

# REIMAGINING BHUTAN

## *Building Forward Better Beyond COVID*

### POLICY BRIEF

DECEMBER 2020



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BHUTAN CENTRE  
for MEDIA AND DEMOCRACY



## Background

The global pandemic revealed the unsustainability of our development path. The world of January 2020 was neither environmentally sustainable, nor socially inclusive, nor economically resilient. It rested on fragile foundations. Most of the shifts we are witnessing started prior to the pandemic and have been amplified throughout the crisis.

Human development – the combined measure of the world's education, health, and living standards – is on course to decline in 2020, for the first time since measurement began. With up to 100 million more people being pushed into extreme poverty in 2020, governments and societies face unprecedented policy, regulatory and fiscal choices as they act to save lives and set a course for a sustainable future. The choices made today, if made well, could be the tipping points that transform our societies and our planet for the better (Beyond Recovery: Towards 2030, 2020).

Economic growth, poverty, unemployment and hunger projections suggest things will get worse before they get better. Unlike other crises in recent history, however, this one is not circumscribed to a failed bank, a debt default, or a civil war. It encompasses the entire planet, illustrating a costly system failure. Scientists had warned us for years: undeterred deforestation, illegal wildlife trade, and zoonoses were bound to unleash an uncontrollable pandemic.

Here in Bhutan, owing to the proactive actions of the Royal Government under the leadership of His Majesty the King, the response has been remarkably effective in managing the health impacts. However, the pandemic has disrupted the economy and general livelihood of people. About 50,000 people in the tourism and affiliated sectors are said to be directly impacted. Containment measures such as travel restrictions, social distancing, and border closures impacted businesses of all spheres beyond tourism. The construction and manufacturing sectors are also experiencing slowdowns due to labor and material shortages, besides disruption in transport and market.

Immediate relief measures to support the livelihood of those who lost jobs and tax incentives for businesses have added fiscal pressure on the government resulting in a fiscal deficit of 6.18% of GDP in 2019-2020 – the highest in recent years, and it is estimated to worsen to 7.36% of GDP in 2020-2021. According to Bhutan's State of Nation report on the Fourth session of the third parliament, "The economic growth is expected to decelerate further to -6.1 percent from June estimates of -2.1 percent" (2020, pp.60), and we are unlikely to see a sharp recovery occur for some time.

The Royal Government has made urgent decisions on simultaneous fronts. To stimulate economic growth, the Government has announced fiscal and monetary measures and started implementing economic contingency plans in the areas of tourism, agriculture, and construction. The 12th Five Year Plan has been re-prioritized and brought forward through front-loading of activities and funding sources, besides mobilizing additional resources to fund the contingency plan. Some of the long-term thinking and strategic choices are visible in the policy measures already underway. The Build Bhutan Project (Rinzin, 2020) under the government's Economic Contingency Plan is skilling unemployed Bhutanese in the construction sector and increasing wages and other incentives to shift long-term negative perceptions. To protect the food supply, the government is looking to raise local agricultural productivity and address market access constraints for producers.

While the urgent task today is to save lives and respond to a complex socio-economic and humanitarian crisis, it is also a time to set the course for the future — to prepare for recovery and negotiate the terms of that recovery. We need both short and long-term thinking to move forward. However, with rapidly shrinking fiscal space and unprecedented economic headwinds ahead, Bhutan will need to achieve more, with less to build back better. This will include further reorienting existing programs and policies; and harnessing all capabilities and resources available through whole-of-government and whole-of-society approaches.

Against this backdrop, UNDP in Bhutan in partnership with Bhutan Centre for Media and Democracy has organized a series of conversations from September 2020 on various themes that are critical and relevant to Bhutan's future of development. Through a participatory process engaging non-governmental actors, the platform drew on rich insights from some of the lead thinkers/practitioners in various fields and generated concrete long-term policy suggestions that echoes '*no harm, no regret policies*'. It is envisaged that the policy dialogues will inform the ongoing efforts of the government on the 21st Century Economic Roadmap.

### **Priority Themes**

- Future of Work, Skills and Education
- Future of Economy
- Green Recovery
- Social Protection
- Anticipatory Governance

## **Introduction**

The pandemic provided a once-in-a-lifetime opportunity for candid reflection on Bhutan's state of affairs in critical areas and to make bold policy suggestions that reflect the principle of nonmaleficence. Five panel discussions were organized in the identified priority themes with panelists drawn from the international community of experts and local non-governmental thought leaders and practitioners.

The panels interacted with online audiences and the videos of the conversations were made available online for wider viewing. Aside from independent individuals, real-time online audiences included members of academia, college students, and civil society members. Currently, the videos have been viewed over three thousand times the least while the first conversation video has crossed 15 thousand views as of 31<sup>st</sup> December 2020.

The summary of the discussions and key recommendations from each series are presented in this brief with an expectation to contribute to informing the ongoing efforts of the government on the 21<sup>st</sup> Century Economic Roadmap as the country stands at a crossroads. In addition, this is a timely submission of recommendations from non-governmental actors in light of the recent Royal Decree issued on 113<sup>th</sup> National Day 2020 to reform governance practices in general and the education system in particular – both of which are covered in the conversation series.

The Royal Decree provides an impetus for Bhutan to rethink and reimagine governance, economy, education, social protection, and fiscal policies. It was a call on all the citizens, including the civil society and the private sector, to build alliances with policy and decision-makers to chart a way forward for a better future that is resilient, sustainable, and has all the enabling conditions for a happy society.

In this policy brief, a summary of discussions and deliberation on each thematic area is followed by key recommendations. Links to the videos are provided at the end, should anyone wish to view the original conversations.

# *FUTURE OF WORK, SKILLS AND EDUCATION*



Currently, Bhutan's national unemployment rate stands at 2.7%, out of which, youth unemployment makes up nearly 11.9% (Labour Force Survey Report, 2019). Exacerbating this situation, 30,000 people are seeking jobs as a result of the COVID-19 pandemic that has disrupted the tourism sector, which employs a huge number of people and other related industries. In addition, more than 8000 people have returned to Bhutan since March and almost 90% of them have been employed overseas (Rinzin, 2020). His Majesty's Relief *Kidu* has disbursed Nu. 1.2 billion benefitting 33,000 beneficiaries and 14,000 children as of October 2020 (Press Release on Summary of Phase I and Phase II, 5 October 2020). Against this backdrop, the conversation on the Future of Work, Skills and Education brought to light a number of issues that merit urgent attention and policy support.

How the current pandemic has upended lives across the globe is standing evidence that we are living in a “volatile, uncertain, complex and ambiguous” (VUCA) era. Technological advancements with automation and digitization have drastically changed the job market. The world is more interconnected now than ever with Information and Communications Technology (ICT). It is expected that many jobs that exist now may be rendered obsolete in the near future. These dynamic changes have a huge bearing on the education and labor market.

Despite the reform initiatives since 2007 with the erstwhile Royal Education Council, the current education system appears frozen in time. Automation, digitization and network intelligence are revolutionizing the global economy and the job market, but the archaic practices of “sage on the stage” dispensing knowledge and “content-driven curriculum” that reinforce rote learning still predominates the teaching-learning processes. According to the labour ministry, the pandemic left approximately 11,235 employees out of jobs and most of the employees laid off were in the tourism and allied sectors (Subba, 2020). This heightened the existing mismatch between the needs of the economy and the skills available, exposing the narrow focus of education and training. The very specific training people received in a single skill or a vocation impede them from being able to adapt to the disruptions in the economy.

The pandemic forced both teachers and students to adapt quickly to online learning platforms to realize the value and relevance of online platforms and tools that have existed for over a decade. It also heightened the need to invest in robust ICT infrastructure in order to bridge the digital divide in the society if Bhutan was to provide quality education equitably across societies.

During the pandemic, despite a spike in unemployment with many people being laid off, the construction industry was at a standstill with an acute shortage of skilled workers. The Build Bhutan Project initiated by the government to mitigate the unemployment issue did not see the expected number of takers. A multitude of factors perpetuates the skills gap in the economy. Firstly, the poor social status of technical and vocational jobs – considered a “dead-end career” – that is deeply entrenched in the Bhutanese mindset is a disincentive for youth to consider the TVET track. Secondly, the public training institutes, though endowed with capacity, remain dated to the dynamic needs in the private sector and the economy changes. Thirdly, another disincentive for TVET graduates is a policy issue. A TVET graduate can never aspire to run for office as the minimum qualification required as per the Constitution of Bhutan is an undergraduate degree.

An international trend that the Bhutanese education system is yet to realize is the growing digitization of the economy, data intelligence, and emerging trend of “gig economy” and “liquid workforce”. In the near future, with the automation of most of the existing jobs, digitization of the

economy and introduction of Artificial Intelligence (Bughin, 2018), the traditional notion of “job” as full-time employment, by one employer, and within the confines of a physical space, would not hold true. Given Bhutan’s smallness, jobs within the local labor market will always be in short supply. In the age of network intelligence, the opportunity for Bhutan is in being a part of the global labor market and gearing education and skills towards international market needs.

The current pandemic has shown that investment in technology is not an option but a necessity to continue public services and the functioning of the bureaucracy. So many bureaucratic and policy decisions were made over WhatsApp and Zoom conferences that it became mainstream. Even as the economy is opening up, we're continuing to use these efficient approaches.

Coupled with an education system that is in need of reformation, both in curricula and pedagogy for all levels from high school through vocational to tertiary education, and the poor societal attitude towards vocational and technical career endangers Bhutan in creating a workforce that does not have the competencies to support its local economy let alone the international labor market. The mismatch in skills and economy and high youth unemployment could trigger other social issues in the long run.

### **Key Recommendations**

1. Conduct a study to forecast how technology will change the nature of work 20 years from now for Bhutan (the concept of Future of Work Lab) with emphasis on data, experimentation and feedback.
2. Establish a Future Council that will anticipate and forecast socio-economic changes to advise the government.
3. Strengthen public-private collaboration and cross-fertilization of ideas across sectors to address the issue of mismatch in skills and the needs of the labor market.
4. Revitalize agriculture, and small and cottage industries with technology to improve digital marketing, e-commerce and supply chain.
5. Focus on “multi-skilling” and nurturing an aptitude for “continuous learning” and resilience, so that graduates are better able to adapt to changing economic needs and future economic disruptions.
6. Strengthen authentic and inquiry-based learning; invest in a robust ICT infrastructure that supports blended and independent learning.
7. Mainstream TVET into high school, introducing a lateral transfer of credits across streams to address societal attitude towards a technical and vocational career.
8. Consider “micro-credentials” of specific skills and make them “stackable” over a period of time leading to certification or award of a degree. This has a bearing on the current civil service policy that does not recognize degrees earned through distance learning.
9. Invest in human capital to build a technologically sound workforce and integrate payment systems with the rest of the world to facilitate a “liquid workforce” and capitalize on the global labor market.
10. Invest in quality early child care and development to save future expenditure on health and education.
11. Introduce telehealth to improve access to medical services and reduce logistics costs.

# *FUTURE OF ECONOMY*



Bhutan's annual average growth from 2006 to 2015 was 7.5% making it one of the smallest yet fastest-growing economies in the world compared to the average global growth of 4.4% (Bhutan Economic Update, 2016). From GDP per capita of \$800 in 2000, it has almost quadrupled to \$3,200 now. But the averages are deceiving as Bhutan's economy is prone to fluctuations mainly from the implementation of hydropower projects. In 2007, Bhutan's growth rate was 18.5% - the highest in the world, but from 2010 it dipped from 11.5% to 2% and in the last five years its average stands around 5%.

Such a growth rate for Bhutan did not come from increased productivity but mostly from imbalances first of which is the investment-savings gap. Bhutan on average saved 30% of its GDP but invested at 55% per year relying heavily on foreign investment - mainly from India. The second imbalance is the expenditure-revenue gap. Over the last 20 years, its expenditure averaged 20% but its revenue was 11% of GDP. Bhutan's debt-GDP ratio stands at 126% (ADB, Key Indicators for Asia-Pacific, 2020) making it quite vulnerable especially in light of the pandemic.

This is not a comforting scenario for Bhutan especially when the pandemic has stalled economic activities and affected the lives and livelihood of thousands of Bhutanese. Considering the above scenario and coupled with the contraction of India's economy by 4.5%, Bhutan is in for a long and arduous economic recovery. Bhutan is likely to experience multiple shocks from its neighbor. Going forward this would translate to falling export revenue also including a shortfall in demand for electricity. Bhutan may also experience contraction in grants and budgetary support (fiscal shock) from India as its economy is expected to contract immensely and it is also likely to experience shortfalls in investments.

Bhutan's economy is unsustainably reliant on only two sources of revenue - hydropower and tourism - and there are limited alternative sources as its small economy cannot compete internationally with its neighbors. It suffers from "bureaucratized entrepreneurship" with extensive state involvement and limited space for private individuals, innovation and access to funding. Small and medium enterprises, which are largely informal and less coordinated, struggle to scale up, find markets, or source products. Bhutanese in general lack an entrepreneurial mind as its education system continues to prepare them to serve the bureaucracy.

The challenge for Bhutan then is not only recovery from the pandemic but to overhaul the long-standing structural and policy issues that stem the growth of a vibrant private sector. If Bhutan did not already have a high debt burden, it could expand its fiscal space through domestic borrowing from the private sector and the banks. However, in Bhutan, the private sector and the financial institutions are heavily reliant on government expenditure and activity. Unemployment issues in the economy are linked to an education system that needs redefining and broadening of its goals to nurture an entrepreneurial mindset and innovation.

## Key recommendations

1. Reform approaches for accessing credit, including using credit history and credit scores to help make access to capital more equitable (i.e., replace tying credit access to assets and collateral).
2. Strengthen the policy and regulatory framework for investment, especially to support venture and social impact funds. This can build on ongoing RMA work (e.g., fund management rules and regulations).
3. Institutional reform and incentives to encourage different classes of investors (e.g., venture capital, private equity funds), including by expanding beyond domestic investors.
4. Formalize informal business and provide policy support to spur growth in the sector and reform the taxation regime to ensure companies do not face overly burdensome compliance costs.
5. Clarify the roles of actors in the process of private sector development to counteract “bureaucratization of entrepreneurship”, such as through government providing policy incentives and a credible enabling environment but giving space for the private sector to experiment and operate.
6. Adopt a model of gradual transition from public to private ownership of state-owned enterprises, such as through cost-sharing and letting the private sector take equity over time (i.e., private sector gradually takes ownership through profit so they bring in capital and the enterprise gradually transitions from public to private sector).
7. Establish a nodal agency responsible for entrepreneurship support in Bhutan.
8. Broaden support to entrepreneurship systematically across the business development cycle, from pre-seed and early stages through to scaling (e.g., through strengthened government initiatives, government organizations in DHI, and civil society organizations).
9. Integrate co-ops, informal groups and rural entrepreneurs explicitly into supply chains to support sustainable development. This can be through linking with entrepreneurial partners in urban areas, with rural partners providing knowledge of organizing and community mobilization that can support urban business growth and market expansion.
10. Support business intermediaries and mentorship initiatives for startups to help spur a culture of innovation and strengthen the appeal of entrepreneurship.
11. Include a basic course on business and entrepreneurship for high school students (e.g., to eliminate the need for business school in order to write proposals).
12. Explore prospects of another niche sector for Bhutan, such as establishing Bhutan as a diplomatic center of South Asia (e.g., hosting institutional headquarters and high-level meetings between neighboring and regional governments), or serving as the arbiter of quality for neighboring large economies in South Asia or Asia (i.e., Bhutan can support external quality assessment and control as Switzerland currently does for Europe and much of the world).

# *GREEN RECOVERY*



*IN COLLABORATION WITH:*



Globally, governments are beginning to roll out economic recovery policies directed towards minimizing the loss of jobs, incomes, and production capacity while ensuring environmental sustainability and reduced Green House Gases (GHG), adopting the tried and tested principles of sustainable consumption and production. The COVID-19 pandemic has heightened the call to smarter, greener and more sustainable solutions. Governments across the world are therefore pursuing recovery paths that are green. For instance, the European Green Deal aims to boost the efficient use of resources by moving to cleaner and renewable energy sources while committing to restore biodiversity and reduce pollution. Similarly, South Korea's Green New Deal is focused on creating 659,000 jobs by 2025 by increasing investment in advanced technologies in the areas of energy (solar, smart grid, micro-grid and circular economy). While all recovery measures are contextual to a country and its economy, Bhutan can look to the global best practices to learn and replicate while setting national recovery priorities. Internationally, investment in sectors such as clean transport, circular economy, and clean energy are emerging as “build back better” strategies in the heels of COVID-19. Similarly, countries such as India are focusing its investment in agriculture and small and medium enterprises, noting that they are the main drivers of the economy as opposed to the earlier focus on cities as growth centers.

The three primary catalysts for a green economy include 1) green jobs growth and creation; 2) an enabling social-political investment environment such as - integrated policies, regulations, and a mechanism that utilizes the drivers of low carbon production and consumption, and 3) measures to reduce inequality.

For Bhutanese businesses and entrepreneurs who are pioneering greener pathways, partnerships from various stakeholders such as government and civil society are crucial to create the enabling ecosystem for them to thrive. Systems thinking and integrated approaches are critical in synergizing policies, incentives and financing. For example, understanding the waste management ecosystem can drive the circular economy as waste is an emerging environmental concern for Bhutan. Further, segregated waste streams both from municipal commingled and industrial wastes contain valuable raw materials for recycling which besides adding value to the waste generated also creates green jobs.

In the transport sector, policies and incentives to support greener and more efficient public transport can create tremendous benefits to Bhutan. Currently, Bhutan has contradictory policies that inhibit the transition to greener transport. For example, pricing is government controlled in the passenger transport sector; therefore, a bus service provider is disincentivized to invest in more expensive green transport (electric buses) alternatives when they have neither government subsidies nor an opportunity to raise bus ticket prices to cover their higher cost. Improving and greening passenger transport can have multiple benefits over private vehicles – such as reducing traffic congestion, limiting carbon emissions and solving the growing problem of parking. It is important to include a diverse set of stakeholders in framing and developing the transport policy – from stakeholders experienced in policy-making to the local transport business operators as well as the general public. There are a large number of policy alternatives for greener transport – from discouraging fossil-fuel vehicles and incentivizing electric and low emission vehicles to limiting cars on the road and creating pedestrian-and-cycle-friendly public spaces. Assessing these alternatives, a well-designed transport policy can be the bedrock for a greening transport sector in Bhutan.

Sustainable food and agriculture play a big part in Bhutan's path to green recovery and towards its pledge to remain carbon neutral. In Bhutan, less than 8% of the land is suitable for agricultural work, which may be a blessing in disguise as it naturally prohibits large-scale commercial farming, a major source of GHG in other countries. In addition, the pandemic has triggered reverse migration, from urban to rural areas, providing additional opportunities to work towards Bhutan's vision of achieving self-sufficiency. The significant carbon footprint created by the enormous food imports can be mitigated if the government, entrepreneurs and farmers can work together to substitute imports and build a thriving food sector within Bhutan.

A key lesson is the need for a whole-of-government approach to greening the economy involving harmonized policy environments and enhancing coherence and consistency in the policies adopted by different government agencies.

## **Key Recommendations**

1. Environmental safeguards, climate mitigation and adaptation should be viewed as a catalyst for development and not as a hurdle. Subsequently, existing government services and processes need to be streamlined and improved, reflecting the urgent need to adopt environment-friendly and climate-smart development models.
2. The resident development partners including the UN system can provide the necessary knowledge products and access to both financial and technical resources and the government could proactively engage the development partners.
3. Strengthen investment on projects that are of environmental priorities and provide direct support to 'green' firms/businesses.
4. Support behavioral changes while incentivizing low carbon infrastructure development and investments (such as taking out subsidies from fossils).
5. Make evidence-based public policy and budgetary decisions - understand the linkages and interaction between incentives, regulations, risks and barriers, and encourage a shift in investments and incentives towards greener pathways.
6. Close the gap between policy-making agencies and implementing agencies in order to enable businesses and entrepreneurs to thrive and feel actively supported by the government in providing important solutions to Bhutan's environmental and social concerns.
7. Harmonize the plethora of policies and regulations to remove inconsistency and reconcile contradictions in order to help businesses and individuals avoid roadblocks in their attempt to grow and innovate. For instance, while on one hand, the government wants to encourage electric vehicles, on the other hand, the fare prices are controlled for public transport; thus, a public transport operator is, in fact, disincentivized to offer greener transport to the public.
8. Operate a mid-to-long-term perspective, especially in weighing the short-term cost with long-term benefits of the investment.
9. Make recovery inclusive and participatory - invite all stakeholders such as government (policy-making and implementing agencies), civil society, businesses and individuals in designing and creating the future.
10. Adopt an integrated approach to recovery by ensuring that policies and financing are well-coordinated and channeled to the right sectors as per national priorities.
11. Deploy some key incentives to encourage green businesses such as 1) introduce favorable tax policies to encourage green businesses; 2) improve access to finance such as low-interest

- loans to green businesses; and 3) provide support to businesses in product development, research and capacity development.
12. Introduce green financing in the banking sector to encourage the development of green projects to minimize the negative impact on the environment of regular projects.
  13. Stimulate demand for green goods and services in tandem with developing policies and financing for a greener economy.
  14. In the food and agriculture sector, provide 1) market assurance; 2) supply-chain management and logistics, and 3) research and capacity development for adding value to food crops.
  15. Relax rules or make exceptions to encourage businesses to innovate towards green recovery. Innovative businesses are sometimes not allowed to thrive because, by nature, their business model is new whereas the rules and regulations in licensing and access to finance look for established models or do not allow for what is labeled as ‘monopoly business’.
  16. Recognizing opportunities created through the early adoption of environment and climate-friendly development models and capitalizing on the available financial and human resources, Bhutan can be both a thought and an action leader on environment and climate change in the world of nations.
  17. Understanding the importance of institutions and institutional collaboration in delivering environmental and climate objectives, the government could consider enhancing existing institutional mechanisms and build institutional capacity while focusing on the remote provision of services as required, particularly when faced with a pandemic like COVID-19.

# *SOCIAL PROTECTION*



*IN COLLABORATION WITH:*

unicef   
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Social protection refers to a set of policies and programs that aims to protect people from shocks and crises, poverty and vulnerability. Social protection is deeply rooted in the SDGs, especially within Goals 1, 3, 5 and 10, as well as in GNH, with resilience a central issue across the nine domains. Social protection can be categorized into contributory schemes where participants make regular payments to a program that will cover costs related to life-course events and non-contributory schemes where the full amount is paid by the provider. Examples of contributory schemes include health insurance and other insurance programs related to unemployment, maternity/paternity, disability etc. Examples of non-contributory schemes include social assistance instruments such as cash transfers, vouchers, fee waivers and various subsidies. In addition, through labor market interventions, Governments promote employment by providing training and services for job seekers, as well as protect workers by providing various benefits and compensation. Social protection forms part of a social contract between the Government and its citizens, whereby citizens contribute to the Government through taxes, and the Government then redistributes those taxes to the citizens in the form of social services such as education and health, as well as benefits for unemployment, children, old age and disability etc. Social protection system can be thought of as a tool for redistribution of wealth to reduce inequality in societies, as well as an investment that can generate markets and stimulate economic growth (both macro and local) as its beneficiaries spend it on important economic activities. Indeed, social protection can be considered a core driver and enabler of an effective economic growth strategy, by “offering citizens a level of income security so that they are more willing to invest in riskier but higher return activities; enabling families to invest in their children to build a nation’s human capital; and, generating higher consumption nationwide which can provide opportunities to entrepreneurs and act as an immediate stimulus to economies.” (UNDP, 2020).

Bhutan has a proactive social protection system supported by its Constitution that grants free education and health to all. Epitomizing this spirit is His Majesty’s *Kidu* program that provides social assistance in the form of monthly cash and in-kind support to those who have difficulties sustaining their livelihoods. Most recently, *kidu* was granted to 14,000 children and 33,000 individuals (self-employed people, workers with suspended contracts, unemployed people and returning Bhutanese) that were negatively affected by the COVID-19 crisis. The government has also put in place tax deferments for certain businesses, as well as an employment support scheme for the tourism and hospitality sector and the jobless that benefited at least 2,436 individuals. Additionally, working capital credit at a 5% interest rate was made available to tourism-related firms to finance operational costs, especially payroll (IPC-IG & UNICEF, 2020).

Although social protection, by definition, is meant to be shock-responsive, many countries around the world have struggled with the COVID-19 pandemic. Bhutan is no exception. Indeed, a significant economic downturn and the subsequent loss of livelihoods in the wake of the COVID-19 pandemic has illustrated the need for bolstering the social protection system. For instance, 92% of tourist guides working in the tourism industry have been laid off (National Statistics Bureau & UNDP, 2020). According to the World Bank, COVID-19 and related economic shocks will result in an additional 5,503 people falling into poverty based on the poverty line of USD3.20 per day, and 14,083 people based on the poverty line of USD5.50 per day (IPC-IG & UNICEF, 2020). Informal workers with little or no access to social security, estimated to constitute 87.52% of total employment in Bhutan (IPC-IG & UNICEF, 2020), are thought to represent many of these “emerging poor”. Moreover, current labor market interventions struggle to keep up with the pace of

the changing global and local economies, which has led to high youth unemployment – further exacerbated by COVID-19.

In quantitative terms, Bhutan has achieved much in providing free education and health. However, as the Conversation Series highlighted, persons with disabilities (PWDs) face challenges in accessing social protection and public services more broadly. With no state-sponsored disability benefits, PWDs rely on an informal system of support (family members, civil society etc.) that revolves around a notion of “charity”. Any future system of social protection including (or specifically geared towards supporting) PWDs should take into account the range of accessibility barriers they face, in terms of access to information, physical environment and finance.

Additionally, while addressing the issues of particular vulnerable groups, social protection systems also need to address the evolving needs of individuals throughout their life cycle. Poverty in old age remains a high risk for many developing nations; an aging population means increasing expenditure and health care services demands with far fewer contributions, which severely impacts the financial stability of social protection systems. This highlights the necessity of expanding the coverage of social protection systems. Nations with younger demographic structures struggling with youth unemployment also pose a great challenge as youths play a critical role in contributing to the national economies and their growth. In order to achieve intergenerational equity, it is necessary to balance the investment in young people along with the protection and care provided for older generations.

As of 2017, 42% of the Bhutanese are below 18 years of age and the adolescent-youth group (10-24 years) account for a third of the country’s population (Unicef, 2017). However, an analysis of the demographic shift from 2005 to 2017 shows that the median age has increased from 22 to 27 years and the aging index from 14 to 23, indicating that within a few decades, Bhutan will become an aging society. This calls for the National Pension and Provident Fund (NPPF) to revisit its current system in anticipation of the aging population. While His Majesty’s *Kidu* has continued to serve the most vulnerable with basic needs, and free education and health services are provided for all, the pension scheme with the NPPF is a benefit only civil servants enjoy. For those in the private and civil society sectors, the labor law of the country mandates the employees to partake in a contributory scheme of provident fund (Rinzin, 2018). However, the system still excludes a large section of the population in the informal economy, PWD, single parents, unemployed persons and senior citizens. A social protection system that is sustainable, inclusive and provides universal coverage throughout the lifecycle can only be achieved through a combination of contributory and tax-financed schemes. This combination scheme would be beneficial for Bhutan as it ensures that individuals with stable jobs and the main taxpayers are looked after along with the marginalized and vulnerable population and those in the informal sector. This combination scheme plays an important part in helping people escape poverty and keeping them out of poverty provided it is available throughout the lifecycle.

It is evident from the experiences of the pandemic that, as with other governments across the world, Bhutan faces a set of interrelated challenges in providing effective social protection to its population, including:

- **Inclusiveness and equity** – how to ensure wide coverage and reach populations that are most vulnerable and in danger of being left behind, and ensure the existing inequalities are not aggravated;

- **Sustainability** – how to ensure sustainable financing of social protection systems;
- **Shock-responsiveness** – how to design and roll out social protection policies and programs that can respond to unforeseen crises such as COVID-19 as well as future megatrends such as demographic shifts and digital disruptions to the labor market.

Lessons from Scandinavian countries like Norway, Sweden and Finland show that they are some of the most equal societies as a result of their taxation and strong social protection system; they are also consistently rated as some of the happiest countries in the world. Similarly, Europe recovered from the second world war by putting in place very large social transfers which created strong social contracts and more peaceful societies in Europe. Successful economies in the world have made large investments in social protection schemes when they were much poorer.

One key lesson from past initiatives across the globe is the risk of targeting errors when using income-testing across low and middle-income countries. Alarming, even the best-performing poverty targeted schemes in the Asia Pacific region, for instance, exclude approximately half of those they intend to reach (ESCAP and ILO, 2020. “The Protection We Want: Social Outlook for Asia and the Pacific”). This calls for a renewed consideration of more universal forms of social protection, departing from the “charity” hand-outs for the poor and vulnerable “others”.

### **Key Recommendations**

Building on the critical role of His Majesty’s *Kidu* program, the following are some of the recommendations towards building an inclusive, sustainable and shock-responsive social protection system:

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

# *ANTICIPATORY GOVERNANCE*



Anticipatory governance is an emerging planning paradigm that recognizes the need for governance to be prepared for the unexpected, in times of a highly evolving VUCA (Volatile, Uncertain, Complex and Ambiguous) world. It directs governments to cultivate the capacity to anticipate multiple possible futures and their consequences. Anticipatory governance questions the relevance of the traditional linear planning approach which is based on the existence of a single future and a predetermined path towards getting there. In practice it entails planners and policymakers to initially ‘anticipate’ (Lasswell, 1951) a variety of plausible future developments, secondly to ‘assess’ the corresponding impacts and implications of these futures on the plans and policies today and, finally, to ‘innovate’ solutions to respond to events in the early stages of development (Ramos, 2014). Overall, it also expands to the need for developing mental agility to adapt to multiple unforeseen scenarios.

Central to the success of anticipatory governance is the availability of “real-time data”. While a necessary condition, real-time data is not a sufficient condition. Real-time data has limited use in the absence of real-time organizations and people to make real-time decisions. In addition, building human capabilities to adapt and hone mental agility is of fundamental importance.

Conventionally, different organizations work in silos operating mandates on their own. While in reality, there exist multiple intersections and overlaps in their goals and functions. Anticipatory governance recognizes these intersections as opportunities, allowing for effective implementation of plans and policies and integrated decision making on the ground (Hallegatte, 2009). Institutionalizing inter-agency collaboration and tapping into the collective intelligence of citizens, the private sector and civil society are some key tenants of the anticipatory governance paradigm.

Experiences from the COVID-19 crisis have shown how a public health crisis can trigger multiple socio-economic adversities. Pandemic such as COVID-19 have been long warned by scientists and have caused considerable delays in the implementation of the government’s plans and projects of the 12th Five Year Plan.

On the brighter side, the effective management of the health impacts of the pandemic by rapid collaboration across sectors (the public, civil society & the private sector) guided by a shared objective of containing the contagion, speaks volumes about the potential of Bhutanese society and the public sector in overhauling its system of governance. Notwithstanding the current approach to confronting the pandemic, the conversation series on anticipatory governance was organized to delve into how Bhutan can adopt features of the Anticipatory Governance model in planning and policymaking processes, and create an ecosystem that can spearhead bold and no regret policy.

Firstly, one of the greatest challenges in building an eco-system of anticipatory governance for Bhutan lies in its culture that is risk-averse. Due to risks of failure and disruption of the existing operating processes, in general, the public sector does not encourage innovation, creativity and thinking out-of-the-box principles. The current five-year planning process follows a linear approach, and assumes the continuation of past trends, and negates reality as ever-evolving that has a bearing on how the plan will manifest in reality.

Secondly, the tendency of public institutions and organizations is to work in silos, and turf protection is intense. While decentralized planning and decision-making initiated since the enactment of the Local Government Act in 2009 shares synergy with the model of anticipatory

governance, genuine consultation and active and engaged participation of citizens are yet to be realized (Pem, 2015). Small but growing civil society sectors are either viewed as a competitor or as being donor-driven (Fowler & Biekart, 2013). These mindsets hinder genuine co-creation across sectors and sourcing collective intelligence from the citizens.

Thirdly, as was evident during the pandemic, there is an acute shortage of quality data. Furthermore, accessibility to data is limited, and agencies remain protective over sharing information undermining planning and decision-making. Since having quality data and data sharing are fundamental to anticipatory governance, ethics in data – privacy, confidentiality, validity among others are issues that need thorough deliberation.

Lastly, a fundamental issue that most governments contend with in relation to anticipatory governance is reconciling the priorities to satisfy short-term and long-term objectives. While there may be a need to work towards short-term gains, we need to be mindful that such gains can also undermine the nation's long-term strategies. This tension brings to the fore, the concept of intergenerational justice as a guiding principle in policy formulation and decision-making.

Despite these challenges, there is an urgency and a nudge from His Majesty towards improving systemic efficiency and a governance structure that is resilient and agile coupled with a dynamic economy and human capabilities. This message is evident in the *kasho* recently issued to reform civil service and the education system of the country (HM's address on 17<sup>th</sup> December 2020 for 113<sup>th</sup> National Day). The *kasho* provides an impetus towards rethinking governance within the bureaucracy. The COVID-19 pandemic provides a once-in-the lifetime opportunity to accelerate learning and to realize His Majesty's vision of a governance system that is efficient and effective. The onus is on the civil service to reflect candidly on its systems and practices established over the years, and to critique its relevance in light of the changing socio-economic environment, digitization of all aspects of human life, and the pace at which the interconnected world is changing.

## **Key Recommendations**

1. Set up a foresight center, an independent think tank to carry out foresight exercises and workshops on the possible futures, and carry out studies on how we can innovate current government functions by future-proofing policies and plans.
2. Set up an autonomous data hub center that ensures near real-time data processes, accessibility and ensures its ethical use, enabling course corrections in real-time.
3. Establish a public innovation fund for the public sector and civil servants to innovate, build capabilities and grow an innovative and open work culture that is supportive of cross-sector collaboration, data sharing, intelligence sourcing, experimentation and feedback and citizen engagement.
4. Motivate public servants to innovate by considering a range of incentives. While extrinsic factors such as promotions and recognitions can be tied up to their capacities to innovate, intrinsic factors such as showcasing the value created as a result of their innovation can help them be aware of the impact of their work. Likewise, establishing a fail-safe environment for public servants grants them the opportunity to experiment with new ideas.

5. Integrate the use of the sandbox approach, which allows innovation and incubation of ideas to support the successful fruition of creative ideas. Innovation need not be grandiose and at an international level but should be good enough if it addresses a local need or an issue.
6. Develop apps to solicit citizen input and feedback on social issues, systems and initiatives of the government.

## **Conclusion**

The conversation series, organized to solicit bold and no-regret policy recommendations from non-governmental actors, brought to light some structural and policy issues, gaps in policy and action, and the need for a shift in societal mindset that is relevant to current times.

The conversation revealed that while the quality of the general education system is struggling as a result of a multitude of factors ranging from relevance and currency of curriculum to archaic pedagogy, it is no doubt that the technical and vocational education enjoys a poor social status in the society. The conversation shed light on how the understanding of technical and vocation track is not only confined to construction and farming that have a harsher work environment but currently, no graduates from TVET can run for office as the minimum qualification required is an undergraduate degree. One of the most evident lessons from the pandemic for the education system is to prepare graduates with skills that enable them to adapt to situations.

The pandemic laid bare the vulnerabilities of Bhutan's economy. Its economic foundation is not only based narrowly on hydropower and tourism but is unsustainably reliant on imports from neighbors for essential goods such as food items and fuels. The conversation revealed the policy and structural constraints in the development of entrepreneurship and the local economy in the country with excessive bureaucratic involvement and regulation that stem the growth of the private sector and social enterprise. Diversifying the economy beyond hydropower and tourism to small and cottage industries and social enterprise is critical to the sustainability of Bhutan's economy. Equally important is for the state to facilitate the expansion of markets internationally through mechanisms that will help recognize Bhutanese exports.

While Bhutan has successfully branded itself as a carbon-neutral country with strict environmental policies, it is apparent that the overall vision is yet to be translated into policies and practices. There is a need to harmonize policies and regulations across agencies within the bureaucracy that incentivizes green enterprises and investments with subsidies, tax incentives and low-interest loans. Such proposals need differential treatment and to weigh the short-term costs with long-term benefits. Participation from all sectors – the government (policymakers), civil society and private sector – is crucial in green recovery to ensure harmonized policies and coordinated services.

The conversation on Social Protection made a strong case for a social protection system for the country that is based on a life cycle approach and multi-tiered to build the country's resilience towards future shocks and for a more equitable and cohesive society. It became apparent that the existing systems of social protection are fragmented and not inclusive. A real challenge for Bhutan as a developing country is to bring about innovative changes in its fiscal policy to support an inclusive and life-cycle approach to social protection. Such a system of social protection coheres with the country's goal of a GNH-society.

The final panel discussion on Anticipatory Governance summed up the essence of all the preceding series. The panel deliberated on the ecosystem of anticipatory governance in the context of current challenges: 1) a risk-averse bureaucracy that stems innovation, 2) a dearth of quality data and accessibility issues, and 3) the need for a paradigm shift in how we look at planning. The Royal Decree issued on 17<sup>th</sup> December 2020 however, drives home the impetus to revisit our system of governance.

Three common strands become evident as panelists deliberate fluidly on all the five themes. The first and the foremost relates to governance and the space for innovation and creativity within the government machinery. Considering the VUCA era of the modern world, such an ecosystem becomes imperative to continually evolve and adapt to changes triggered by technological advancements, climate change, and emerging social-economic issues. Closely related to this is the recognition of the impetus to harness the potentials of technology considering its transformation of the society, economy, education, labor market and public service delivery to name a few. Lastly, openness to genuine cross-sector collaboration and citizen participation are deemed crucial in building systems and policies that make the society sustainable and resilient.

#### Links to the Conversation Series

**1. Future of Work, Skills & Education:**

<https://www.facebook.com/watch/?v=833034690836450>

**2. Future of Economy:**

<https://www.facebook.com/UNDPBhutan/videos/635337867155082/>

**3. Green Recovery:**

<https://www.facebook.com/UNDPBhutan/videos/1549102645276173/>

**4. Social Protection:**

<https://www.facebook.com/UNDPBhutan/videos/233202451473064/>

**5. Anticipatory Governance:**

<https://www.facebook.com/UNDPBhutan/videos/148567033359081/>

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