

DRAFT CONCEPT NOTE FOR THE 13th FIVE YEAR PLAN (FYP 2024-29)

A. Background

1. Since the inception of planned development in the 1960s and the pursuit of Gross National Happiness (GNH), Bhutan has made significant socio-economic progress. The GDP has been growing at an average rate of 8%, GNI per capita increasing by around eight times to USD 3109.33 as of 2019, poverty declining to 8% as of 2017, with significant improvement in the areas of health, education, infrastructure, and governance. The GNH index has improved by 1.7 percent from 0.743 in 2010 to 0.756 in 2015. This has enabled Bhutan's graduation from the Least Developed Countries Category in 2023.
2. Nevertheless, Bhutan is still confronted with several pressing development challenges and issues which have been further exacerbated by the COVID-19 pandemic. The GDP in 2020 has dropped to -10.08 % from 5.75 % in 2019 and GNI per capita to US\$ 2,982 in 2021, and the fiscal deficit has widened by 7.4% as of 2020. The domestic revenue has been contracted by Nu. 6.99 billion in 2020, and public debt has increased to Nu. 240.98 billion (127.4%) as of November 2021. The growth of shares of industry and service sectors to GDP recorded the biggest drops of -13.10% and -10.74% respectively in 2020. The overall exports dropped sharply by Nu.20.73 bn (22.32%) in 2020. Unemployment and youth unemployment increased from 2% to 5% and from 11.9% to 22.6% respectively in 2020.
3. Unemployment continues to be a major and persistent concern, with over 158287 young citizens projected to enter the workforce by 2042 with the size of the working-age population (15-64) estimated to bulge (615,000) by 2042, and which will decline thereafter. And year 2030 will also see additional 150,000 unemployed people. We are also witnessing increasing outflow of young educated Bhutanese looking for better opportunities. Therefore, the need to create economic opportunities and reap the demographic dividend.
4. Other economic and governance challenges are attributed to lack of skills/capabilities, diversification, value addition, opportunities, accountability, plateauing traditional sources of growth, low productivity and inefficiencies, increasing kidu(welfare) dependency and corruption, and decreasing aid and assistance. At the same time there is policy uncertainty, and the general business and public services ecosystem is plagued by high administrative and opportunity costs, lengthy, unclear and myriad procedures and licensing requirements. There also remain uncertain future and challenges such as climate change, pandemic, global population growth and conflicts, and unequal access to knowledge, technology, wealth and other services. Therefore, the need for anticipatory planning capabilities, build productive capacities, improve governance and business ecosystem, and generate new and enduring sources of growth.
5. There are rapid and significant changes in technological advancement and development (digital & 4IR such as blockchain, fintech, quantum computing, artificial intelligence, virtual reality, metaverse, robotics, machine learning, internet of things, web 3.0, nanotech, biotech, genomics) and with it many

opportunities. However, there is low or no knowhow, capabilities and adoption of such technology which pose a significant challenge to adapt with fast changing technological advancement. Therefore, the need to be in a capable position to take advantage of the opportunities and adapt quickly.

6. The economy also suffers from low GDP (4.8% in 2008, 2.12% in 2013, 3.06% in 2018) especially during government transition due to a lull in new investments and decrease in economic activities. And this is associated with our development approach which is mostly ‘issue based’ and ‘sector based’ instead of ‘system-based approach’ with lack of harmonization and coordination between agencies. Therefore, the need for a dynamic and agile planning approach by improving the current planning framework and coordination efforts, prioritization of plan objectives and sustain long term growth.

B. Main Objective and Strategic Thrust Areas:

1. *“A Dynamic, Prosperous, Inclusive and Sustainable Economy in Pursuit of GNH”* will be the main objective of the 13th FYP.

This is to realize His Majesty’s vision and aspirations for a strong, dynamic, excellent, ambitious, and greater economic prosperity with high-income aspiration. It is to boost economic transformation with enhanced efficiency and productivity, and to prepare our people/workforce by equipping them with capabilities for the new and future economy (digital, knowledge, skilled, innovative, green, circular, sharing, gig) and to be world ready, mainly through three critical thrusts areas or cross-cutting thematic elements supported by enablers and drivers;

1a) Governance and Ecosystem Reforms; Initiating growth promoting support and direction, creating conducive policy and regulatory environment for business and economic activities to thrive such as by reducing regulatory/administrative burden, improving ease of doing business, reallocation of resources to the most productive sectors/activities, and facilitating greater private sector participation and investments and FDI. Also important is to provide more equal opportunities and access to services such as education, technology, credits, loan guarantees, incentives, permits, licenses, housing and other social support measures among others. Strengthening institutional set-up for economic and business development will be another key measure.

1b) Transforming Human Capital; Upgrading workforce and transforming human capital that is healthy, market oriented and of higher productivity such as by establishing a clear governance structure, by building present/future knowledge and capabilities such as through strong and quality education system right from the primary level, industry relevant TVET, digital/4IR literacy and skills, research and development, skilling in innovation and enterprise, and talents creation among others.

1c) Leveraging Digital Technology; Diffusing and adopting digital/4IR technology to tap vast economic opportunities that lie ahead such as through policy measures, conducive regulation, and

creation of institutions, infrastructure, logistics and capabilities. Also ensuring their availability, affordability and accessibility, and promoting digitalization, digital services and digital industries.

2. The three thrusts/thematic elements are to support the type of economy we aspire for and thus will be the narrative arc connecting all the dots (issues and interdependence) affecting everyone and every sector in the economy. They are to ensure integrated and non-siloed/non-sectoralized approach and to push for greater systematic and structural reforms and interventions for enhanced economic performance and gains through enablers and drivers. The enablers and drivers together with three thrust areas will make growth engines for which there will be prioritized investments.

3. The thrusts/elements will further drive the interventions implemented through i) *Enablers* (energy, data & technology, capital & finance, resilient health care)- which provide supporting platforms for economic and development activities to thrive, and ii) *Drivers* (infrastructure and construction, manufacturing, agriculture, CSI, culture & creative industries)-which have the highest potential to deliver significant growth and development.

4. Under the enablers and drivers, priority will be given in leveraging low hanging fruits and sectors with comparative advantages (such as agri-food/organic/forestry/bioprospecting/medicinal products, tourism and hospitality, hydropower, mining, boulders/stones, and other light manufacturing sectors) by harnessing their existing/surplus capacity, by enhancing their manufacturing, trade and marketing share, by building value/supply chain and infrastructure, and enhancing their productivity, diversification and specialization among others for quick and higher returns, and to finance the current economic activities.

5. Priority will be equally given to investing adequately in and building advanced/future skills, infrastructure and industries among others to venture into sophisticated and complex sectors/products/services (such as in products and services in electro/hydro mechanical areas, in IT/IT enabled industries, space engineering, biotech and other higher value-added products) which are beyond our current capabilities and which will take longer time to realize. Also investing and building capabilities in other areas of new and future economy. This is important for creation of new/future sources of growth and markets, and enhancing our competitiveness.

6. The main targets under the objective will be *HIGH* i) GDP growth rate, ii) GNI per capita, and iii) Productive and Employment generation especially in the rural areas.

The growth targets will be set annually to provide greater flexibility to the policy makers to adjust growth targets to macroeconomic situations.

C. Planning Framework & Approach

1. The 13FYP will adopt a dynamic planning approach and framework that accommodates national and government priorities while ensuring sustained and continuous long term economic growth. It will also ensure alignment of all future plans with Bhutan's overall development goal.

2. The development of overall goal along with national key result areas (NKRAs) will be guided by the Royal Addresses, the draft 21st Century Economic Roadmap, various ongoing national level reforms, emerging global and national issues and priorities, and 12FYP achievements and lessons.
3. The plan will be broadly made up of two components. One component which will include long term programs and projects spanning over 4-5 years or more. These will be big impact strategic programs/projects of national importance and objectives, which can be broken down into independent components that can be implemented within a plan period, but will be a critical part of the whole long-term plan. These programs/projects will be allocated a fixed proportion of the plan budget and will have committed resources mainly from development partners. Development partners will be encouraged to make long term commitments towards such programs and projects. This would be a departure from current practices wherein agreements and commitments would be long term. All governments would be expected to adopt this component. The purpose of this component is to ensure sustained economic growth even during transition periods.
4. Examples of long-term projects are airports, railways, highways, tunnels, digital/IT hubs and infrastructure, special economic zones, multimodal hub, growth centers, smart cities, educational and vocational institutions, hydropower and alternative renewable energy.
5. The second component will be more flexible, allowing for governments to develop and implement innovative and creative plans that are in line with their priorities and the planned NKRAs. A portion of the plan budget will also be allocated towards this component. The purpose of this component ensures plans are aligned to the priorities of the government and in the process that will encourage greater ownership.
6. Results based approach with clear theory of change will be used in planning for logical plan framework, and for monitoring and evaluation. This will be undertaken in a coordinated and participatory manner with a mix of top-down and bottom-up planning approaches.
7. There will be consultations with all the stakeholders including political parties to understand the development issues, challenges, needs and aspirations of the whole society and for inclusive development.
8. The spatial planning principles will be considered for maximizing sustainable use of resources, building resilience, addressing inclusion such as integrating rural-urban development, and promoting balanced regional and rural development within ecological, geographical and population parameters.
9. Identify a few focused NKRAs with key performance indicators, strategies and programs with clear targets, actions, and budgets in view of keeping it mission specific supported by strong rationale. This is to drive few and focused Sector thrusts. Few key common targets (e.g jobs) across the sectors will be identified in addition to sector's own targets.
10. LGs will be encouraged to identify unique, few and focused LGKRAs/indicators reflecting area specific economic potential and focus areas to promote creativity, objectivity and returns of investments at the local level. To that end, LGs capacity building in development planning and management and in locally led climate change adaptations will be emphasized.
11. In order to achieve quality of life in a more holistic manner with balanced spiritual and material development, low performing indicators of GNH domains will be prioritized for interventions.
12. Relevant SDGs will be mainstreamed into the 13FYP.

13. Cross-cutting themes such as environment, climate change, disaster, gender, disability, elderly citizens, and poverty will be mainstreamed in the policies and plan for integrated implementation, holistic and sustainable developmental outcomes.
14. Behavioral change and sustainability in terms of waste management, energy use, water consumption and food choices will be promoted. Along this line, capacity building will be emphasized towards Circular Economy in the long run to promote cyclical resource efficiency and create green jobs.
15. The 13FYP will also serve as the smooth transition strategy for Bhutan's smooth graduation from the LDC category for which the strategy will be prepared and integrated. Bhutan's LDC graduation will result into withdrawal of some support measures in terms of aid, finances and trade and thus the need for a robust strategy to overcome these challenges.
16. In order to pursue high growth aspiration and for successful execution of strategies laid out, the effort will require ability to trust and work with one another with a level of coordination and reform that we haven't attempted in the past. For that, central agencies, LGs and other key players in the economy will have to enhance "Coordination, Consolidation and Collaboration" efforts to expedite reform process, efficiency for greater developmental synergies and doubling performance.
17. The division of responsibility framework (DoRF) will be revised to provide optimum clarity in terms of assignment of expenditure responsibilities and functions (*who should do what and who will pay for what*) to the LGs in relation to that of central agencies. This is to promote coordination and professionalism, and facilitate enhanced planning, budgeting, implementation, monitoring, and provision of efficient public goods and services by the Centre and LGs.
18. Resource allocation to the central agencies and LGs will be based on formula. In addition to the 'need'-based criteria, 'performance' criteria will be adopted for incentivizing and encouraging better investments such as for high commercial and economic returns, and to best allocate of what we have in terms of budget, and for performance and accountability.
19. All national monitoring and evaluation systems will be revised and integrated for end-to-end plan monitoring, evaluation and effective development delivery, and for transparency, credibility, and accountability. This system should encourage and allow for adoption of practices of risk taking and innovation, and 'fail safe to fail fast' approaches.
20. Concepts and approaches such as innovate first regulate later, governance with light touch, once only, fail safe to fail fast, and one stop shop services will be promoted and institutionalized.
21. Detailed project report (DPR) with economic analysis and cost benefit analysis will be prepared to address issues of project delays, cost overruns, and to reduce grants and loan processing timeline. The DPR is to also justify and align project's relevance to national objective and will be contingent for budget approval.
22. The preparation of DPRs and blueprints will be financed from RGOB funds, so that once donor funds are secured, the projects can be immediately implemented.
23. Numerous PTA and SDP projects and other donor funded projects will be merged into few major/mega projects for effective financing, coordination and economic resource utilization.
24. There will be dedicated project management units for major important projects and flagship programs to improve investment planning and management, accelerate project preparation and implementation, effective tracking of progress, monitoring, reporting and evaluation.

25. Flagship programs will be limited to few numbers to focus on programs and projects with high potential for revenue generation, employment opportunities and economies of scale.
26. Three year rolling plan and budget (TYRPB) will be operationalized and annual plan and budget (APB) will be strengthened under the FYP. With the TYRPB, the plans will be rolled over year to year such that at any given point in time, plans and programs for the next two years would have been made. In other words, it will include plans and budget for the current financial year and projections for the next two years. The APB shall contain detail work plan and budget for the current financial year for each program.
27. The government before their tenure ends will prepare a proper plan and pass the capital budget for one financial year, including plans and budget of LGs to avoid a steep decline in GDP during the transition period.
28. The government will provide planning guideline for the 13FYP preparation with national level thrust areas and strategies, key results areas, indicators and indicative resource outlays to the sectors and LGs. The LGs will be guided by the local development planning manual in addition to policies and technical guidelines issued by the central agencies. The technical guidelines will be prepared by concerned agencies to inform policy prescription, standards and criteria as guides to sectors and LGs for plan formulation and for adherence.
29. The new government will finalize and approve the next FYP within a maximum period of three months (excluding three months interim period).

D. Resource Allocation Framework and Financing Strategy

1. Significant share of resources will be allocated largely for economic and commercial objectives and priorities, and to avoid sub-scale investments in prioritized national focus areas.
2. Separate and adequate resources to be kept for the national and government's priorities, for special programmes and for crisis response strategies (e.g. pandemic).
3. Balance resources to be shared between the central agencies and LGs using resource allocation formula/mechanism.
4. Necessary capacity to select, appraise and implement projects especially by the LGs will be one of the key criteria for determining the size of resource share.
5. Significant investments need to be mobilized to realize high growth/income aspiration. For that government needs to mobilize around Nu.750 bn (lower side) and Nu.1250 bn (higher side) for the entire economy in the 13FYP to realize high GDP growth, high GNI per capita, and generate high employment.
6. However, as per 4th quarter 2021, MFCTC projected that around Nu.369 billion (2023-28) will be available from revenue and grants out of which Nu. 122 billion for capital expenditure and Nu.239 billion for current expenditure is projected.
7. Since significant share of the investments required will have to come from the private sector, therefore a concerted effort towards reducing red-tape and making investments as frictionless as possible will be required to enable such a target. To that end, Government will closely work with and engage private sector and CSOs in harnessing their potential and partnerships, and identifying investment areas/resources of the private sector.
8. Initiating and exploring new and innovative sources of financing from domestic, private and foreign

capital such as though public private partnerships, FDI, climate finance, blended financing options, and other sources will be emphasized. To that end, financing strategy and modality will be developed, and to attract much needed FDIs and talents especially from advanced economies. This will be underpinned by a sound debt management and a domestic debt market strategy.

