Bhutan

It is noted that planning at both the conception stage and implementation stage are cyclical and non-linear. The planning process begins with GNHCS developing a concept note. This is done in consultation with the Government, Prime Minister's Office and other

concerned stakeholders. Once approved, planning guidelines are formulated in consultation with relevant stakeholders. It is noted that consultations with stakeholders have become more inclusive since the 12<sup>th</sup> FYP. The draft guidelines include overall planning framework, plan objective, National Key Result Areas, resource projections (including overall outlay and ceilings for agencies and LGs), Division of Responsibilities Framework and instructions for formulating subsequent AKRAs/LGKRAs and programmes. Cross cutting themes such as gender, environment, climate, disaster and poverty (GECDP) are incorporated in the plan by the Mainstreaming Reference Group (MRG). The guidelines are approved by the GNH Commission and the Government.

Once the guidelines have been circulated and sensitization has been conducted to all stakeholders, sectors and LGs start formulating their results and plans. The main focal point for sectors is PPD and for LGs is the Dzongkhag/Thromde Planning Unit. Based on the planning guidelines, agencies provide

---

<sup>10</sup> Local Governments comprises of 20 Dzongkhags, 205 Gewogs and 4 Thromde As (Thimphu, Phuentsholing, Gelephu and Samdrupjongkhar)

technical guidelines which are especially used for reference by LGs in planning their LGKRAs and programmes in line with national priorities.

This is a very comprehensive and consultative process required for vetting the desired results before formulating the programmes. Sectors draft AKRAs and programmes in consultation with GNHCS, other relevant agencies/ stakeholders and LGs and finalizes it. The LGs draft LGKRAs and programmes and discuss and endorse in the DT/GT, and submit to GNHCS for finalization. Once the plans are finalized, they are submitted to the Parliament

for further deliberation and approval.

After the approval of the FYP by the Parliament, implementation starts with the formulation and approval of annual work plans (currently in APA system). Budget is proposed, deliberated and approved in line with the work plan. The APAs are signed and sectors begin implementation. Annually, there is APA Mid-Year Review and End of Year assessment and evaluation. Over the FYP implementation, there is an MTR after approximately two and half years, and a Terminal Review towards the end.

## Issues with Development Planning in Bhutan

### Overall Planning Ecosystem-Plan Objective, Sectoral Planning, and Scattered Budgeting

When the first and subsequent few five-year plans were implemented, the national objectives were clear with few priority sectors. As the country developed, the need for strategic planning was felt and the issue of coordination among sectors arose. In response to improving sectoral coordination and data collection, the Planning Commission was reorganized towards the end of the 7<sup>th</sup> FYP (1992-1996) and Policy and Planning Divisions (PPDs) were instituted in all Ministries. In addition, Statistics Units were also established. While the planning framework has also seen several evolutions, notably with the introduction of RBM during the 10<sup>th</sup> FYP, the systemic legacy of sectoral budgeting still persists. Resources continue to be thinly spread across many activities under the respective sectors, and do not necessarily reflect national priorities. For example, for FY 2021-22, Ministry of Agriculture and Forests has a budget of over

Nu.1.4 billion spread across 884 activities.

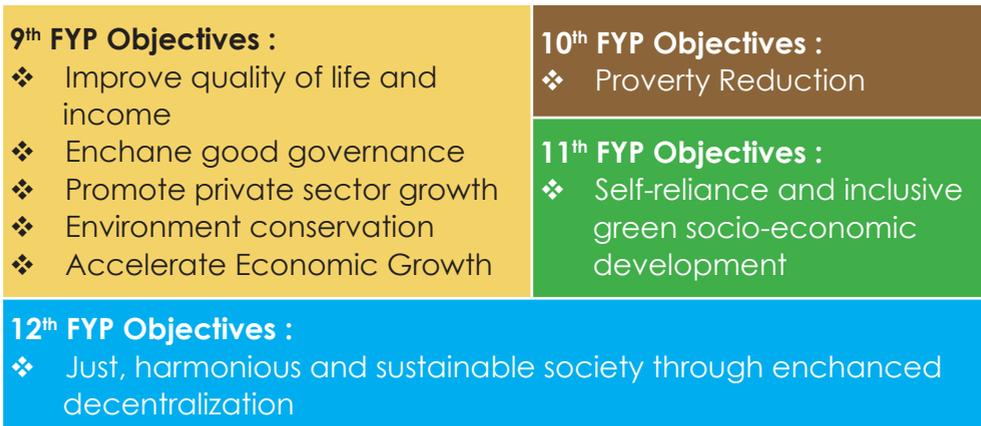
The lessons from the past plans pertaining to sectoral budgeting and planning does not seem to have guided the formulation of the 12<sup>th</sup> FYP. The current plan has created favourable conditions for sector-based planning by keeping the objective of the plan very broad. The plan objective of “Just, Harmonious and Sustainable Society through Enhanced Decentralization” is too broad and inclusive. Since the plan objective is broad, it has resulted in the creation of 17 NKRAsthat have accommodated all the sectors in the plan with no key focus thus resulting in sector based and scattered budgeting.

In line with the NKRA and LGKRAs, its subsequent KPIs were formulated and uniformly applied across all LGs without considering the uniqueness of each LG. The application of “one-size-fits-all” approach has weakened the LG's ability to plan based on their resource endowment and speciality.

Although LGs were provided with

formula-based capital grants from 10<sup>th</sup> FYP with autonomy to plan and implement their respective jurisdictional priorities, there were no mechanisms for coordinating cross boundary activities and it was left to central agencies. Local Governments were guided by an overall planning framework provided by the GNHC, which is a “one size fits all” approach that does not take into account the uniqueness of each LG.

While the intent of the financial decentralization was to improve and capitalize on their local potential and prioritize the plan based on the local needs, the sectoral set up in the LGs along with the provision of technical guidelines by agencies have led to sectoral based planning. As a result, LGs do not have the resources, capacity or time to strategize on investing in areas which could increase economic activities and uplift the socio-economic development of the respective localities.



**Figure 1:** Plan Objectives from 9<sup>th</sup> FYP onwards

Furthermore, at sectoral level, numerous AKRAs, targets and indicators were formulated, resulting in sectoral based planning and spread of resources. Due to myopic sector planning, sectors fail to see the interlinkages

or other priorities thus pushing sectoral perspective and creating siloed approach. Such approach has made prioritization exercise difficult and further reinforced the sectoral and silo planning approach.

The 12<sup>th</sup> plan recognizes the importance of triple C (Coordination, Consolidation and Collaboration) as the fundamental principles underpinning all goals, strategies, and programs in order to achieve efficiency. It was expected to solve the issues of sectoral based planning and agencies working in silos. It was noted that attempts were made in volume II of the plan document to chart out lead and collaborating agencies to bring the Cs into perspective. However, apart from an elaboration of each 'C' within the planning guideline, there is no accountability in its implementation.

### **Budget Allocation and Ceiling**

Our planning system is hinged on the overall outlay based on the resource position set by the Macro-economic Framework Coordination Committee (MFCC). The overall resource is determined by the domestic resource position, grant financing and borrowings. Grant financing constitutes 53% of 12<sup>th</sup> FYP capital resources.

It is observed that with regard to allocation of capital resources to sectors and LGs, fifty percent of the allocation to central agencies

has no scientific basis and is based on the priorities set by the sectors and bargaining power of the sectors. In this regard, the natural selection process and approach to allocating resources is through a ceiling issued to each ministries and agencies. This has an unintended consequence of planning for all and everything within a sector with very limited prioritization.

Starting 10<sup>th</sup> FYP, the LGs were allocated capital resources based on a Resource Allocation Formula (RAF)<sup>11</sup>. The grant allocation to LGs is based on the decentralized expenditure and functions as per Division of Responsibilities Framework (DoRF). However, it is observed that the DoRF has not captured the ground realities. The DoRF is a mixed list of doable and aspirational lists of functions that could be delegated to the LGs from the center in keeping with the decentralization process.

The intention of the RAF was to allocate resources based on the principles of objectivity, transparency and equity through a set of criteria that would enable the LGs to predict the fair share of resources that would be given to them during the five-year plan. It was also to influence

<sup>11</sup> RAF is a multi-criteria-based formula for allocation of capital resources to the LGs

investment in the productive sector indirectly. However, it has seldom led to investments that would result in concomitant improvements in the economic outcome of a particular locality. Nevertheless, an opportunity to improve the existing RAF for LGs and developing a new RAF for central agencies is also recognized.

The nature of the activities implemented by sectors and LGs are repetitive and similar in nature. They are annually budgeted and aligned to a set of Object Codes (OBCs) which adds to the rigidity and proliferation of the activities. In the current system, there are limited types of plans and activities that are being implemented and does not allow for much innovation or creativity in development planning at LGs.

### **Limited Evidence Based Approach and Data**

Since the 5<sup>th</sup> FYP (1981-1986), the availability of authentic and reliable data was identified as critical for determining and accelerating the overall economic growth in the country and for creating major changes within different sectors of the economy. Till the 8<sup>th</sup> FYP (1998-2003), efforts were made to

determine sectoral investments viz-a-viz contributions to GDP, and for making projections for economic growth. Fiscal and monetary projections with targets were included in the plan document with clear roles between monetary and fiscal agencies. This data analysis trend is being continued for planning purposes, including for resource mobilization. Overtime, the use of data to derive sectoral growth projections tagged to the overall GDP growth seemed to have been assigned arbitrarily with no strong macro-economic analysis. We are unable to determine sectoral investment based on its contribution to GDP.

It is also observed that information derived from various sources and methodologies is found contentious thereby leading to issues of credibility in the use of data to set the indicators and targets for the plan.

Subsequently at all levels of government, plans and programmes are formulated mainly based on limited data and assumptions. Currently, poor research and unreliable data continues to feed the plan, which results in inaccurate scenario-based planning. The concurrent investments, results,

target setting and execution of programmes and activities are also affected. For example, there is poor infrastructure planning, including site identification, and limited understanding of policy implementation. This affects accountability at all levels. There is a clear need for data driven policy making and plan formulation. Authentic data with keen human insights is critical for successful plan implementation.

### **Approach to Decentralization in the Planning Framework**

Bhutan has witnessed progressive decentralization since the start of the planned development in 1961. The initial plans were focused on building critical social infrastructure such as roads, schools and hospitals. From the fourth FYP (1976-1981) onwards, the plan recognized the importance of envisioning a nation's priority to strive towards "self-reliance" through decentralized planning. Subsequent plans embedded national priorities and strategies to achieve those priorities. Decentralized planning was carried out through some important institutions notably the Dzongkhag Yargye Tshogdu (1981) and Gewog Yargye Tshogchung (1991). In 1998,

His Majesty the fourth King devolved full executive powers to an elected council of ministers and 2008 ushered in an era of democratic constitutional monarchy from an absolute monarchy with the promulgation of a written constitution and holding of the first parliamentary elections.

The FYPs has been an important instrument to further decentralization process. An important guideline provided in the 12<sup>th</sup> FYP was the Division of Responsibilities Framework (DoRF), which clarifies the different roles of Centre and LGs in developmental activities. Although there were some consultations in drafting the DoRF, it is observed that the delegation of responsibilities and resources was implemented without an in-depth study on LGs' capacity to implement intensive development activities and to manage increased financial resources.

With regard to capital resource allocation in the 12<sup>th</sup> FYP, for the first time LGs received an equal share of the resource envelope. Of the capital outlay of Nu. 116 billion, 50 billion was allocated to central agencies, Nu. 50 billion was allocated to LGs and Nu. 16

billion to Flagship programmes. However, there was no sound basis for determining the resource share. Additionally, the DoRF did not take into enough consideration the implications of increasing the resource envelope for LGs within the context of limited manpower and capacity.

Therefore, it can be concluded that while the DoRF and increase in resources for LGs in the 12<sup>th</sup> FYP were intended to empower LGs, manpower and human resources were not accordingly allocated.

**Other similar issues observed are:**

1. Pre-feasibility studies and accurate cost estimates are not being carried out prior to implementation of the activities.
2. Inconsistent approaches to planning and implementing activities.
3. The quality of infrastructure varies among districts and gewogs, and quality of services is also compromised.

**Monitoring & Evaluation Systems**

Till the 8<sup>th</sup> FYP (1998-2003), the plan review was presided over by His Majesty the King and attended by the Council of Ministers and

representatives of the people. In the 9<sup>th</sup> FYP (2002-2007), the monitoring and evaluation (M&E) was done within the framework of National Monitoring and Evaluation Manual 2006 (NMEM 2006). The NMEM 2006 underpins two important components to ensure the use and effectiveness of the manual: the institutional set-up and a web-based computerized system. One of the defining characteristics of the Manual is to operationalize Five-Year Plan priorities and targets through Three-Year Rolling Plans and Budget & Annual Plan and Budget. It also clearly defines the roles and responsibilities of key entities involved in different aspects of M&E.

The manual was operationalized in part as a web-based computerized system- the Planning & Monitoring system (PlaMS)- was developed in the 10<sup>th</sup> FYP (2008-2013). The system was supposed to be a centralized data collection and management system and this could also fulfill Development Partners' M&E requirements. It was also supposed to be integrated with other systems like the Multi-Year Rolling Budget (MYRB) System and Public Expenditure Management System (PEMS). Through systems integration,

an efficient and effective coordination in planning, budgeting and monitoring was to be ensured. While systems integration was noble in intention, the practical realities of integration and purpose of each system was not considered. The biggest fallacy in this journey of integration was that the web-based system was construed as the fulfilment of the intention of the manual in entirety without fully realizing the institutional set-up at the GNHC and other levels.

The Government Performance Management System (GPMS) was developed in the 11<sup>th</sup> FYP (2013-2018). It is being used for planning and monitoring till date. It was initiated to monitor the government performance with key objectives to ensure delivery of impactful results. As it evolved, it replaced PlaMS and a new division under the Prime Minister's Office was created with a vision to manage government performance for effective and efficient delivery of plan activities and other national priorities. The division is mandated to coordinate and ensure all budgetary agencies develop their annual plan through Annual Performance Agreement (APA).

To some extent, this created

duplication in roles and the objective of M&E was left to be taken care of by systemic evolutions (NMEM to PlaMS-GPMS-MaX). The monitoring of planned activities through mid-year and year end evaluation was also done as part of the APA review and evaluation cycle. Additionally, the linkage of the agency's APA score to individual performances has further diluted the objective of plan monitoring, therefore, weakening the existing monitoring system and culture. The linking of APA score with MAX (IWP) has also led to easy target setting as the organizations got smarter to get their way around to score higher in performance target.

The 12<sup>th</sup> FYP main document makes a reference to the National Monitoring and Evaluation Framework System (NMES) but does not detail the M&E plans. It is unclear whether the current plan makes a reference to NMEM 2006 or a new framework which is not found in the main document or in any other forms. In an attempt to decentralize the functions of monitoring and evaluation, NKRA's were assigned to a particular ministry/ LG to monitor achievements against each NKRA. In the process, improving accountability and

adaptive planning within the M&E framework was weakened.

In the absence of an independent and strong monitoring system and an institutional set-up, several issues crop up with regard to the monitoring system. Monitoring at the program and project level is not systematic. There is no differentiated level of monitoring at different levels. It is often the case that a particular project and activity is monitored by different people from different agencies, a classic point in case is the Telecom- Jungzhina road in Thimphu. The monitoring reports or in common parlance called the 'Tour Report' does not have a standard format and the seriousness with which it is taken differs from agency to agency.

Monitoring at the program and project level is not systematic and the reports are not taken seriously. There is no differentiated level of monitoring. For example, where will GNHC be involved in monitoring? Everyone monitors and there is no single agency who is held accountable. There is a lack of due diligence, lack of rigorous monitoring and monitoring is often done in silos. As a result, poor quality of our

planned activities, inefficiencies, and lack of accountability are pervasive. Services are still considered poor; projects are rarely completed on time; and accountability is thinly spread and seen through a punitive lens rather than a means for improving performance and quality.

### The “Dead Space” and Dip in GDP

The election of the new government (National Assembly) happens after the dissolution of the incumbent government and it takes three months or 90 days to form the new government. During that period, the Druk Gyalpo appoints an Interim Government<sup>12</sup> to look after the affairs of the government. The Interim Government is mandated to carry out the routine functions of the government. It is not entitled to take any policy decisions or enter into any agreement with foreign governments or organizations.

As per the Constitution of the Kingdom of Bhutan, the government shall be formed within ninety days from the dissolution of the National Assembly<sup>13</sup>. After the general

<sup>12</sup> Interim government is composed of the Chief Justice of Bhutan as the Chief Advisor and Advisors appointed by His Majesty the King.

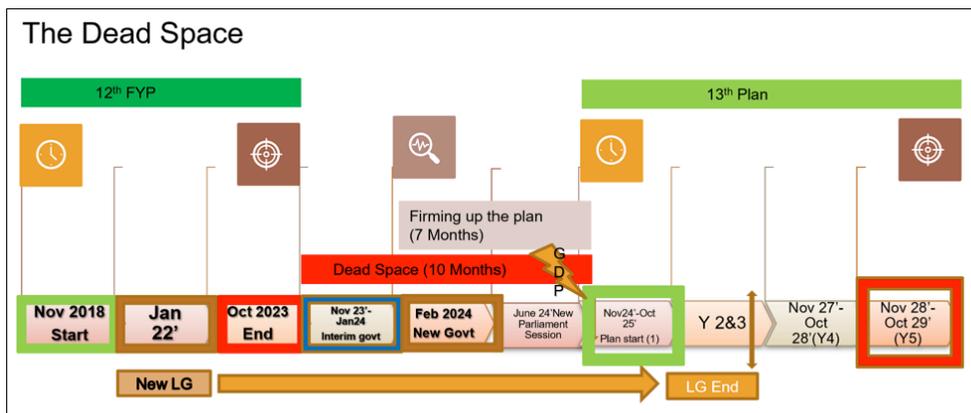
<sup>13</sup> Article 19, clause 5

elections are over, it takes at least a month for the new government to form its Cabinet and constitute the National Assembly. As per the Constitution of the Kingdom of Bhutan, the money bills and financial bills (budget) can only originate from the National Assembly through a parliamentary process. The parliamentary session happens twice a year through the winter (November and December) and summer session (May and June).

Based on the past experience, although the government will

be formed in February 2024, due to the legal provisions relating to passing of budget for the 13<sup>th</sup> Plan, it would result in a time lag of five to six months as the budget could be passed only in the summer session of the parliament. This time lag added to the interim government period creates a “dead space” of almost nine to ten months which is a critical time lost in the transition period that has an impact on the economy.

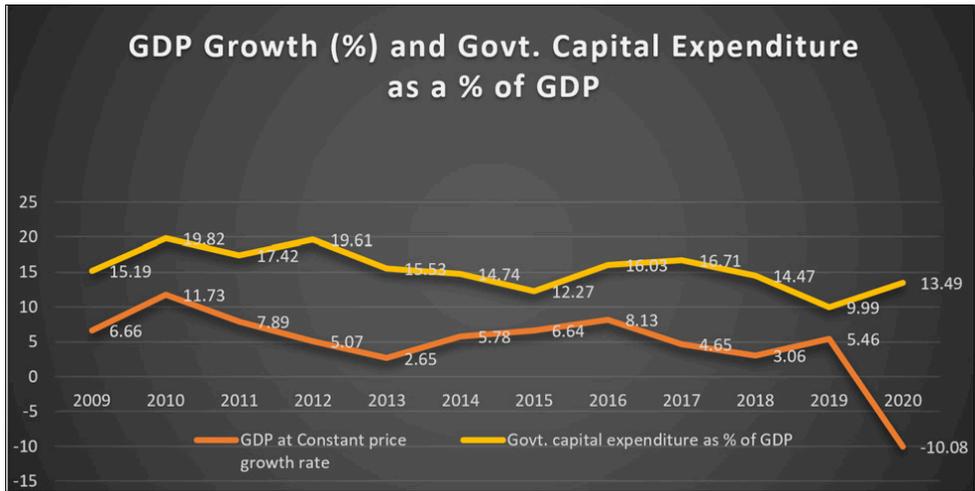
There is another inherent systemic issue of the fiscal year that lead to the “dead space”.



**Figure 2** : Illustration of Dead Space

The budget or fiscal cycle starts in July and ends in June of the following year. As such, even after the new government is formed, they can neither initiate new projects nor implement programs from the next plan

before the parliament sessions in May or June 2024 or the budget cycle in July 2024. Since they have to wait till May or June 2024 to hold the parliament sessions and the next fiscal year (July 2024) to implement projects and



**Figure 3** : GDP Growth and Govt. Expenditure as a % of GDP

**Source** : NSB, NAS 2021

programs, the new government loses time opportunity of about two months (until the parliament session) and four months (until July budget year) respectively.

On the contrary, although planning usually starts in the middle of the five-year plan, it is more or less reviewed and aligned along the lines of government priorities before it is tabled for deliberation and approval by the parliament through the Cabinet as a budget appropriation bill or five-year plan.

The common assertion that the 'dead space' between election cycle, parliament sessions and budget cycle, has contributed,

in some ways, to recession or dip in the country's overall GDP<sup>14</sup> growth has been given a cursory look through the above graph.

The analysis points to some historical trend that corroborates the assertion on the dip in the GDP growth. In 2013 when the new government assumed office, GDP growth dipped from 5.07 percent to 2.65 percent. Similar phenomenon was also observed during the transition period in 2018 wherein GDP growth dipped from 4.65 percent to 3.06 percent. These trends are supported by a concomitant trajectory in the government capital expenditure as a percentage of GDP. In 2013, the government expenditure as

<sup>14</sup> November 12, 2021, the Bhutanese article on "Govt. to borrow heavily and invest big to revive economy and avoid GDP slump during transition"

a percentage of GDP fell to 15.53 percent from 19.61 percent of 2012 level. In 2018, it fell to 14.74 percent from 16.71 percent of 2017 level.

However, this issue needs to be studied in detail as the constituents of economic growth transcends beyond government expenditure and consumption. It is also imperative to have an in-depth understanding of the National Accounts System (NAS) to delve deeper into the issue which is beyond the scope of the current study.

It has to be noted that the 2021 phenomenon is an outlier as the economy was not at an optimal level on account of the COVID-19 pandemic.

## Other Issues

### Other issues observed are:

1. Community engagement for plan preparation is weak. Current participatory methods involve participation at every level but do not enable public discourse and engagement at all levels. They are normally dominated by a few vocal individuals. Strategies for increasing community engagement and empowerment has to be revisited.
2. Weak leadership contributes to poor performance, poor accountability and lack of organizational coherence in translating its vision to realistic interventions.
3. The timely completion of projects hindered by timely release of funds and obtaining clearances such as for land and environment has been outlined as a challenge in most of the FYPs. Both central agencies and local governments have been facing this challenge, thus it has become vital to develop and put in place systematic mechanisms that will facilitate debottlenecking the issues to ensure smooth implementation of plans and programs.
4. There exists ambiguity in the roles and mandates of two core central agencies, viz GNHC Secretariat and the Ministry of Finance thus affecting the coordination and monitoring of plans and programs. The plan programs especially capital-intensive programs are finalized by GNHC. However, once the

plan has been endorsed, the budgeting of capital works needs to be negotiated with

MoF clearly indicating lack of clarity in roles and mandates

## Recommendations

---

The recommendations presented here are intended to transform the planning process into a robust and flexible system by strengthening existing frameworks, identifying bottlenecks for implementation and promoting evidence-based planning.

### Strengthening GNHCS

The GNHCS as the nodal agency should be repositioned and established as an independent authority on planning, monitoring, evaluation, and a credible think tank. It has to strengthen and establish itself as an authority on its core mandate pertaining to planning, resource mobilization, monitoring and evaluation. With regard to shouldering its core mandates, it has to nurture a culture and talent pool in the organization that engages in research-based innovation, creativity and enterprise. It should strive to establish its authority on these domains: by engaging in intellectually rich discourse, advice and services in these areas; foresight and innovation on technology and other frontier technologies; and offering credible policy options to the government based on emerging national, regional and global scenario.

In order to guide the nation in the overall development, one of the important constituents is visioning for the entire country based on the concept of robust spatial planning. Options should also be explored to take on the additional responsibilities with regard to providing an overall spatial planning framework within which the technical agencies could plan such as protected area planning, areas of cultural significance, tourism development and town planning.

In keeping with the evolving country's development needs, GNHC should steer the economic development agenda by shouldering the responsibilities of the Economic Development Board. Doing so would enable it to focus on innovation, foresight and creativity for economic development by harnessing the potential of technology such as enhancing governance through blockchain technology, investments beyond traditional sector such as cryptocurrencies and creating conducive ecosystem for nurturing and furthering talents in digital space and technology.

One of the most important tools for the planning commission both for planning and monitoring is a robust macro-economic framework. In order to fulfil this role, it is imperative to revamp and strengthen the macro-economic analysis section within the GNHCS to build an alternative macro-economic model that offers a non-partisan planning and policy options to the government and other actors in the economy.

It should reposition itself as the apex authority on plan monitoring by instituting systems and institutional structure within the GNHC. As part of the monitoring system, a database that has multiple functions anchored on plan should be developed and made available to different users.

It should strive to strengthen the coordination mechanism among different agencies engaged in the area of planning and resource mobilization especially with the ministry of finance and strengthen working relationships with the Ministry of Finance (MoF) through an established protocol that is mutually agreed between the two organizations. In doing so, all plan financing both in the form of grants and loan financing

should be brought under the GNHC. Doing so would enable investment in strategic areas that would be realized through the short, medium and long-term plans.

It is generally observed that the institutional mandate of knowledge management is very weak and often overlooked in all the plans. The importance of knowledge management permeates mere documentation as it has a wider impact in influencing programs and policies. It is more pertinent for GNHCS to advance this through strengthening planning discourse and communications of the development agenda through initiating a community of practice, hosting national and international seminars and conferences etc.

Restructuring should be done to empower and fix accountability in terms of planning, implementation, monitoring and evaluation to the GNHC.

### **Plan Objective to be Specific & Reduce NKRA**

The plan objectives in the 11<sup>th</sup> and 12<sup>th</sup> FYP are at impact level and not necessarily achievable within a five-year time frame.

This results in a very broad results framework with proliferation of AKRAs/LGKRAs where all activities can be aligned to the FYP. This makes prioritization of activities very difficult.

In this regard, results also need to be streamlined. For example, in the 12<sup>th</sup> FYP, youth unemployment is a serious issue but is given the same weightage as other NKRA. Going forward, in addition to sharpening the plan objective, NKRA need to be reduced to focus on a few critical issues like youth unemployment, social infrastructure and macroeconomic growth.

The plan objective also needs to be tied to a long-term development vision that focuses on specific ideas and strategies for the country's future (for eg., Vision 2020, draft ERM, spatial planning for the entire country).

For example, for the 13<sup>th</sup> plan, the plan objective could be "Resilient Economy for the 21<sup>st</sup> Century"

### **Strengthen Planning/ Budgeting System and Allocation of Budget Ceiling by Bringing in Macro-perspective**

To have focused planning based on national priorities, budget

allocation for central agencies should have a budget allocation basis/formula. This would help prioritization of plans. Every FYP has growth rate projections by sectors. However, there is a lack of clear sector investment plan as per projected contribution. We must develop and have a clear investment plan/menu based on sectoral contribution to GDP which can be used as a basis for the budget ceiling for the central agencies. However, budget allocation to social sectors like health and education and other national priorities have to be considered separately.

The lack of disaggregated and reliable data was mentioned as an issue since 7<sup>th</sup> FYP. We must attempt to disaggregate sectoral growth projections by LGs. This will ensure better investment and prioritization by LGs. In addition, while allocating resources by LGs to their respective sectors, it is critical to allocate resources based on projected contribution to local GDP and critical social parameters in a locality.

Till 8<sup>th</sup> FYP, the plan document included detailed interventions by monetary and fiscal sectors for economic growth. Since the 9<sup>th</sup> FYP, the plan does not really capture in detail the monetary

and fiscal interventions. Therefore, we must include plans of monetary and financial institutions such as RMA, Financial Institutions, DHI etc., on how they would contribute to the overall economy.

Pre-budget discussion needs to be instituted, especially among Cabinet members, for a richer discourse including prioritization of activities and for synergy.

### Spatial Planning

As per the Constitution of the Kingdom of Bhutan<sup>15</sup>, the Local Governments shall be supported by the Government to promote holistic and integrated area-based development planning.

The GNHC as the apex body for planning has to develop a comprehensive national development plan encompassing the vision of the country with regard to spatial planning. It should guide the country in terms of how a particular locality (Dzongkhag, region etc.) should be developed based on the resource endowments, political significance and cultural significance among others. It should provide a strategic framework within which the technical agencies such as

MoWHS and NLCS could develop a comprehensive spatial plan to ensure sustainable and balanced regional development.

Although there is a Comprehensive National Development Plan (CNDP) 2030, it is limited in the sense that it has considered the aspects of human settlements more than other critical social parameters. It is therefore important to study CNDP further, improve upon it if needed and chart out implementation strategies and plans.

As part of the comprehensive spatial planning, a detailed mapping of the existing infrastructure has to be carried out to take stock and accordingly plan for new infrastructural needs. Consolidation needs can also be assessed from the mapping. It could be useful in infrastructure planning for attracting foreign direct investment and effective utilization of resources.

### GNHCS to Review the Division of Responsibilities Framework

In order to take into account, the ground realities and constitutional provisions, the existing DoRF requires further validation and revision. The

<sup>15</sup> Article 22, Clause 18, Section e

principles of subsidiarity which is the foundation of DoRF should also be re-examined and situated in our context. By applying the principles of subsidiarity, it assigns the critical functions such as health and education that has a great bearing on building human capital for the country to the Local Governments. The consequence of such assignments could be that these critical investments do not feature in the top list of priorities in the LGs thereby hampering the overall human capital development. And also, on account of cost minimization, the standards and quality of such infrastructure could also be compromised.

Given the critical nature of some sectors such as health and education, it would be worthwhile to centralize these services. Investment in social sectors like health and education are important as it is the foundation of human capital and basic constitutional rights that require a uniform and centralized approach rather than leaving it to the LGs. It is evident from the past plans that if LGs do not have implementing capacity, central agencies retained funds. For instance, in the 5<sup>th</sup> FYP, in order to strengthen decentralization, 11.3% of total outlay was provided

to Dzongkhags. However, due to limited implementation capacity, only 2.5% of total outlay was given to LGs in the 6<sup>th</sup> FYP.

### **Review, Revamp and Implement the National Monitoring and Evaluation Manual (NMEM) 2006**

To improve the planning, monitoring and data management, it is critical to review the NMEM 2006 and implement it in entirety. The manual outlines the importance of monitoring with clear institutional set up and roles and responsibilities. The Three-Year Rolling Budget and Planning (TYRBP) and Annual Budget and Planning (ABP) and its alignment to the FYP is also detailed in the document. Therefore, it is crucial to review the NMEM 2006 to align the planning cycle rather than changing the whole planning cycle of FYP.

While reviewing the NMEM and the TYRBP and ABP system, it is important to embed features which allow flexibility of including new plans and priorities of the new government and even cancel plans during emergencies and focus on recovery. It is also important for the revised NMEM to incorporate provisions

to allow adequate time for the new government to discuss and include their priorities in the plans.

The issue of linkage between election cycle, parliamentary session, budget/fiscal cycle, and planning cycle could be solved by instituting a three-year rolling plan and budget and adopting the principles of adaptive planning and management.

Additionally, revamping of the manual, its ownership by the GNHCS and proper use will enhance monitoring and accountability to a large extent.

### **Review Current Modality of APA and FYP M&E**

The Government Performance Management Division (GPMD) evaluates the government performance through the whole of government approach using the Government Performance Management System (GPMS). The Annual Performance Agreement (APA) which is linked to the FYP is the primary mechanism to monitor and evaluate the government performance.

Although it has its own merit in adopting a whole of government approach, it is also important to consider an organization's need. The current system (GPMS)

serves the purpose of the Prime Minister's Office to monitor and evaluate the government performance but does not sufficiently monitor the plan performance in its entirety. The FYP indicators and priorities may not be captured in APA. It has been noticed that MTR of 11<sup>th</sup> FYP and 12<sup>th</sup> FYP was presentations on implementation of two years APA which may not be an assessment of achievements of the FYP itself.

Analysis of the past APA revealed that it captured less than 50% of the budget allocated to agencies. Therefore, it could be inferred that APA captures only a part of annual FYP activities and not FYP & annual plans in entirety.

While APA is formulated on an annual basis linked to FYP by GPMD, it is important for GNHC to independently monitor FYP through a different system that is customized to the commission's needs.

### **Strategic Engagement in Resource Mobilization**

While the GNHCS is mandated to mobilize and explore grants and aid, currently, we do not have a strategy document on development cooperation with a particular focus on external resource mobilization. The

limitation of such a vacuum manifest in development partners not being focused on a particular area of specialization which adds to the administrative cost on realizing effective resource mobilization. It also results in our sectors and agencies mobilizing resources beyond the outlay allocated to them during a plan period. For instance, in the 12<sup>th</sup> FYP, the Ministry of Agriculture and Forests mobilized almost seven billion ngultrum which was beyond their allocation of ngultrum three billion as their outlay.

In light of this, there is a need for a development partner strategy with a focus on external resource mobilization. It should have elements to explore alternative and innovative financing sources and identify potential Development Partners. It is also important to include the planning cycle of major Development Partners and areas of support in the plan document for greater alignment with our plan priorities in the strategy document.

### **Review the RAF and institute a Performance-Based Grant System**

In keeping with the changing national priorities and development context, the RAF

for allocation of capital grants to the LGs should be reviewed and improved.

In order to encourage and incentivize LGs to invest in sustainable and quality infrastructure, economic growth, bring forth innovative and transformative plans, and catering to cross boundary priorities linking urban centers (LUCs) a separate Performance-Based Grant System should be developed and implemented by GNHC. Currently, there are donor supported initiatives in this area which are still in the pilot phase and institutionally misplaced which raises the question of sustainability and institutionalization. It is important to consolidate these efforts under GNHC to ensure institutionalization, sustainability, and realizing its true intent.

### **Addressing the Dip in Economic Growth During the “dead space” Period**

A preliminary assessment of the growth trajectory during the three-month interim government period and the seven to eight months when the new government does not assume office shows a dip in the GDP which is sustained by projects and activities that spillover from

the past plan. It is a valuable time that is lost for spurring growth in the economy. In order to sustain growth during this period, the following are recommended:

Identify and implement long-term strategic investment that goes beyond five years such as hydropower, construction of all-weather airport in the east, climate proofing and strengthening of primary and secondary national highways and building state of the art commercial hubs. It should transcend beyond a political party's term and strategies should be devised to ensure political leadership and buy-in.

These strategic investments that go into a particular plan should be adjusted in the capital outlay of a plan period. Responsibilities and accountability for ensuring that a particular strategic investment for a particular plan should be pinned to the government in power. The execution of such projects should be based on a project management model that is built on the existing Dzong construction or reconstruction

project management set-up. Alternatively, other models such as a turn-key<sup>16</sup> projects and Design, Build, Operate and Maintain<sup>17</sup> (DBOT) could also be explored and sandboxed.

Once the investment outlay of critical and strategic infrastructure is adjusted for a plan period, the balance outlay could be allocated through the three-year rolling plan in the FYP.

In order to ensure predictability in investment, options could be explored to submit these strategic investments through donor financing such as the Government of India, the Asian Development Bank and other multilateral donors.

The financing of a three-year rolling plan in the (FYP) could be done through the domestic resources which could be the prerogative of the government in power.

Financing of LG plans could be both from donor financing and domestic resources.

<sup>16</sup> This modality is implemented in the JICA supported programs such as construction of bridges and other infrastructure constructions.

<sup>17</sup> DBOT modality is currently practiced in hydropower construction in the country. For some social infrastructure (irrigation), this modality will be implemented through the "Supporting climate resilience and transformational change in agriculture in Bhutan" (GCF) project, GNH Commission for climate resilient irrigation scheme in Phangyul, Wangduephodrang.

As a sustainable solution to the “dip in the economic growth” phenomenon, it is recommended to implement medium and long-

term strategies and policies that would unleash the economy to its full potential.

## References

1. Bhutan, E. C. o., 2018. Notification for Third Parliamentary Elections 2018, Thimphu: National Assembly of Bhutan.
2. Bhutan, E. C. o., 2021. Notification for the LG elections 2021, Thimphu: Election Commission of Bhutan .
3. Bhutan, R. G. o. B., 2008. The Constitution of the Kingdom of Bhutan. In: Thimphu: RGoB, pp. 37-46.
4. Bureau, N. S., 2019. Population Projections for Bhutan (2017-2047), Thimphu: RGoB.
5. Bureau, N. S., 2021. National Accounts Statistics, Thimphu: RGoB.
6. Commission, G. N. H., 2007. Plan Documents (1st-12th) FYP. [Online] Available at: [www.gnhc.gov.bt](http://www.gnhc.gov.bt) [Accessed 7-10 November 2021].
7. Commission, P., 2006. National Monitoring and Evaluation Manual. First ed. Thimphu: RGoB.
8. Dema, W., 2021. Spatial Plannig in Bhutan. A Review of Planning System in Bhutan.
9. DLG, M., 2019. National Decentralization Policy , Thimphu: RGoB.
10. FAO, 2021. Investment Learning Platform. [Online] Available at: [www.fao.org](http://www.fao.org)[Accessed 8 November 2021].
11. GPMD, 2013. GPMD. [Online] Available at: [www.gmps.gov.bt](http://www.gmps.gov.bt) [Accessed 9 November 2021].
12. Gross National Happiness Commission, R. G. o. B., 2012. Twelfth Five Year Plan Vol I: Main Document, Thimphu: RGoB.
13. Lamsang, T., 2021. "Govt. to borrow heavily and invest big to revive economy and avoid GDP slump during transition". [Online] Available at: [www.thebhutanese.bt](http://www.thebhutanese.bt)
14. Officers, P., 2021. Perspective on current planning system [Interview] (3 November 2021).
15. RGoB, 2007. Public Finance Act of Bhutan. Thimphu: RGoB.
16. RGoB, 2008. Election Act of the Kingdom of Bhutan. Thimphu: RGoB.
17. RGoB, 2009. Local Government Act of Bhutan. Thimphu: RGoB.