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## **INTRODUCTION**

I would like to thank the Honourable Speaker for giving me this opportunity to present the Annual Report of the Royal Government.

**A.** The past year has been an exceptionally eventful period that has left a defining impact on the future course of the nation. Four of the particularly significant events or developments were:

1. The nation came together to mourn the passing away of our most beloved Royal Grand Mother, Her Majesty Ashi Phuntsho Choden. With her passage from this world, we lost a living icon that was a precious link with our glorious past. She was a matriarch whose long and amazing life had touched and comforted all sections of our society. We found solace in the certainty of Her Majesty's ascendance to the glorious realm of Zangthog Pelri in her true form as Khandro Moenbi Khedron.
2. For the first time, after the establishment of Monarchy, our peace-loving nation was compelled to take up arms against those who sought to undermine our national security and sovereignty. The success of our military operations under the leadership of His Majesty the King, gave little reason for joy as the pain of having fought against our neighbours continue to linger in our hearts. Bhutanese, will never cease to wonder why in their struggle, some of our brothers and sisters from Assam and West Bengal, chose to shatter our tranquillity and trample upon our sovereignty. Why did they not agree to leave us in peace even as we begged them?

3. The deepening of the process of democratization initiated by His Majesty the King continued to make smooth progress. The DYT<sup>s</sup> and GYT<sup>s</sup> took on additional and greater responsibilities in exercising their power to determine how they should conduct development in their own areas. Likewise, both in terms of content and quality, the debates and resolutions of the 81<sup>st</sup> session of the National Assembly bore witness to the growing capability and sense of responsibility of our people's representatives. Under the guidance of His Majesty the King, governance in general continued to come closer to the people, by becoming one that is more of the people and by the people. But the sense of apprehension surrounding the ultimate step towards full-fledged democracy with all its inherent flaws continued to grow among the people.
  
4. The last session also saw the successful end of the first term of an elected Council of Ministers. A stronger government with additional ministers was established by the last session of the National Assembly.

**B.** His Majesty the King has put Bhutan on the path of a unique process of development based on the belief that the primary purpose of development is to achieve Gross National Happiness. It is our collective responsibility to ensure that the nation remains true to this philosophy, unwavering in its conviction that true development can only be pursued through a judicious balance between spiritual and material advancement. This report is therefore, structured on the basis of the architecture of

GNH which comprises four pillars. Accordingly, the report is presented in four sections, namely:

- a. Sustainable and equitable socio-economic development;**
- b. Conservation of our fragile Himalayan ecology;**
- c. Preservation and promotion of our culture; and**
- d. Enhancement of good governance.**

It is intended that this format will enable us to assess the efforts of the Royal Government to establish the necessary enabling conditions for the pursuit of happiness by all citizens.

## I. SUSTAINABLE & EQUITABLE SOCIO-ECONOMIC DEVELOPMENT

**This is the first pillar of GNH.** In order to strengthen this pillar the mandate of the Royal Government is to improve the physical, intellectual, social and economic well being of our people through the provision of health care, education, social and economic services. To this end, the primacy of equitable distribution of and access to benefits of development continue to be a guiding principle. Likewise, the Royal Government is to be fully mindful of the national aspiration to become self reliant to the extent that Bhutan can be freed from its excessive dependence on foreign development assistance and to ensure that all our development actions and achievement are sustainable.

- a. I am pleased to submit that on the question of sustainability, we continue to do fairly well especially with Bhutan's Gross Domestic Product (GDP) having increased by 6.5 percent during 2003. Inflation rate has decreased to 1.3 percent compared with 2.7 during 2002. A total foreign reserve of US \$ 366.71 million provides sufficient security to cover around 22 months of imports including an Indian rupee reserve of 3,575.920 million as of December 2003. The national debt to GDP ratio is around 67 % and the debt service ratio is under 4%. In the meanwhile, the Royal Government continued to follow a prudent fiscal policy and is likely to meet about 90 % of the current expenditure from its domestic revenue.
- b. While still very much dependent on foreign aid, Bhutan's determination to be master of her own destiny as opposed to

being donor driven has helped to develop a new ethos in donor recipient relations and the fundamentals governing development aid between the rich and poor. Our stringent policies and action on environment is also paying off with Bhutan having emerged as perhaps the only developing country that is becoming greener while setting new standards for environmental ethics.

- c. With respect to equitable distribution of the benefits of development, the Royal Government continues to be guided by His Majesty's edict. All regions of our country receive equal attention and I am pleased to report that despite increasing devolution of power from the centre to the local levels, the coverage, quality and content of all services continue to be equitable with respect to all basic socio-economic services. The government nevertheless, is fully aware of certain pockets and areas where geography, security and environmental conditions have intervened and where special measures need to be taken. In this regard, the Government is particularly mindful of the increasing threat of rural urban migration, which in most developing countries has become an irreversible problem.
  
- d. The state of the physical well being of our people shows continuing signs of improvement. This is borne out by the fact that the country's primary health coverage stands at over 90 percent while the average life expectancy has reached 60 years as opposed to 48 years only two decades ago. The infant mortality rate has dropped to 60.5 live-births and population growth rate to 2.5 percent. There is a growing presence of old and grey in our villages living healthy and productive lives.

- e. The indicators for the intellectual development of our population has not fared badly either. Today, there are 1,39,368 children in schools and institutions excluding 15,866 learners enrolled in non-formal education centres, accounting for the enrolment of 84.3 % of our school aged children. Of particular noteworthiness is the high rate of participation in adult literacy program by out of school youth and adults, who fully realize the value of education in a modernizing economy. With a growing number of training and academic institutions, and the establishment of our own university, a strong and intelligent work force is emerging giving rise not only to possibility of unemployment but certainly raising our hope of a bright future for Bhutan.

Within the limitations with which we must function and against the reasonable targets that we have set for ourselves, these achievements are significant. But there is so much more that needs to be done before our people can fully emerge out of poverty and overcome the myriad of problems associated with a least developed country. As I make my report sector wise, I shall not only speak of the successes but of the challenges and the constraints we face as a developing nation against the high expectations in a rapidly globalizing world.

*(Details of Bhutan's economic performance during the past year will be presented in the Budget Report of the Finance Minister).*

## **1. HEALTH**

In the period under review (2003-2004), the endeavour to raise the health standards of our citizens continued through improvement of the quality

and reach of health services. Following are some of the main achievements:

**(a) Services rendered**

Bhutan has achieved tremendous progress in the delivery of health services in the past few decades in an endeavour to fulfil His Majesty the King's aspiration to provide free health services to all Bhutanese citizens. Today, there are 660 health centres, including modern hospitals, indigenous hospitals, basic health units and outreach clinics, dispersed all over the country. Nearly 79 percent of our rural population now have access to piped water while 90 percent of our children have been immunised. In 2003, a total of 590 patients were referred outside the country.

**(b) Disease Control**

- I am glad to report to the hon'ble members that not a single case of SARS infection was detected in Bhutan despite its worldwide outbreak in 2003.
- The outbreak of Rubella, a disease that can be fatal for the unborn, in Trongsa was also contained with hard work and ingenuity. Thanks to timely interventions, there was not a single casualty.

### **(c) Health Infrastructure and Human Resource**

- In its endeavour to increase the access of people in the far-flung regions to modern health services, the Health Department inaugurated a 20-bedded hospital in Trongsa last year. It will have an X-ray room, Operation Theatre and a paediatric ward.
- Tele-ECG Facilities were added to the Trashiyangtse and Lhuentse hospitals.
- The Royal Institute of Health Sciences produced the first batch of B Sc. Nursing graduates in collaboration with an Australian university in 2003.

### **(d) Advocacy**

- The sale of tobacco and tobacco products has been banned from duty free shops. 18 out of Bhutan's 20 Dzongkhags have already been declared as tobacco-free zones.
- Health awareness campaigns continue unabated, thanks to the untiring efforts of Her Majesty Ashi Sangay Choden Wangchuck, the goodwill ambassador of UNFPA. Her Majesty continues to travel all over Bhutan sensitizing issues like family planning, sanitation and HIV/AIDS to the people at the grassroots. On behalf of the people and the Royal Government I would like to express our special gratitude and appreciation to Her Majesty.

### **(e) Special Achievements**

- Bhutan attained the status of “Normal Iodine Nutrition Country” in 2003, the only South Asian country to be thus categorized, having fulfilled all the 10 WHO indicators for the elimination of Iodine Deficiency Disorders. Today, the goitre prevalence rate is under five percent compared with 64.5 percent in 1983.

### **(f) Challenges**

Good health is the most important necessity in life. While the Royal Government continues to commit the highest possible resources to this sector, the services that are available can never compare favourably with the actual need of our people. New and emerging diseases are rising in number as well as in terms of their threat and impact on the health of our people. The high cost of equipment and development and up-gradation of expertise and skills conspire with geography and demographic features to pose challenges to our capacity for coverage as well as timely and effective response. For a long time to come there can never be enough hospitals, doctors and nurses. Some of the challenges are the following:

- The threat of an HIV/AIDS epidemic is never far away, even literarily, for a small, close knit society such as ours. India, our immediate neighbour, is reported to have 600,000 suffering from AIDS with some 4.58 million infected with HIV. By 2010, anywhere between 9 million to 25 million could be carrying the disease. That Nepal too is not faring well at all, gives us cause for additional concern. Further away, in South Africa, one out of every five

citizens will sooner or later die from the disease and in one particular African state, it is said that two people are appointed against each job because one of them is likely to die from AIDS. Since this evil monster arrived in our country in 1993, 50 cases have been confirmed as suffering from it. Of these, ten have already succumbed. The Royal Government has set an ambitious goal to contain this scourge by 2015 through numerous initiatives. It will, over the period of next five years alone, spend more than Nu. 300 million (combined contribution of World Bank and the Royal Government) to combat the virus.

- Despite consistent and valiant efforts of our health personnel, controlling and containing malaria and tuberculosis still remain an insurmountable task.
- The health sector which has been entrusted to spearhead the recently established National Commission on Women and Children along with other government agencies also faces the challenge of promoting and protecting the rights of women and children. Cases of abuse of women and children are detected in the health facilities. One cause is excessive consumption of alcohol, which is still a major social habit. Aside from the domestic violence that it causes, it is sad that a large number of our patients in the hospitals and the costs thereof as well as deaths are alcohol related and therefore, preventable. There is no doubt, as pointed out by His Majesty the King early in His reign, that alcohol is also a major cause of rural poverty. The honourable members would agree when I say that there are many who are deeply disturbed by the extent of domestic violence and see the need for action not only through legislation but

also through intervention at all levels of society. I believe the Chimis in particular can play an indispensable role in rooting out this evil.

## **2. EDUCATION**

We live in a world where ideas are more valuable than inheritance of any kind. Knowledge and skills are of absolute essence to survive and function in the modern world even as farmers in the remotest corner of our country. It is a highly competitive world both for the individual as well as for the nation. An illiterate person, who thinks he knows enough because he does not know what is there to know, has minimal chance of success in whatever career he chooses. Of greater concern is that such people can often unwittingly cause the downfall of others as well. The Royal Government is committed to promoting a knowledge based society so that our educated society will be able to promote and ensure a functional and vibrant democracy of the nature that His Majesty desires for our people.

Given the priority that Education enjoys along with other social service programmes, much has been achieved over the years. Some of the important achievements during the period since the last National Assembly are the following:

### **(a) Education Coverage**

- The total enrolment of students in the schools and institutes increased 5.3 % from 1,32,411 students in 2003 to 1,39,368 students in 2004. At the same time, enrolment in the non-formal

education centres increased from 12,838 learners in 2003 to 15,866 learners in 2004.

- During the fiscal year 2003-2004, the Royal Government signed four major projects supporting the education sector.
  - i. The Education Development Project, supported by a funding of USD 30 million from the World Bank, will finance the construction of 29 secondary schools.
  - ii. The Education Sector Program Support, with a total fund of Nu. 563.50 million from the Danish Government.
  - iii. The Teacher Education Program (STEP) supports the up-gradation of the capacities of the teacher training institutes with a budget of US\$3.5 million.
  - iv. India continues to be a major donor to the education sector with a total funding of Nu. 830 million for the construction of 10 schools, a Rigney institute at Taktse, Trongsa, and a youth centre in Thimphu. The GOI fund will also be used for the expansion of Sherubtse College.

## **(b) Special Education**

- A significant step towards the integration of special education for the disabled children into mainstream education is the establishment of a special education resource unit at

Changangkha Lower Secondary School under the personal initiative of Her Majesty the Queen Ashi Tshering Pem Wangchuck, the president of the Youth Development Fund. The school will cater to the educational needs of children with mild to moderate sensory, intellectual and physical impairments.

- A program to provide education to deaf children is also being initiated with facilities built at Drukgyel Lower Secondary School.
- Development and documentation of Bhutanese sign language is underway.

### **(c) Establishment of the Royal University of Bhutan**

- Tertiary education in Bhutan reached new heights with the formal establishment of the Royal University of Bhutan on June 2, 2003. The university, a symbol of our sovereignty and identity and a measure of a nation's capacity to shape its own destiny, is essential for the flexibility and freedom with which the Bhutanese society can design and structure not only higher education but also general education all the way down to the primary education level. It is the realization of a national dream conceived by the Royal Government over 25 years ago. Governed by the Royal Charter and the Statute, it is a distributed university with member institutes dispersed across the country and the office of the Vice Chancellor based in Thimphu. Currently the office of the Vice Chancellor is located, on the premises of the Royal Institute of Management at Semtokha.

- It is with great pleasure and honour that I report to this great Assembly that His Royal Highness, the Crown Prince, Dasho Jigme Khesar Namgyal Wangchuck became the first Chancellor of the Royal University. I have no doubt that under the guidance of His Royal Highness, the university will attain the highest of standards and promote excellence in our institutions of higher learning.

#### **(d) Challenges and Risks Ahead**

- Complete education coverage remains an important issue in the light of Bhutan's scattered population settlements. It is said that it is always the hardest to reach the last 10% of the population.
- Teacher shortage is a serious problem in the rural areas, as teachers are reluctant to go because of the harsh living conditions.
- The growth in enrolment has not been matched adequately by our ability to build schools, placing enormous pressures on the small underdeveloped secondary education program. This will exacerbate as universal primary enrolment and completion is attained.
- The pace of development and urbanization is putting at risk young children and youth who are now vulnerable to negative peer influences and the influx of external media. With the growing

number of school leavers, employment is also surfacing as a major issue. While change is inevitable, the challenge is to strike a balance between progressive development and preserving the tested value system of a traditional society.

- With the increasing enrolment and expansion of the education system at all levels, there is tremendous pressure on resources, facilities and teachers. This has an adverse impact on the quality and as such, efforts are being made to improve the quality of education provided in our schools.

### **3. AGRICULTURE (renewable natural resources)**

Agriculture is the backbone of the Bhutanese economy. It is the source of livelihood for about 79 percent of the population and contributes 32.7 percent of the GDP. Given its importance, the royal government continues to invest heavily to boost agriculture productivity and rural income through various integrated rural development programs.

Numerous initiatives were taken in the year under review to further improve this vital sector.

#### **(a) Agriculture – General**

- As a follow up of the 80<sup>th</sup> session of the National Assembly resolution, plot demonstrations using improved techniques were carried out by the National Plant Protection Centre (NPPC) to

control and manage chilli blight. The NPPC organized field days to disseminate the techniques to farmers.

- As resolved by the 81<sup>st</sup> session of the Assembly, the Department of Forest has been arranging allotment of timber for the construction and renovation of community schools and out-reach clinics on the basis of Kidu rate on rural timber that had already been approved for Lhakhangs and Goendeys.

### **(b) Marketing**

- In 2003-2004, Bhutan exported 3,816 tonnes of Apple, 19,734 tonnes of Orange, 1,783 tonnes of vegetables, 20,335 tonnes of potatoes and 477 tonnes of pulses to India and Bangladesh, earning approximately Nu. 269 million.
- The Agricultural Marketing Section in the Agriculture Ministry was instituted as a project to help focus and plan marketing activities, and to effectively address problems and constraints faced by farmers.

### **(c) Research and Extension**

- Three promising apple varieties -- Red Spur, Oregon Spur and Red Chief – have been selected for cultivation after intensive testing. Similarly, two promising groundnut varieties -- Kadari and ICGV 87920 -- were tested and promoted.

- About 20 varieties of wheat, 15 varieties of mustard, and several varieties of soyabean, groundnut and mungbean are also being studied.

#### **(d) Arable Agriculture and Horticulture**

- Laboratory surveys and analysis are being carried out to assess the spread of Citrus Greening Disease, one of the most devastating diseases for Citrus fruit trees. A project to “manage and control” citrus greening has been signed.
- The second phase of Medicinal and Aromatic Plants (MAP) project has been signed between the European Community and the royal government. The project, worth Euro 4.4 million, will focus on conservation and cultivation (domestication) of valuable wild MAP species.
- An off-season cold storage for apples has started operating in Paro thus reducing, albeit in small volume, the import of apples. Similarly, locally made storage for maize that can contain insect infestation through humidity and temperature control has been introduced in Pemagatshel and Mongar. Efforts are underway to introduce such storage facility at the household level.

### **(e) Farm Infrastructure**

- Till date, only 90.47 kilometres of farm road has been completed, out of 587 kilometres planned for construction in the 9<sup>th</sup> Plan. The construction of the rest has been hindered by lack of fund.
- Among the infrastructural works completed in 2003-2004 are the National Gene Bank at Serbithang, Food laboratory at Yusipang and twelve RNR Centres. The work in progress include the construction of regional Mithun breeding farm at Zhemgang, Regional Pig and Poultry Breeding Centre at Gelephu and a mushroom cropping house at Semtokha.
- Flood protection works along Mowkhola and Taklai Chu under Gelephu Dungkhang and Kalikhola and Sunkosh rivers under Lhamoy Zingkha Dungkhangs, in Sarpang Dzongkhag, amounting to Nu. 93.394 million were completed.

### **(f) Forestry**

- The erstwhile Social Forestry Section has been upgraded into a division to provide technical backstopping to the Dzongkhags on decentralized forestry activities.
- Under the Tiger Conservation Fund, compensation for livestock depredation by tiger, snow leopard, common leopard and Himalayan black bear has been initiated. During the reporting

period, compensation was given for 43 animals, amounting to Nu. 287,500.

- A botanical park will be established at Lamperi with funding from the World Wildlife Fund for Nature conservation (WWF). Meanwhile, the Royal Government has legalised the harvesting of the Cordyceps by the communities in the high mountain regions with the intention of enhancing the income of the people and with the hope that it will remain a sustainable source.
- The Royal Government has earned Nu. 179 million in revenue from production and sale of timber through the forestry development corporation. The corporation also constructed about 20 kilometres of forestry roads and developed a 122-acre plantation.

#### **(g) Land ownership and Kidu Land Grants**

- The department of survey and land records has completed the compilation of the new sathram in 15 dzongkhags and registered Kidu land grant schemes in five Dzongkhags. The department has also introduced 1: 25,000 scale maps to aid development planning.
- The work to resettle 458 gungs as a part of the national policy to grant land to the landless has been completed under Phase VII. The 458 gungs, 317 of which have already signed the *gyenja*, are

to report to their resettlement areas by June end 2004. An additional 163 gungs are kept as standby under the same phase.

## **(h) Challenges**

We face a number of challenges given the complex nature of the RNR sector.

- The loss of precious agriculture land is a national concern. Over the past seven years, Bhutan has lost 6,236 acres of agricultural land, or, approximately 1,000 acres per year, to urbanization and development. This translates to a loss of 9,000 metric tonnes of cereal production per year. The dilemma, therefore, is how to ensure national food self-sufficiency against competing and equally justifiable demands.
- Rural-urban migration is another serious threat. A recent study revealed that 47 percent of rural households have lost one or more household members, mostly between the active age group of 17-59, to rural-urban migration. Today more than 70 percent of urban dwellers are migrants. If the present scenario persists soon there will be few or no able-bodied persons left in the villages, thus aggravating the already dire farm labour shortage.
- The most vulnerable ecological and socio-economic systems are those with the greatest sensitivity to climate change and the least ability to adapt. In Bhutan, the domestic food security will be threatened as water resources are affected due to changes in

precipitation and evaporation patterns. Economic activities, human settlement and human health will experience many direct and indirect effects. Bhutan is most vulnerable as a result of its geophysical location and near absolute dependence on environmental goods and services. The challenge for agriculture development in Bhutan in the context of climate change is of mixed expectations. The production belt will shift toward north and along the elevation gradient. However, other constraints may limit the production acreage while some important temperate crops may be abandoned as their suitability diminishes. The major blow will be on the country's biodiversity. On the other hand, productivity of some major food crops like rice may benefit from elevated carbon dioxide concentration but such positive effects could be offset by changes in temperature, precipitation, pests and nutrient availability.

- Other major challenges facing the RNR sector include Bhutan's vulnerability to landslides and flash floods given its location within a young unstable mountain system; crop and livestock damage by wild animals; linking rural to urban markets; and conflict between conservation and farming. Our farmers are indeed paying a heavy price for our success in environmental conservation and sustainable development. The international community must recognize their sacrifice and extend necessary support to make up for the opportunities they are foregoing.

## **4. ENERGY**

Much like the roads, we have come to appreciate that electricity too is a powerful engine of growth and development. It brings within possibility a whole range of development activities and benefits that were hitherto not available and imaginable especially in the villages where the vast majority of our people live. We acknowledge that the demand from the public although very high is fully justified. For this reason, rural electrification in particular has become a major commitment of the Royal Government as spelt out in the 9<sup>th</sup> Five Year Plan.

Following are the highlights of activities undertaken by the Royal Government during the past financial year to light up homes and to make life a little easier and comfortable especially in the rural areas:

### **(a) Domestic electrification**

- A total of 2,623 households have been electrified during 2003-2004 as spill-over of the rural electrification programme intended for implementation during the Eighth Plan. So far in the 9th Plan, 135 households have been electrified out of a target of 15,000 households. The fund to electrify 12,364 rural households, amounting to Nu. 992 million has already been mobilized.
- An Electricity Tariff Review Committee has been formed as an interim measure to determine power tariff. In so doing, every consideration shall be given to ensure that the small and low

voltage consumers who form the majority continue to enjoy cheap electricity.

- A Dzongkhag-wise rural electrification Master Plan is being developed under technical assistance from Japan International Cooperation Agency (JICA).

### **(b) Institutional strengthening**

Since its formation in July 2002, Bhutan Power Corporation (BPC) has been carrying out all the power transmission and distribution projects including rural electrification works on behalf of the Department of Energy.

- The Power Transmission Eastern Grid Project has been completed while the 132/33/11 kV Nganglam substation is almost ready for commissioning.
- More than Nu 291 million has been spent so far to evacuate 64 MW power from the Basochhu project through the 220 kV Semtokha–Rurichhu Transmission line and associated substations. About 33 per cent of the line works was carried out during 2003.
- BPC continues to build more infrastructures so that electricity services can reach and benefit a larger section of the society.

### **(c) Hydropower generation**

The Royal Government continues to harness the immense hydropower potential that Bhutan is endowed with. The sector today contributes nearly 40 percent of the domestic revenue. The developments in the sector are:

- i. **Tala Hydroelectricity Project Authority (THPA):** About 80 per cent of dam works, 85 per cent of the head race tunnel construction and about 85 per cent of the transmission line work for the Tala Hydroelectricity Project have been completed. The project is due to be commissioned by 2005–2006. The total cost of the project is now estimated to be around Nu.40,000 million, up from an estimate of Nu.14, 080 million in 1993. The project has deployed a workforce of 10,009 of whom 1,565 are Bhutanese and 8,494 are Indians.
- ii. **Chhukha Hydro Power Corporation Limited (CHPCL):** Chhukha Hydro Power Corporation Limited (CHPCL) generated record 1,956.739 million units of energy in 2003. Out of the total revenue earned of Nu. 2,448.235 million, Nu. 1,871.473 million has been remitted to the royal government. Among the activities in the past year, a Detailed Project Report (DPR) for the diversion of two nearby streams into the project's dam & surge shaft to augment generation during the lean season has been carried out besides a study to renovate and modernize the machinery at the project.

- iii. ***Kurichhu Hydro Power Corporation Limited (KHPCL):*** As of January 2004, after 26 months of operation, Kurichhu Hydro Power Corporation Limited (KHPCL) had generated 560.224 million units of energy and earned Nu. 853.3 million, including Nu. 841 million from export to India. The project generated only 278.175 million units of energy in 2003, as against the capacity of 400 million units, as a result of numerous shutdowns required for carrying out tree cutting works along the transmission line from Gyelpoizhing to Gelephu. The evacuation of full 60 MW power from the project, therefore, started only from October 2003 after the commissioning of the second 50 MVA transformer at Salakati substation and the up-gradation of the substations at Tingtibi and Gelephu.
- iv. ***Basochhu Hydro Power Corporation:*** The Upper Stage of the Basochu Project, then called the Basochu Project Authority (BPA), was corporatised and renamed as Basochhu Hydro Power Corporation from January 2003. In 2003 the project generated 120 million units of power and earned Nu. 107 million. The construction for Basochu Lower Stage Project began in March 2002 and is scheduled for completion in March 2005. The work is presently ahead of schedule. As of April this year, about 87 per cent of civil works, 62 per cent of mechanical works and 64 per cent of electrical works has been completed. About Nu. 1065 million out of the estimated project cost of Nu. 1,422.00 million has been spent.
- v. ***Punatsangchhu (I) Hydroelectricity Project:*** The Memorandum of Understanding to prepare the Detailed Project Report (DPR) for

the 870 MW Punatsangchhu (I) Hydroelectricity Project was signed between the royal government and the Government of India in September 2003 during the state visit of His Majesty the King to New Delhi. WAPCOS (India) Ltd began the DPR study in March 2004.

#### **(d) Challenges**

Daunting challenges still remain, especially in rural electrification. With about 45,000 rural households yet to receive electricity, Bhutan would have to spend approximately Nu 4.5 billion to fulfill its vision of “Electricity of All” by 2020. Mobilizing this additional financial requirement would be extremely difficult especially if domestic tariff levels are not revised. Currently, the Royal Government bears on average a loss of about Nu 3.00 for every unit of power supplied to low voltage consumers. While the power tariff rate for 0-80 units is only Nu.0.60 in Bhutan, the rates in India and Nepal for 0-100 units and 0-20 units are Nu.1.38 and Nu.2.43 respectively, which indicates a very low tariff rates being levied by the Royal Government.

### **5. TRADE, COMMERCE AND INDUSTRIES**

The second year of the 9<sup>th</sup> plan witnessed a renewed emphasis on resource mobilization and creation of necessary physical and policy environment for the development of trade and industry. All initiatives being undertaken by the Ministry of Trade and Industry are in essence geared towards developing the private sector. The sector has always been accorded top priority by the Royal Government, as it is private economic activity that must take the country forward towards prosperity.

Bearing this in mind, the Royal Government has made some visible progress during the past year. These are:

**(a) Trade**

- On the request of the Royal Government, Bangladesh has reduced customs duty on 18 Bhutanese products from 50 percent to 15 percent. Bangladesh has also waived off value added tax (VAT), supplementary duty, advanced income tax and development surcharge on these 18 products. The reduction of the customs duty and the waiver of other charges have especially benefited apple and orange exporters whose export earning increased 66 percent from Nu. 171.33 million in 2002-2003 to Nu. 284.45 million in 2003-04.
- Bhutan's total export in 2003 amounted to Nu 5,347 million while its total import stood at Nu 10,194 million. India was the biggest trading partner by far, with an export of Nu 5,188 million and import of Nu 9,074 million.
- In addition to the bilateral and regional initiatives to expand our economic relationship, Bhutan has also begun the process of accession to the World Trade Organization.
- During the XII SAARC Summit, Bhutan signed the Framework Agreement on South Asia Free Trade Area (SAFTA). The SAFTA will open up new markets for our products as well as help to pave

the way for deeper economic integration with the countries in the region.

- With the aim of developing economic relations with the South East Asian countries and to deepen relations with the South Asian countries, Bhutan joined the BIMST-EC (Bangladesh, India, Myanmar-Sri Lanka, Thailand- Economic Cooperation) this year. Membership in this regional grouping will enable Bhutan to diversify its export markets and link transport infrastructure while harnessing other potential benefits of expanding economic relations beyond the SAARC region. Bhutan will participate in the First BIMST-EC Summit to be held in Bangkok, Thailand, from 30-31 July 2004.
- A total of 1,848-trade licenses were issued in the financial year 2003-2004, raising the total trade licenses issued in the country to 17,725.

## **(b) Industry**

- A feasibility study to establish a dry port at Phuentsholing was carried out under the technical assistance of the Asian Development Bank (ADB). The project will build infrastructure that will enable an efficient flow of export and import, reduce transport cost, facilitate the movement of containerised cargo and reduce the documentation process at Kolkata.
- Following the approval of Foreign Direct Investment Policy 2002 by the Cabinet, the Department of Industries has drafted Foreign

Direct Investment Rules and Regulations and submitted it to a review committee. Also being reviewed is the procedure for allocation of foreign exchange for import of major raw materials from third countries.

- The Department of Industries has completed the feasibility studies for three projects -- Dolomite Bricks, Silica Bricks and Silicon Metal and approved 9 medium and large industrial projects and 74 small and cottage projects.
- The revenue contribution from the manufacturing sector to the national treasury increased 20 percent in the past financial year compared with the previous year.
- The industrial sector received a boost with the establishment of the Pasakha Industrial Estate. About 42 industrial projects to be established at the estate are at various stages of approval process.
- A task force was formed to draw up a short-term plan to address the employment of job seekers during the Ninth Plan period. With an aim to enable those with vocational skills to start self-employment ventures, the ministry, under its Small Business Resource Centre (SBRC), has entered into agreements with the Bank of Bhutan and the Bhutan National Bank to create a Credit Guarantee Scheme (CGS). A salient feature of this scheme is that in case of default by the borrowers, the final loss will be shared at a ratio of 60:40 between the Royal Government and the relevant Banks.

- A total of 1,301 industrial licenses were issued in the financial year 2003-2004 raising the total number of licenses issued in the sector to 14,301.

### **(c) Public Enterprises /corporations**

I am happy to report that most of the government owned public enterprises and corporations continue to perform well. This is in sharp contrast to most developing countries where state owned enterprises are a major source of problem- more liability than revenue earning assets.

### **(d) Tourism**

A total of 6,261 tourists visited Bhutan in 2003. Out of US\$ 8.32 million in revenue generated by the industry, the government earned US\$ 2.88 million as royalty. There are currently 132 tour operators in the country.

A number of activities and initiatives were undertaken to ensure that tourism development is carried out in a planned and sustainable manner. It is the policy of the Royal Government to make Bhutan a safe, charmingly attractive and a high quality destination. In so doing, the Royal Government shall faithfully adhere to the wise policy of “high quality-low volume” tourism.

## **(e) Challenges**

There are those who understandably, feel that the government should be more supportive and liberal. In fact, much has been done to make it easier for the entrepreneur by simplifying procedures and liberalizing licensing. But at the same time, in the interest of profit for the entrepreneur and in the interest of revenue generation, we cannot sacrifice what we have followed so doggedly and wisely in the past. The long-term interests of the country must be kept in mind. These include measures to ensure that the uncontrollable and cleverly concealed felony of fronting does not spread; that environmentally hazardous industries do not enter Bhutan; that activities which are lucrative in the short term such as those evading taxes in India are not set up in our country at the cost of our excellent relations with India and risk market barriers against legitimate products from Bhutan; that undue dependence on foreign work force do not become necessary.

Some of the other concerns are the growing exposure of our economy to external shocks. The other more disconcerting observation is the need for greater level of ethics in the private sector. This has, perhaps, to do with the lack of laws or traditions on the subject of business ethics. As a result, some of the worst practices that prevail in our neighbouring countries appear to be creeping in. This is a cause for major concern, as it will have a pervasive impact on our entire society as the private sector grows. Already, some of the civil servants are colluding with the private sector in ways that are extremely difficult to detect if not altogether impossible. Even as the RAA and other concerned organizations strengthen their vigil and efforts to root out corruption in government, the

private sector and government must work together to prevent this disease from spreading or taking deep root.

## **6. ROADS AND BRIDGES**

### **(a) Roads**

A reliable and efficient road network is the key to development for a landlocked country like Bhutan. The Royal Government, therefore, has always accorded high priority to road construction and maintenance. In the 9<sup>th</sup> Plan alone 77 kilometres of national highways and 123 kilometres of feeder roads are planned for construction.

- The Department of Roads, in keeping with the resolution of the 81<sup>st</sup> session of the National Assembly, has carried out the geo-technical studies for the Samtse–Phuntsholing Highway. The government has approved the incorporation of the construction of this highway in the 9th Plan.
- The first 25 kilometres of the 64-kilometre Gyelpoishing-Nganglam road is to be constructed during the Ninth Plan with a fund of Nu 203.9 million from the Government of India. The environment and social impact of the entire stretch has been carried out.
- A feasibility study has been carried out for the Damji–Gasa road. The study found that the proposed road would be 23 kilometres long and would require the construction of two major bridges over

the Zegachhu and Samechu. A socio-economic study shall be carried out very shortly.

- A multi–sectoral team has carried out a thorough verification of Nyes falling within the Nangar–Ura road alignment. The study has revealed that only one Nye, just before the terminal point at Ura, is affected. The road alignment at the area is being revised to avoid the Nye.
- Project Dantak and the Department of Roads are jointly carrying out a detailed survey to double-lane the Babesa-Phuentsholing highway under the Government of India assistance of Nu 2,325 million.
- 10 different contractors have been awarded works worth Nu 575 million under the Road Improvement Project, which is jointly funded by the Asian Development Bank and the royal government in the ratio of 65 percent and 35 percent respectively. About 308 kilometres of the East-West Highway is undergoing surface dressing, including slope protection and drainage works, under the project.
- The construction of rural access roads, under the Rural Access Project with World Bank assistance, is in advanced stage of progress: Dakpai-Buli road, Lhuntse-Dungkar road, Bartsham-Ramjar road, Bartsham-Bidung road, Gomkora-Tomzhangtsen road, and Mukuzor-Tshogonpa road.

- In April 2004, Bhutan along with 22 other countries, signed the Intergovernmental Agreement on the Asian Highway Network during the Sixtieth Session of UNESCAP in Shanghai. The Asian Highway Network spans 140,000 kms and extends to 32 Asian countries. It is expected to link the capital cities and other major commercial centres and open opportunities for landlocked central Asian countries to reach the European market.

### **(b) Bridges**

- Five new bridges-- Wacheyzam in Wangduephodrang, Mangdezam in Zhemgang, Bjeezam in Trongsa, Chamkharzam in Bumthang and Kurizam in Mongar--built with technical and financial assistance from the government of Japan were inaugurated in October 2003, nine months ahead of schedule.
- The construction of three highway bridges at Wakleytar, Sunkosh and Tangmachu is under active consideration by the Japanese Government for its assistance.

### **(c) Challenges**

- Road is undeniably the key to development but constructing and maintaining it is extremely difficult and costly given Bhutan's fragile mountainous terrain and scattered villages. It is inevitable that roads, even after construction, have to be maintained to keep them traffic worthy. Therefore, in the foreseeable future, road

maintenance, especially in the rural areas, is likely to be the greatest challenge facing both the government and the beneficiary communities. Besides, if 50% of Bhutanese population migrates to the urban areas, as is envisaged in the Vision 2020 document, economic viability and sustainability of road construction and maintenance in rural areas need to be studied.

- Most of Bhutan's roads, especially national highways, were built in the early 1960s with an aim to ensure accessibility to as many settlements as possible enroute. The priorities have now changed: we need shorter, wider and safer routes. For example, today about 900 vehicles, excluding two-wheelers, ply between Thimphu and Semtokha every day. Therefore, while there is a pressing need to widen and realign our highways, extremely high costs, potential environmental damages, acquisition of private lands and properties and illegal roadside constructions have emerged as major challenges that the government has to grapple with. Similarly, most of the existing bridges have to be replaced at tremendous costs to accommodate increased traffic and load.
- It is estimated that by the end of the Ninth Plan, about 900 kilometres of road (40% of the total) will have to be rehabilitated. But there is neither the capacity within the Department of Roads nor in the private construction industry to undertake this massive task unless the road resurfacing work is mechanized. Our private sector construction industry's capacity to take up works related to construction, maintenance, quality assurance and quality control is still very limited.

## 7. URBAN DEVELOPMENT AND HOUSING

### (a) Urban development

- The Thimphu Structure Plan has been approved and 10 Local Area Plans have been prepared and are being implemented. In this regard, the Royal Government would like to express its appreciation to the landholders for their wisdom and cooperation in accepting the principle of land pooling which will make possible the realization of a beautiful city for the benefit of all residents and visitors.
- With about 60 percent of the work completed, the Nu. 50 million water treatment plant for **Thimphu** is expected to be ready by September this year. A similar plant in **Mongar** is also scheduled for completion this year. Likewise, the rehabilitation of water supply in **Phuentsholing** and the water supply to **Trashigang** town is in the final stage of completion.
- Ten dzongkhag towns are currently being developed under the World Bank funding (**Paro, Wangdue, Trongsa, Zhemgang, Tingtibhi, Bumthang, Lhuentse, Trashiyangtse, Duksum, and Rangjung**).
- The urban development plans for the following towns have been approved or are under preparation:

- i. **Trashigang:** A draft plan for Trashigang town has been presented to the public. The Melphey area, above the present town, is being surveyed as part of the extended municipal area.
- ii. **Rangjung:** Plots have been demarcated and the road construction has begun. Between 50 to 70 percent of stone soling works have been completed. An access road to the crematorium has also been approved.
- iii. **Mongar:** The local area plans for Mongar town is currently under review.
- iv. **Phaling:** Preliminary plotline has been fixed as per the approved layout plan and the excavation work for site development has begun.
- v. **Autsho and Gorgan:** Plot layout and other infrastructure plans have been prepared, approved and released to Dzongkhag for implementation.
- vi. **Zhemgang:** Cadastral survey completed in December 2003 and structure plan prepared and approved for implementation.
- vii. **Tshongdu:** Revised 3<sup>rd</sup> phase plan approved and released to Dzongkhag for implementation. 57 plots have been approved for allotment.

- viii. **Gedu:** The layout plans for Laptshakha has been approved and plans released to Dzongkhag for implementation. Allotment of plots has completed.
- ix. **Dagana:** Eight plots were approved and allotted in addition to 22 allotted during the first phase.
- x. **Gelephu:** The preparation of the urban development plans for Gelephu town is underway.
- xi. **Samtse and Damphu:** The contract to prepare urban development plans for these two towns has been signed and plans are under preparation.

## **(b) Housing**

- 468 low cost apartments are being built in Phase II in Chang Jiji to mitigate the housing shortage in Thimphu.
- An additional 32 units (pilot housing) are being constructed in the capital through a separate DANIDA fund.
- Seven Dzongkhags have been identified for low-income housing (funded by the Government of India) for which construction will begin by the next financial year.

### **(c) Challenges**

- i. If indeed 50% of Bhutanese population live in urban areas by 2020, it is unimaginable how our government can cope with such growth. The demand for urban services and infrastructure alone could drain away whatever little resources we have.
- ii. Such bleak forecasts may not be unfounded if we look at the present trends. Most of our towns have grown on an ad hoc basis, without proper guidelines and appropriate legal instruments. The Land Act 1979 does not cater to the present-day needs of urban land administration; it will be a challenge to adopt a separate urban land legislation catering to urban needs and priorities. We have already learned that town redevelopment is costly and land acquisition nightmarish, to say the least. Furthermore, housing is short even now in most of our urban centres despite the concerted efforts of the government to mitigate the problem.
- iii. We also face the task of making urban services sustainable in the long run. While we try to recover costs from end users by levying service charges we also have to bear in mind the paying capacity of our people in the lower income bracket.
- iv. The biggest challenge confronting the urban sector is land use. The limited urban land we have at our disposal is required by all sectors for development purposes. While there is growing competition for land for agriculture, institutional development and industrial purposes, the pressure from the expanding urban population is mounting to provide land for infrastructure, housing,

recreation and open spaces etc. Already as I reported earlier, the shrinkage of Agricultural land is a worrying matter.

Other serious questions are how do we take care of the rising problem of waste disposal, the need for efficient sewage systems, and increasing urban traffic in our narrow valleys and fragile environment. There is also the question of rising crime.

## **8. INFORMATION AND COMMUNICATIONS**

### **(a) Telecommunications**

- A cellular mobile service was launched on November 11, 2003 covering Thimphu, Phuentsholing and Paro towns, including 70 percent of the highways connecting these towns. The service will be expanded to Wangduephodrang, Punakha, Gelephu and Samdrup Jongkhar towns by the end of September 2004.
- The project to replace the ground wire of the power transmission line between Thimphu-Paro and Thimphu-Phuentsholing is being undertaken by Bhutan Telecom using the existing transmission infrastructure of Bhutan Power Corporation. The Optical Power Ground Wire project will have facilities for dropping transmission capacities at five locations along the Thimphu-Phuentsholing highway. This project is expected to be complete by end of June 2004.

- The funding for the implementation of the Rural Telecommunications Project has been secured and the tendering process will be completed by the end of July 2004. After completion, all geogs in the country will have access to telecommunications.
- A private enterprise, DrukCom, has been licensed in January this year for provision of VSAT broadband services.
- The installation of public access telephones along the highways has been undertaken. This service has been found to be very useful for the public of the localities as well as the travellers.

#### **(b) Air Services**

- The EU-Asia Civil Aviation Project, a cooperative programme between the European Commission, European Aerospace Industry and 15 member countries in the Asian region of which Bhutan is a member participant, entered the implementation phase in September 2003. The main objective of the project is to enhance technical capability of the Asian states in the field of airworthiness, flight operations and air traffic management. Bhutan has already benefited by participating in various training courses. Bhutan has also availed several training courses under COSCAP-SA, a cooperative body comprising of seven South Asian states for the promotion of Operational Safety and Continuing Airworthiness.

- Feasibility studies for domestic airports in Yonphula, Phuntsholing, and Bumthang and heliports in Thimphu, Trashigang, Bumthang, Phuntsholing and Paro have been carried out. The study was conducted within the framework of the Civil Aviation Master Plan Project.
- The security at Paro airport has been strengthened with the purchase of advanced communication sets and construction of watchtowers and sentry posts. The existing perimeter fencing has also been reinforced.
- An Air Services Agreement drawn between Bhutan and Nepal in February this year has increased the frequency of Druk Air flights to Kathmandu from two to seven per week. The agreement also grants fifth freedom rights from Kathmandu to Mumbai, Chennai and Gaya.
- By the end of October this year, Druk Air will have inducted a new AIRBUS 319 into its fleet. The second aircraft of the same make will enter service in December of this year. This will enhance the reach of the airline and cater to the expansion of the tourism sector.

### **(c) Information and Media**

In keeping with the policy and development objectives of the royal government and recognizing the vital importance of information and media in the development of the country, the Department of Information

and Media was created in July 2003 within the Ministry of Information and Communications.

The department is in the process of formulating its mandate, roles and responsibilities in tune with the Bhutan Information, Communications and Media Act and without overlapping with the roles and functions already being taken up by other agencies like the Department of Information Technology and Bhutan Communications Authority. It is also developing a strategic plan to address the needs for the professional growth of the information and media sector.

Some of the major developments with respect to information technology are:

- The government has approved an ICT (Information Communication Technology) White Paper, which provides a broad policy framework for the country's ICT sector. As a follow up to the ICT White Paper, Bhutan ICT Policy and Strategy (BIPS) have been formulated with inputs from both government and non-government sectors.
- The government has approved an ICT unit in each ministry to streamline and improve ICT usage as well as implement ICT programmes. This is expected to have a vital impact on the country's overall ICT development.
- Supported by IDRC, Canada, a Dzongkha project has been started to enable computing in Dzongkha on the Linux Operating System platform.

## **9. EMPLOYMENT**

With thousands of Bhutanese entering the job market each year, the Royal Government faces an employment dilemma like never before. Some 50,000 Bhutanese youth are expected to be looking for jobs in the 9<sup>th</sup> Plan alone. The problem is in fact a little tricky: on the one hand there is no dearth of jobs but, on the other, we do not have people with the required skills to take up these jobs. Overcoming this “mismatch” has, therefore, become a serious development challenge.

The government has also realized that the private sector must take up the mantle of future job creation. But in order for that to happen the sector must first develop into a strong and healthy entity.

The government, therefore, established a new ministry starting 2003 to grapple with these daunting challenges.

The Ministry of Labour and Human Resources has so far signed Memorandum of Understanding (MoU) with 70 different companies and private enterprises to ensure employment for Bhutanese nationals, especially youth.

### **(a) Policy and legislative interventions**

- The Royal Government is reviewing a draft labour administration policy prepared by the department of employment and labour. A Labour Act, which will govern conditions of employment and

improve employment and working conditions, has also been drafted.

- As a policy measure to create immediate employment opportunities for Bhutanese nationals, the Ministry of Labour and Human Resources has laid down restrictions on the import of foreign workers for jobs, which Bhutanese can perform.

### **(b) Awareness**

- The Royal Government has long been aware of the need to provide information to senior school students to enable them to make more informed decisions concerning their career and occupation choices. With a view to addressing this ‘information gap’ the Ministry of Labour and Human Resources published a Career and Occupation Dictionary in 2004. The dictionary provides information on many different careers and occupations, as well as information on the education and training qualifications that are needed to work in a particular career or occupation.
- A Directory of Education and Training Institutions, 2004 was also published. The directory presents information on more than 40 training providers throughout the Kingdom.
- The Department of Employment has introduced “Job Fair” as an annual event since 2003. The objective of the fair is to bridge the information gap between the job seekers and the employers, thus

contributing toward the curbing of unemployment issue in the country.

- The department has also introduced “Youth Exchange Programme” with an objective to expose Bhutanese youth to the outside world and learn work ethics and appreciate dignity of labour. So far, 18 young Bhutanese have availed this opportunity.

### **(c) Skills Development**

- Several measures have been taken to design skills training programmes that respond to the demand in the market. This will reduce the mismatch of skills and therefore unemployment. Meanwhile, an annual “Skills Competition” has been introduced to give recognition to the skilled workers.
- The Bhutan Vocational Qualification Authority (BVQA) has been established under the Ministry of Labour and Human Resources to ensure quality of skills in training programmes. In 2003, 515 students from Class X and below have been enrolled in various in-country vocational training programmes.

### **(d) Challenges**

While unemployment was never a problem in the past, we must now prepare to face it as a continuous problem as the number of educated youth entering the job market rise steadily. The challenge will be not so

much to eliminate unemployment but to keep the number down to acceptable numbers.

Given the major concerns that all the honourable members have on the subject, a special report is scheduled to be submitted by the Ministry of Labour and Human Resources.

## II. CONSERVATION OF OUR FRAGILE ENVIRONMENT

**Environmental conservation is the second pillar of GNH.** Because of its importance and on the basis of the express wish of the Great Assembly, the Deputy Minister for environment is submitting a separate report on the health of our environment. My report on the subject shall, therefore, be brief.

Under the personal initiatives taken by His Majesty the King, and given His continued guidance, Bhutan has developed one of the most stringent set of policies and programmes for the environment sector. Given the extremely fragile nature of our environment, and the importance of maintaining harmony between man and nature, it is imperative that we continue to raise the standards of our conservation practices rather than yield to the pressures arising from urbanization, industrialization and population growth. Our development process must continue to be guided by the strictest environmental ethics foregoing short-term gains while ensuring sustainability.

The Royal Government is constantly mindful of the spectre of a Himalayan desert with all the disastrous consequences not only for the Bhutanese who could become environmental refugees but for the Indian region to the south of Bhutan and much of Bangladesh. Because environment has no boundary in a world where the general environmental health is deteriorating, and because of the value of Bhutan's amazing bio-diversity to the world, our successes and commitment are greatly appreciated the world over. In fact, one of the main reasons for the very favourable image and the resultant generous development assistance we receive is attributable to the positive

leadership role that Bhutan is playing in conserving the health of our planet.

I am pleased to submit that the Royal Government continues to regard environmental conservation as having a central and pivotal role in our development. For this reason, the National Environment Commission has been maintained as a separate and autonomous authority favoured with the facility of full cooperation and support from all the ministries, and the private sector. In this regard, the Royal Government welcomes the support of and the very positive attitude demonstrated by the gups and the Chimis.

Following are some of the major activities undertaken by the Royal Government in the field of environment:

## **1. Compliance**

- In implementing the Environmental Assessment Act 2000 and supporting regulations, the NEC has reviewed 174 project proposals from both the government and private sectors, and issued 130 environmental clearances for infrastructure development. All major industries and mines have been surveyed to see whether they complied with environmental guidelines. The NEC has also developed two new EIA (Environmental Impact Assessment) guidelines for the urban and tourism sectors and revised six existing EIA guidelines in areas of forestry, industry, roads, hydropower, mining and power transmission.

- The changing pattern of land use in Darla Gewog owing to the construction of Tala hydroelectric project has been assessed. The project has acquired 1,589 acres of land in the gewog, including 646 acres of forest. 19,649 trees were reported felled in the acquired land in 2000 but compensatory plantation work, worth Nu 700,000, was carried out along the road and erosion sites. The project has also absorbed 809 acres of land in drawing transmission lines to India, about five acres in pothead yard construction, and 12.6 acres in constructing a road and sub-station in addition to 25 acres submerged by the dam. The total land impacted by the project, as of August 2003, was 2440.67 acres. The NEC will try to obtain detailed baseline information in order to assess the impact of the project on the natural resource base.
- The NEC, together with the Road Safety and Transport Authority (RSTA), has initiated emission test for vehicles beginning January 2003. The RSTA continues to monitor vehicle emissions during annual vehicle fitness tests with equipment provided by the NEC.
- As of date the country has signed 10 multilateral environmental agreements and participated actively in the Convention on Biological Diversity (CBD) and the United Nations Framework Convention on Climate Change (UNFCCC). Under the umbrella of UNFCCC, the NEC has initiated two pilot projects in energy and forestry sectors enabling the country to assess costs and benefits of carbon trade.

## **2. Studies and Research**

- An environmental information management system (EIMS) framework has been designed for strategic environmental management and to enable the government to identify problems, set priorities, targets and standards. EIMS will also serve as a clearinghouse for environmental information.
- The NEC has collected water quality sampling data from Bhutan's major rivers and monitored effluents from wastewater treatment plants in Thimphu and Phuentsholing as sources for drinking water. Preliminary results indicate that sampling points near urban centres and settlements have slightly higher values but the quality is still within internationally accepted levels.
- Test trials of the quality of air determined on the content of Suspended Particulate Matter, Carbon Monoxide and Nitrogen Dioxide showed slightly higher levels of particulate emissions in the urban centres. But, on an average, air quality in the urban centres is within acceptable levels with dust, vehicle emissions and domestic burning being main sources of air pollution.

## **3. Awareness**

- The NEC has conducted 5 regional environmental awareness and training workshops for all Gups and Chimis for 20 Dzongkhags between November 2003 and March 2004. These workshops were aimed at creating environmental awareness and training members in implementing the environmental provisions of the

DYT and GYT chathrims, the EA Act 2000, and the EA Process. Discussions were held during these workshops to establish Environmental Committees in each of the 20 Dzongkhags to expedite and monitor the EA process.

#### **4. Projects**

- During 2004, Each Dzongkhag will henceforth receive Nu. 200,000 to implement micro projects relating to protection of watersheds, drinking water sources, afforestation, construction of solid waste disposal sites, prevention of land erosion, and protection of holy sites. In addition, a Clean Dzongkhag Award, worth Nu 500,000, has been instituted from June 2004.

#### **5. Challenges**

The challenges are many and diverse. As reported earlier, environmental conservation is central to Bhutan's development process in all sectors. This means that environmental considerations play a determining role in the way we pursue our development. Lucrative industrial and commercial projects have to be abandoned, farmers have to forego the opportunity to develop productive farmlands in order to maintain and expand green cover to an optimal level. Urban growth, solid waste disposal, air pollution, land degradation, pollution arising from irresponsible actions taken elsewhere in the neighbourhood, global warming, ozone depletion etc are some of the many challenges we face. While some are within our control, many are external to us.

The silver lining in the clouds is that the whole world is aware of the problem and more and more legally or morally binding international instruments are being put into place to protect the environment. There is also the vast potential for profit for Bhutan as those countries and multinational corporations, which emit excessive carbon dioxide leading to global warming, will be compelled legally or morally to buy carbon sinks from those countries that sequester more than their share of permissible carbon emission. The mechanism and terms for such trade is being worked out. In this regard, the Royal Government has already approved a pilot project.

### **III. PRESERVATION AND PROMOTION OF CULTURE**

**This comprises the third pillar of GNH.** It is essential for the functioning of a harmonious and progressive society. The Royal Government's determination to erect and strengthen the cultural pillar to hold the architecture of our nation's development process is particularly significant. Normally, culture is relegated to lesser importance in other countries. Whereas developed countries are confronted with serious and threatening social and political challenges on account of erosion of their value systems, the developing and poor countries sadly, find little time and resources for it.

The essence of the philosophy of GNH is that development can achieve its true and meaningful goal of enabling the pursuit of happiness by maintaining a balance between material and spiritual development. That is to say development must not only lead to physical and economic well-being but ensure emotional and spiritual comfort and advancement as well. Taken in its broadest context, the Royal Government has pursued the strengthening of the cultural pillar under various programme elements that are implemented separately or through collaboration by virtually all the ministries and agencies in both the public and private sectors. I shall endeavour to submit a status report on each of the seven elements.

#### **1. National identity**

The Royal Government has always been guided by the policy of preserving and promoting the diversity of our cultural heritage, which exist among various sections of our society and as defined by geography, religion and ethnicity. Efforts continue to be made on this front, especially

with respect to the more vulnerable sections such as those of the high mountainous regions and the Taba Damtoeps. It is a matter of satisfaction for us to note that the national identity remains resiliently strong against the winds of change brought on by the various forces of globalisation, not least of these being television. Despite various perceptions, the sense of pride in being Bhutanese is clearly growing among our citizens. This pertains equally to our dress and language. Aside from the inherent desire to preserve and promote our identity, we are becoming aware of the admiration and envy with which even the rich and powerful countries view Bhutan's survival as a unique identity.

## **2. Religion**

The spiritual inclination of the people in general is quite in proportion to what is desired as per the philosophy of GNH. In keeping with the traditions of Buddhism and Hinduism, practice remains largely private. There is nevertheless, a highly visible demonstration of the desire to engage in spiritual activities and learning among the old and young, the educated and the simple folk, the rich as well as the poor. In the meanwhile, the number of entrants to the monasteries, shedras and drubdeys continues to rise, while there is no dearth of initiatives to build new temples and other religious structures. Likewise, the past year witnessed many initiation and transmission events where extremely large numbers of devotees took part. Other religious activities such as retreats, moenlam chhemos etc have taken place in larger numbers as compared to the past.

The Royal Government would like to take this opportunity to thank the Central Monastic body for their tireless contribution to the spiritual

nourishment of the people under the most revered guidance of His Holiness the Je Khenpo, supported by the most able Four Masters. We are deeply indebted to them for their selfless efforts in enriching the religious treasures in the form of Ku-Sung-Thug-Ten. Thanks are also due to other lams, lopens, goendeys and dratsang as well as the gurus and pujaris for their most valuable service to the people.

The Royal Government would like to appeal to the people that while it appreciates their generosity towards building new religious structures, the need is far greater for restoration and maintenance of the old, which were built by virtuous people in the past and house precious relics and scriptures. Surely, the benefit to all sentient beings and to oneself in preserving the old is far greater than erecting new monuments, which add to the existing burden on society. We must realize that the burden is already beyond the combined capacity of the state and the community. There are altogether more than 2,000 temples and monasteries, which are in dire, need of attention. The Royal Government shall continue to pursue this policy and will make available annual lists of projects and structures where private contributions are needed.

### **3. Language and Literature**

Language and literature are at the core of a nation's cultural heritage and identity. These must continue to develop in keeping with the changing times.

**(a) National language:**

Dzongkha/Zhungkha continues to receive special attention and efforts are being made not only to popularise it's use but to ensure that it is a relevant and efficient means of communication through continuous development. At the same time, we remain grateful for the wise policy of His Majesty the late King Jigme Dorji Wangchuck to take full advantage of the English language which in fact is the International language – the language of the sciences, technologies, trade and international relations. Some of the achievements of the Dzongkha Development Authority in this regard are the following:

- The Dzongkha Development Authority has coined more than 400 new words and terms in the past year alone in its attempt to standardize the Dzongkha orthography, facilitate translation works and increase the Dzongkha vocabulary.
- About 70 percent of the expected 100,000 main entries for the DDA's Chokey-Dzongkha dictionary have been compiled. When published, the dictionary will be the main reference to all scholarly works related to Chokey and Dzongkha in the country. Likewise the editing works for an English–Dzongkha dictionary with 30,000 entries is underway.
- To promote the use of Dzongkha in official communications, a total of 121 in-service secretarial staff from various government and private sector organizations were trained in Dzongkha grammar, letter writing and Dzongkha computing skills.

## **(b) Literature:**

The soul of a nation can often be fathomed by its literature particularly with respect to how civilized and refined the mind of the people is. Aside from a few minor publications in both English and Dzongkha, there have been no notable achievements. We believe that this is not because of the lack of talent and intellectual capacity. There is, therefore, the need to create conditions that would support the release of such latent energies for furthering the intellectual advancement of our society.

There is growing evidence of the development of the Bhutanese intelligentsia and scholarship. Many Bhutanese have travelled both privately and in official capacity to participate in various international fora on matters concerning human society at highly intellectual gatherings. Bhutan itself was host to several international conferences including a highly successful one on the “Operationalisation of Gross National Happiness”. Sometime this year, the country will host a conference on the Himalayan languages. These are a reflection of Bhutan’s coming of age intellectually, graduating beyond the limitations of a least developed country.

## **4. Art and Architecture**

There is no exaggeration when I submit that Bhutanese art and architecture are on the ascendance and have reached an unprecedented level of development and refinement. This is largely attributable to the many restoration and construction of Dzongs, temples and stupas. It is also on account of the growing prosperity of the people all over the country that has led to construction of new homes and religious activities,

which involve art and architecture. Further, the Royal Government has continuously been raising the standards both formally through such actions as establishment of rules and regulations concerning observation of traditional architectural norms and standards. The impressive structures that have been restored and built in connection with the Punakha and Trongsa Dzong restoration and Taktshang reconstruction are clear evidence of the superlative skills of our numerous artisans and architects of present day Bhutan.

Bhutanese art not only flourishes within the country, but also has become visible and the subject of admiration wherever Mahayana Buddhism has travelled. Bhutanese artists and master carpenters and architects have promoted the image of Bhutan and spread our culture in North and South America, Europe and East Asia. Nearer home, they have built temples and monasteries, statues and murals in Nepal and several Indian states.

Following are some of the notable activities undertaken during the year under review:

- Design, survey, appraisal and approval for restoration, conservation and reconstruction of 51 monasteries in various dzongkhags were completed in the past financial year. A structural inventory of all the monasteries under Gasa Dzongkhag has also been undertaken. Meanwhile, a work plan is being prepared to restore Lingzhi Dzong.
- A detailed survey of Semtokha Dzong has been done followed by preparation of drawings and models for restoration works. This is to be undertaken as a major project and will be spread over

several years. The project aim is to restore the Dzong to its former glory and serve a variety of functions. These will include museum spaces, training, exhibition and sale of various forms of monastic arts and other products. In addition, its historical and cultural role as the first Dzong with its splendid architectural features will be highlighted. In order to further serve the public and to enhance its functional relevance to the community, it will also offer spaces and other facilities for public use and access for spiritual activities.

- Site survey and the designing of an integrated-landscape structure at the Dechenphu Lhakhang are underway. The main objective is to make Dechenphu the subject of a major event in the cultural calendar of Bhutan, to be named Geygnen Chhoepa. It will give the opportunity to project the history of the Wang Valley as well as a more complete celebration of Zhabdrung Ngawang Namgyel's life and contributions to the making of Bhutan as a unique sovereign entity. It is intended that the creative talents of the Dratshang, the professional artists and the community will be fully explored to make the annual event a worthy one.
- The restoration and maintenance of Trongsa Dzong, largely under Austrian funding, is now complete except for minor ongoing activities. The project which was initiated in 1999 covered most sections of the Dzong and includes both structural as well as fine artistic work on shrines and murals.
- I am pleased to submit that the reconstruction of the sacred Taktsang temple, including the restoration and installation of the

*Nangtens*, has been virtually completed. The only remaining items of work are the offering of the *Zungs* which should be completed within the ensuing month, the construction of the *Nangchen Pelchen Singhi* stupa and the construction of a small rest house on the hill facing Taktsang. This will leave us with the less onerous task of choosing the date for the consecration.

## **5. Performing Arts**

The performing arts comprising music, songs and dances particularly in respect of non-monastic arts are gaining in popularity and have continued to benefit from the patronage of people from all sections of life. Of particular significance in regard to its promotion is the substantial boost that these arts have received from the broadcasting services of the national radio and television media and the advent of IT. Theatre too has been growing, especially in the form of motion pictures. During the last year, some 200 songs were recorded and sold to an eager market while 15 full feature films incorporating various themes, some of high cultural value, were made.

While the performing arts have a major contribution to make on our national identity, its potential for negative influence has not been overlooked. In order to encourage and to motivate the production of socially useful films as well as to encourage the growth of a viable and responsible film industry, the Royal Government has held annual film award festivals.

Of particular concern has been the growing tendency to consider what is imitated and 'borrowed' from other cultures, such as tunes of songs,

choreography as 'rigsar'. Most of the so-called modern songs are actually poor mimicry of Nepali and Hindi songs. The extent to which the tradition of Bhutanese music is threatened by an indiscriminating audience and the unethical exploitation of this weakness by the Bhutanese music industry are a very worrying trend. As the Hon'ble members would have noted, the broadcasting of such piracy is no longer done on the national radio. While less may be said about the film industry, it too generally lacks originality and true creativity.

The Royal government would like to pay tribute to those individuals who continue to make notable contribution to the promotion and preservation of the traditional Bhutanese performing arts. A notable contribution is the private effort made by the KMT Press, which on the basis of some extensive research published a book on the tradition of Bhutanese songs. I would also appeal to the talented and gifted to commit themselves to understanding the essence of Bhutanese music and to develop truly modern music within the parameters of what constitutes Bhutanese.

## **6. Dress**

Bhutanese are taking pride in wearing Gho and Kira not only in the country but in their travels outside as well. This is particularly true for official delegations who find it very advantageous in the conduct of their business. It is interesting to note that even as people all over the world, abandon their own way of life and their distinctive identity, they appreciate and support those who chose to stay true to themselves.

Even though there is a huge importation of imitation Bhutanese textile woven outside, the demand in the country for authentic Bhutanese

weaves continues to grow. These seem to satisfy the needs of the low-income earners as well as the survival of our traditional weaving art, which is so very important to our farmers.

Yet another very encouraging development is the increasing appreciation for Bhutanese textile art which infact, had led to the loss of much of our old art pieces. I am pleased to report that under the initiative taken by HM Ashi Sangay Choden Wangchuck, Mr. Frederick Paulsen a philanthropist, bought and returned to Bhutan a huge collection of valuable textile pieces, which were in private hands in the US. These are now in the Textile Museum in Thimphu.

## **7. Diglam Namzha**

In its broadest sense, it means good and conforming behaviour which are of highest importance in society. It has to do with the ethos, social mores and the values which guide us in our daily life and relationship with family, parents, lamas and teachers, elders and superiors. It may be understood to mean conduct by which one is able to live in harmony with the society at large as a productive and responsible member. It includes among others, the importance of upholding and strengthening the tradition of our hallowed extended family structure.

The department of culture continues to take seriously the responsibility of organising Driglam namzha courses especially for the benefit of the growing number of graduates. In this regard, it is interesting to note that this course is extremely popular among the graduates who consider it to be most invaluable and enjoyable year after year. Efforts are being made to make the course more interesting and relevant to the changing times.

While in the past, form was given greater emphasis, it is intended that the essence of the subject will now be given equal importance.

## **8. Sports and Recreation**

To boost sports and recreational activities in the country, a new Department of Youth, Culture and Sports has been established under the Ministry of Education. The new department will work together with the Bhutan Olympic Committee and the 13 autonomous national sports federations in creating opportunities in both modern and traditional sports for Bhutanese youth.

Bhutan followed an active sports calendar in 2003-2004. Numerous regular tournaments were held apart from participation in various international and regional competitions.

- The Bhutanese Taekwondo team brought home six medals, including one gold, from the 9<sup>th</sup> South Asian Games (SAF) held in the Pakistani capital, Islamabad, in April this year. Sonam Dorji won the gold in the middleweight category. The win brought Bhutan's total medal haul in Taekwondo from regional and international meets, since the game was introduced in the country, to 62 medals including 15 gold medals.
- Bhutan also took part in disciplines such as badminton, athletics, table tennis, football and shooting in the SAF Games.
- Bhutan's football team reached the semi-finals of the SAF Games where it lost narrowly against India. Having become a member of

the FIFA and South Asian Cricket Association, the games now enjoy material and technical support from external sources.

- The FIFA Goal Project at Chang Jiji, Thimphu, is scheduled for completion in June 2005. The US\$ 500,000 project, begun in 2002, comprises a training centre, a training field for football, a two-storied 60-bedded hostel for trainees and a Bhutan Football Federation (BFF) office.
- A squad of three Bhutanese archers competed against participants from 10 countries in the four-day annual Asian Grand Prix archery tournament in Bangkok, Thailand. Bhutan today has 23 professional archers, including 10 women, who participate regularly in international competitions.
- The Royal Government has approved the establishment of a weightlifting and body building federation under the umbrella of the Bhutan Olympic Committee (BOC) to train interested Bhutanese above 16 years. Bhutan is already affiliated to the International Weightlifting Federation (IWF) and the International Federation for Body Building (IFBB).
- Four Bhutanese athletes, two archers and two Taekwondo players, were awarded scholarships by the International Olympic Solidarity (IOS) to prepare for the 2004 Olympics in Athens, Greece. Meanwhile, Bhutan is making a foray into sports medicine by looking into issues like doping control, sports nutrition, safety in sports and prevention of injuries.

## **9. Challenges:**

Globalization and its attendant influences and impacts are changing our way of life every day. The threat in terms of a monoculture that is based on consumerism, appeasement of our insatiable appetite towards purely material growth is real and aggressive. Even as we see encouraging signs of a deep appreciation of our own culture among our people, the challenge to preserve our way of life is becoming greater. Some of these are the following:

- Losing sight of the middle path and being obsessed with materialism – straying from GNH and resultant erosion of our social fabric.
- Behavioural and attitudinal changes among youth – substance abuse is a particularly worrying trend. Yet adequate counselling and recreational and sports facilities cannot be provided
- Even the large numbers of children joining the monasteries, lobdras and shedras is not all that comforting. Many are dropping out early without any useful skills in an increasingly competitive world. In recent times, both petty and serious crimes have been attributed to them. Especially since many of those who join these institutions both within and outside the country do not return to the disciplined life in the monastery, it is cause for concern as to whether all of them will be able to live spiritual or productive lives.

- Conservation and maintenance of the ageing religious structures is a serious problem for the state. Yet much of the private efforts are directed toward new constructions.
  
- Nuclearization of our family is beginning to happen as urbanization grows and relatives have little time for each other unlike in the past. Children know fewer and fewer of their uncles, aunts and cousins as they themselves are either too busy with their studies or TV. Our social fabric is beginning to show signs of stress and more and more of the weak and poor could find themselves without state or family care and protection.
  
- Driglam Namzha too is not faring too well. This is because it is considered mainly a school or state responsibility. Even though as I reported, it is not a serious problem at present, the signs are not comforting. Parents are no longer being respected, the aged are experiencing the threat of marginalization, and teachers are beginning to come across children who are not only disobedient but threatening. No amount of government action and laws that this august body makes is going to alter the trend unless every parent plays a central role in guiding the child.

## **IV. GOOD GOVERNANCE**

**This forms the last of the four pillars of Gross National Happiness,** the overarching concept of progress and development that guides our country. His Majesty the King himself has, time and again, stated that the government must be responsive to the needs, interests and aspirations of the people. Accountability, transparency, justice, equality and empowerment are all essential components of good governance and principles that form the essence of democracy.

### **1. Constitution**

It is my honour to report that we have so far seen two drafts of the Constitution. The Committee submitted the First Draft of the Constitution to His Majesty the King in December 2002. Copies of the draft were also made available to the Council of Ministers. The Council studied the First Draft and submitted its comments to the Drafting Committee based on which the Committee submitted the Second Draft to His Majesty the King in June 2003. A distinguished constitutional expert from India, Mr. K. K. Venugopal, was in the Kingdom in November 2003 and shared his expertise and made comments on the draft Constitution. The second draft is now being studied before distribution to the 20 dzongkhags. The Cabinet remains hopeful that as we make progress toward its final adoption, and in our deliberations on this most important subject, we will receive the benefit of His Majesty's personal guidance not only in the National Assembly but also at the Dzongkhag level. It is at the Dzongkhag level that the true voice of the people will be heard and where the stakes are the highest.

## **2. Strengthening of the Government**

The Royal Government has continuously striven to maintain and promote transparency, efficiency and accountability. Keeping this objective in mind, the 234<sup>th</sup> session of the Lhengye Zhungtshog authorized the bifurcation of some ministries and the establishment of a new ministry.

Subsequently, the Ministry of Communications has been bifurcated into the Ministry of Information and Communications and the Ministry of Works and Human Settlement. The Ministry of Health and Education has been separated into the Ministry of Health and the Ministry of Education. Realizing the critical need to provide gainful employment to over 50,000 youth in the 9<sup>th</sup> Plan alone and to guide and oversee the activities of the government related to employment, a new ministry called the Ministry of Labour and Human Resources has been established. There are now a total of ten ministries.

The following commissions and autonomous agencies have also been reorganized and incorporated under appropriate ministries:

- The Planning Commission has been incorporated under the Ministry of Finance as the Department of Planning.
- The Dzongkha Development Commission has been brought under the Ministry of Education as the Dzongkha Development Authority.

- The National Commission for Cultural Affairs has been brought under the Ministry of Home and Cultural Affairs as the Department of Culture.
- The UNESCO Secretariat has been transferred to the Ministry of Education.
- The Department of Survey and Land Records has been transferred to the Ministry of Agriculture.

Furthermore, new autonomous agencies like the Royal University of Bhutan and the National Statistical Bureau have been established as per the approval of the Lhengye Zhungtshog.

### **3. Decentralization Support Program**

#### **(a) Strengthening local government capacity:**

With a view to give greater meaning and substance to the ongoing process of deepening decentralisation, the government continues to undertake various measures to strengthen the DYT and GYT. This is being done in terms of institutional capacity building. Under this effort, the Ministry of Home and Cultural Affairs started the Decentralization Support Programme (DSP) in June last year with UNDP and Japanese assistance to construct office buildings, office equipment, study tours for the gups and chairmen of DYT, in country training etc. Recently, the Royal Government has also agreed to provide training for the gewog clerks. The programme currently operates in 32 geogs in five dzongkhags--

Pemagatshel, Gasa, Trongsa, Lhuntse and Zhemgang --with the following objectives:

- To create a local enabling environment for effective implementation of the decentralization policy;
- To enhance citizen participation in local planning, decision making and implementation;
- To support the implementation of the 2001 Cooperative Chathrim (Act);
- To enhance capacity in MoHCA to provide overall management support for the decentralization policy.

The Royal Institute of Management has already initiated training for the GYT members as part of the programme. The Centre of Bhutan studies, meanwhile, has been entrusted to monitor, document and disseminate the lessons learned from the programme to be used in the decentralization process throughout the Kingdom.

**(b) Challenges:**

The initiatives being taken under the guidance of His Majesty the King to empower our people are not without challenges. There is fear and anxiety. One of the resultant questions is:

Are our people ready and capable of exercising the power of their vote in a way that is responsible and beneficial, or are they likely to fall prey to those hungering for power and privilege for their own gains? Some of the recent developments since a few years ago have not been encouraging. They point to the direction of countries where power of the vote has been bought to give legitimacy and strength to those who destroy society and hope.

#### **4. Public Service – Backbone of Good Governance**

It has always been the policy of the Royal Government to maintain a small, compact and efficient civil service. As the civil service embodies the principal functionary of the government, continuous efforts have been made to improve its functioning with particular emphasis on transparency, efficiency and accountability. The Royal Civil Service Commission (RCSC) has now been revitalized and granted full autonomy as the central personnel agency of the Royal Government of Bhutan.

Staffing pattern and strength of the Ministries, government Agencies and Dzongkhag administrations have been completed for the 9<sup>th</sup> Five Year Plan.

Further, appointment of senior officials like Directors, Dzongdas, Dzongrabs, Dungpas and heads of agencies in the Departments/Dzongkhag Administrations/Agencies have been completed to facilitate implementation of development activities and programmes during the 9<sup>th</sup> Five Year Plan.

The Royal Government is confident that under the guidance of the newly constituted Commission, our civil service will be reinvigorated, and will continue to serve the nation with enhanced morale and dedication.

## **5. Auditing – Towards Greater Accountability**

The Royal Government has laid great emphasis on the judicious use of public resources and properties. The Royal Audit Authority (RAA), in pursuit of this goal, has made concerted efforts to curb mismanagement and misuse of public property and resources. I am pleased to report that financial management in government continues to improve while the auditors have been relentless in their endeavour to discharge their important function with strong motivation without fear or favour.

- The RAA conducted 96 certification audits and 206 normal inspection audits and issued 5 special audit reports, 159 inspection reports, 94 certification audit reports and 145 follow-up audit reports.
- The Annual Audit Report of 2002 was issued in October 2003 and the Annual Audit Report for 2003 in May 2004.
- An Assistant Auditor General's office has been established in Tsirang in July 2003. The office shall be responsible for auditing and reporting on all public works carried out in the six Dzongkhags of Tsirang, Dagana, Sarpang, Wangduephodrang, Punakha and Gasa.

- The first round of audit awareness talk to the members of GYT, DYT, Gaydrungs and Dzongkhag staff was conducted in eastern and central Bhutan. The RAA also organized an open discussion forum in December 2003 on various aspects of auditing such as audit clearance, timely auditing, balance between authority and commercial judgment, quality of construction versus lowest bidder, audit of Royal Audit Authority, and tax/revenue versus audit recoveries account.
- The Office of the Comptroller and Auditor General of India conducted a peer review of the Royal Audit Authority.

Efficiency has been a trademark of the government where decision makers have some times had to circumvent procedures in the interest of cost effectiveness and expediency. While requiring full accountability and in the process of promoting propriety, the virtue of expeditious action must not be undermined. We are also aware that serious corruption is virtually undetectable because it involves invisible exchange of favour, influence and money that do not leave any trace on paper, which forms the basis of auditing. Nevertheless, we know that it is taking root in the government. In fact, it is most alarming that we are seeing corruption, although still very limited, in all sectors of our society – the government, private sector and in the electoral process. Efforts will continue to be made by the RAA as well as by way of policy, legislation, and other instruments for vigilance and detection.

The Royal Government is fully mindful of the fact that one very effective way to enhance the accountability and integrity of the government is to have a powerful and fearless auditing instrument. In the current

organization and its leadership, I believe we have such an apparatus. In this regard, I am pleased to inform that the audit reports have been given serious and immediate attention by all the ministries and organizations. Already, there is visible impact. The Royal Audit Authority deserves our high commendations.

## **6. Pension Scheme**

The Pension Scheme was established for the primary purpose of ensuring a secure and dignified life in the winter of want for our civil servants. Since its inception, it has included the security forces, the corporations and will endeavour to include all working people in the modern sector.

Established in March 2000, the National Pension and Provident Fund (NPPF) started providing pension benefits to members from July 2002. As of February 2004, a total of 283 employees, from both the civil service and armed forces, had availed more than Nu 6 million in pension benefits.

Highlights of NPPF's activities in the financial year 2003-2004 are:

- A draft National Pension and Provident Fund Plan Act is being drawn under the purview of the government-approved National Pension and Provident Fund Plan rules and regulations.
- A five-year master plan has been prepared to make the NPPF efficient and dynamic.

- Four buildings with 48 one-bedroom apartments were completed and allotted to tenants in Thimphu last year. An additional 15 buildings with 99 apartments are being constructed.
- A Member Housing Scheme was launched in July last year to help NPPF members construct or buy residential houses at an interest rate of only 10% per annum.

## **7. FOREIGN RELATIONS**

Guided by the farsighted leadership of His Majesty the King, Bhutan continues to develop and maintain friendly relations with all countries in the region and beyond and plays an active role as a responsible member of the international community. In the past year, the Ministry of Foreign Affairs has continued to make concerted efforts to promote Bhutan's global image, safeguard national interests and to strengthen and maintain friendly relations with all countries. Currently, Bhutan has diplomatic relations with 22 countries (including the EU) and Honorary Consuls in 10 countries. Bhutan is also a member of 45 international organizations.

The overall foreign policy objectives have been fulfilled by keeping Bhutan's friends and development partners regularly informed of the developments in the country through our diplomatic missions and embassies, visits at various levels, and participation in bilateral and multilateral meetings including at the summit level. The ministry also continued to engage with the regional and international media to promote greater awareness of the world community about our country and also to ensure accurate reflection of the Royal Government's views. These

efforts have proven effective in generating greater international appreciation for the country and have helped to strengthen relations with our development partners including international organizations.

The following were the major events in Bhutan's foreign relations during the past year.

**(a) Bhutan - India relations:**

As a close friend and neighbour, Bhutan continues to place high importance on nurturing the traditional ties of friendship and cooperation with India. This is evident in the frequent and close level of interaction between the two governments as well as people to people contact in the economic, social and cultural fields. Cooperation between Bhutan and India transcends the traditional donor-recipient relationship to include other mutually beneficial areas of cooperation such as hydropower development and trade.

- In order to further strengthen Bhutan-India relations, His Majesty the King paid a State Visit to India from 14-18 September 2003. His Majesty held a wide range of discussions with the Indian leaders on various areas of mutual interest and concern. During the royal visit, the quantum of Government of India's assistance for Bhutan's Ninth Five Year Plan was finalized. The two government also signed a MOU for the preparation of a DPR on the proposed 870 MW Punatsangchu Hydroelectric Power Project.

- HRH the Crown Prince paid a good will visit to India in August 2003. During the royal visit, the India-Bhutan Foundation was established with the aim of exchanging and interacting among the peoples of the two countries through activities in mutually agreed areas, particularly in educational, cultural, scientific and technical fields. In order to further promote the friendly relations between the peoples of the two countries, HRH assumed the office of the President of the Bhutan India Friendship Association (BIFA) in 2003 thus raising the profile and adding greater momentum to the activities of the Association. HRH also launched BIFA local chapters in Samdrup Jongkhar, Samtse, Gelegphu and Phuentsholing. Local chapters of the India Bhutan Friendship Association were also launched in the major Indian metropolis and the bordering Indian cities. His Royal Highness the Crown Prince's keen and active participation has furthered Indo-Bhutan friendship and understanding substantially.
- There were also visits from various high-ranking Indian officials including the Foreign Secretary, Mr. Shashank, who visited the country on a familiarization trip in March 2004.
- The past year also marked the successful completion of the six-month long Festival of India in Bhutan.
- As approved by the 242<sup>nd</sup> Session of the Lhengye Zhungtshog, the pending demarcation of the Bhutan-India boundary (along the Indian states of Arunachal Pradesh, Assam and West Bengal) was finalized during the Bhutan-India boundary meeting held in Thimphu in February 2004. The construction of the boundary

pillars on the basis of the agreements reached between the two governments in the boundary meetings held in Thimphu in 1971 and in New Delhi in 1972 is currently being implemented. The work on demarcation of the border between Bhutan and the Indian state of Sikkim is also underway.

- In March 2004, Bhutan and India held a bilateral meeting on “border management and security matters.” The two countries discussed measures to enhance coordination and identified issues and initiated activities to boost security and improve infrastructure along the Bhutan India border running through the Indian states of West Bengal and Assam.
- The Foreign Minister paid a highly successful visit to India from 7<sup>th</sup> to 19<sup>th</sup> June 2004.

#### **(b) Bhutan – China boundary talks**

The 17<sup>th</sup> round of Bhutan China Boundary talks was held in Thimphu in April 2004 in a cordial and friendly atmosphere. Mr. Wang Yi, the Vice Foreign Minister led the Chinese delegation. The meeting expressed the desire of both countries to demarcate the boundary at the earliest and agreed to form a technical expert group to review the respective lines.

### **(c) Bhutan in SAARC**

I led the Bhutanese delegation to the XII SAARC Summit held in Islamabad from 4-6 January 2004. The main focus of the summit was on poverty alleviation and regional economic cooperation. To this end the leaders of the SAARC countries signed the Social Charter and the South Asian Free Trade Agreement (SAFTA). As terrorism hinders peace and development, the SAARC leaders also adopted the Additional Protocol to the SAARC Convention of the Suppression of Terrorism.

Bhutan continued to play an active role in various SAARC forums in the past year. The themes at the various levels of interaction covered diverse political, economic, legislative, judicial, technical and academic areas of cooperation. Given the geographical proximity and the benefits of regional economic integration, Bhutan will continue to follow developments in the region with keen interest and play an active role in areas that are of importance to Bhutan.

The Prime Minister of Nepal Mr. Surya Bahadur Thapa visited Bhutan in December 2003, in his capacity as the Chairman of SAARC.

### **(d) Bhutan in the United Nations**

Since our membership in the United Nations in 1971 Bhutan has played an increasingly active role in the international arena. Today Bhutan is a member of numerous UN bodies and continues to benefit from technical as well as financial assistance from the UN.

Presently Bhutan is a member of the UN Economic and Social Council and the Commission on Human Rights. The Royal Government continues to participate in various international forums as an active member of the international community.

#### **(e) General bilateral relations**

The Royal Government continued to maintain close contact with our development partners on issues related to economic and political developments in the country. These contacts have been maintained through annual and periodic consultations, visits by foreign officials and through our missions and embassies abroad. The donor community and the international organizations recognize Bhutan for our effective and efficient utilization of development assistance for the full benefit of the people. Hence Bhutan continues to receive substantial development assistance from the bilateral as well as multilateral donors. Given the importance of foreign assistance in our development process, the Ministry of Foreign Affairs will continue to identify potential donors and sensitize them about Bhutan's development policies and needs.

Given the growing relationship between Bhutan and Thailand, the Honorary Thai Consulate was opened in Thimphu in November 2003. The consulate will help to facilitate Bhutanese nationals to travel to Thailand as well as provide support for our students and the private sector.

Bhutan also appointed Honorary Consuls in Singapore, Hong Kong, France and the United Kingdom.

## **8. LEGISLATURE**

Since the inception of the National Assembly in 1953, the number of legislation in the country has increased dramatically. This has helped enhance the rule of law in a climate of rapid social, economic and political changes.

Relevant agencies of the three branches of government are currently in the process of drafting and finalizing the bills on Evidence, Water, Food, Information, Communications & Media and Audit. Meanwhile, the bills on Road, Tenancy, Speaker, National Assembly Committees and the Penal Code are being submitted to the current session of the National Assembly.

As a member of the international community, the Royal Government has signed the following conventions which have also been submitted to the Great Assembly for ratification and accession:

- i. Agreement between the Royal Government of Bhutan and the Government of the United States of America regarding the surrender of persons to the International Criminal Court;
- ii. WHO Framework Convention on Tobacco Control;
- iii. Additional Protocol to the SAARC Convention on the Suppression of Terrorism;

- iv. Vienna Convention for the Protection of Ozone Layer and the Montreal Protocol on Substances that Deplete the Ozone Layer; and
- v. Berne Convention for the Protection of Literary and Artistic Works

## **9. JUDICIARY**

Under the wisdom and guidance of the successive hereditary monarchs, the judiciary in Bhutan has made steady progress in the promotion and delivery of justice. Today, it has grown into a hallowed institution, completely independent and highly competent.

The Judiciary witnessed yet another milestone with the establishment of the National Judicial Commission on August 30, 2003. The commission is expected to professionalize and strengthen the system of appointing, censuring, suspending or removing judges of the High court and the Dzongkhag courts.

The Bhutanese judiciary appointed its first professional woman judge, reflecting the changing face of the judiciary. More than half of the country's 23 dzongkhag and dungkhag courts are now filled with qualified and trained judges. The 6<sup>th</sup> batch of nine lawyers has successfully completed the Post Graduate Diploma in National Law and joined various organizations.

His Majesty the King has always mentioned that Bhutan's law must serve the people and there must be one law for all the people. His Majesty has

repeatedly stated that cases must be dispensed without delay, without discrimination and with respect for the laws of the *Palden Drukpa*.

One of the main priorities of the judiciary has, therefore, been to ensure that jurisprudence continues to evolve in response to the needs of the society guided by equality and unimpeded access to the law and legal process, expeditious dispensation of justice, and a high degree of professionalism.

In view of this, the Royal Court of Justice in recent years has embarked upon a mission to disseminate information on judicial process to the general public and various concerned organizations. The completion of the computerization of case information system and introduction of forms for legal procedures has resulted in uniformity and standardization of the judicial process and practices in the entire judiciary system.

I am also pleased to report that the Bhutanese judiciary attended the 10<sup>th</sup> SAARCLAW meeting and 7<sup>th</sup> Chief Justices Conference at Karachi, Pakistan. Bhutan is now a member of SAARCLAW.

## **NATIONAL SECURITY**

### **1. People in the Refugee Camps in Eastern Nepal**

The Royal Government continues to make every effort to find a durable solution to the issue of the people in the camps in Eastern Nepal. As mandated by the 81<sup>st</sup> Session of the National Assembly, the Royal Government has pursued bilateral talks with His Majesty's Government of Nepal to resolve the problem. The Bhutanese Foreign Minister met his Nepalese counterpart on the sidelines of the UN General Assembly Meeting in New York on 29<sup>th</sup> September 2003, during the 15<sup>th</sup> Ministerial Joint Committee meeting from 20 –23 October 2003 and at the BIMST-EC meeting in Phuket, Thailand, on 7<sup>th</sup> February 2004.

During the 15th Ministerial Joint Committee meeting the two governments finalized the categorization results of category 1,2 and 4 and directed the JVT to undertake the following tasks between December 2003-January 2004:

- Review the appeals submitted by people in C-3
- Brief the people on the procedures for completing the various forms
- Distribution of agreed forms
- Compilation of forms

The implementation of the outcome of the Joint Verification work in the Khudanabari camp was scheduled to begin by mid February 2004. The two sides had also identified the Sanischare Camp as the next camp for verification.

The bilateral process received a regrettable setback on 22<sup>nd</sup> December 2003 when the people in Khudunabari camp in Nepal attacked the Bhutanese members of the JVT during a briefing session. During the attack our officials were subjected to physical attack and abuse and three of our senior officials suffered serious injuries. Since then, the Royal Government has requested His Majesty's Government of Nepal to conduct a thorough investigation into the incident, identify and take action against the culprits and put in place adequate security measures to enable the process to resume. A report on the incident has been received from His Majesty's Government of Nepal and the two governments are presently examining ways of resuming the process.

## **2. Operation against the militants**

Today, Bhutan stands stripped off its aura of innocence. We were compelled to shed our innocence because of a higher calling: the call to defend our sovereignty; to rid our sacred soil of the exponents of terror; to reaffirm our commitment to friendship with our neighbour; and to express our solidarity with the global outcry against terrorism.

We have paid a heavy price. The true sons of our soil have shed blood and sacrificed their lives. We now face the imminent threat of retaliation while having diverged from our deeply ingrained principles of non-violence and peaceful coexistence.

Yet in shouldering our responsibilities as a sovereign nation we have gained some profound insights too. We have found renewed faith and confidence in the strength and leadership of His Majesty the King, a

sense of security in the loyalty and dedication of our soldiers, a deeper reverence for the patronage of our guardian deities and a sense of solidarity among our people. We have also learned the true value of friendship in the unstinting support extended by India.

As all the honourable members are aware, for more than a decade now, ULFA, NDFB and KLO militants had used Bhutan as a haven for launching terror across the border. The issue was discussed at length and debated in six sessions of the National Assembly. It was an emotive issue in countless sessions of Gewog Yargye Tshogchung (GYT), Dzongkhag Yargye Tshogdu (DYT) and innumerable public meetings throughout the country. All our efforts at a peaceful resolution failed in the face of outright defiance from the militants.

In its first ever-closed door deliberations, the 81<sup>st</sup> session of the National Assembly decided that the government would make an ultimate attempt at peaceful negotiation. I led the Bhutanese delegation in the final round of talks with the ULFA, from 28 to 31 October 2003, and with the NDFB from 27 November to 1 December 2003. The ULFA delegation was led by Mr. Bishnujyoti Burhagohain, ULFA's political advisor, while Mr. B. Erakdao, publicity and information secretary led the NDFB delegation. The KLO did not even respond to our invitation for talks. The outcome remained the same with the militants stubbornly refusing to remove their camps from our territory. They said that it was up to Bhutan to decide whether the age-old relationship with the people of Assam or the Indian government was more important.

Left with no choice but to uphold the National Assembly resolution, the 239<sup>th</sup> session of the Lhengye Zhungtshog authorized the Royal Bhutan

Armed Forces to launch military operations to flush out the militants. The RBA reluctantly launched the military operations on December 15, 2003.

The operation was an amazing success, one achieved with minimum casualties. The RBA dislodged the militants and demolished 30 camps and 35 outposts from Samdrup Jongkhar, Sarpang, Zhemgang, and Samtse districts. A cache of more than 500 AK 47 and AK 56 rifles and 328 other assorted weapons including rocket launchers and mortars, along with more than 100,000 rounds of ammunition were recovered from the camps. An anti aircraft gun was also found at the site of the General Headquarters (GHQ) of the ULFA at Mirangphu.

The Government of India deserves our deepest appreciation. India proved itself to be an invaluable friend, providing us with logistical and moral support at every step of the way in the course of the operation. The Indian Army continues to provide security escort to Bhutanese people and vehicles plying through Assam since December 17, 2003, and through West Bengal since January 10, 2004. The two governments also continue to discuss and take precautionary measures against potential fallouts of the operation.

Even as we take comfort in the successful outcome of the military operations, we must remain alert and not give in to complacency. Our nation and people should be prepared for the consequences of the operation. There has not been any reprisal or retaliatory incident so far but we have to brace ourselves for any eventuality. Our people who live in the affected region and travel through the neighbouring Indian states of Assam and West Bengal must be mindful of attacks by the militants and their supporters or sympathizers.

The people and the government are deeply indebted to His Majesty the King for the extraordinary leadership, wisdom and compassion during the operations. Ignoring his own safety and strong protests from the people, His Majesty was personally involved in the operations and also visited the security-affected areas to monitor and coordinate the humanitarian aspects of the operations. I pray that our kingdom and people continue to enjoy the benefits of His Majesty's wisdom, vision, courage and compassion for many more glorious years to come.

On behalf of the government, I would also like to express my deep and sincere gratitude to the RBA, the RBP, the RBG and militia volunteers for fulfilling the sacred duty entrusted to them in an exemplary manner. I thank His Holiness the Je Khenpo and the monk body for performing prayers for the nation and providing spiritual solace during the critical hour, and our people for showing solidarity and fortitude at a grave and anxious moment in our nation's history.

We pay tribute to all who took part directly or indirectly in this patriotic operation, especially those who laid down their lives for the cause of our beloved Kingdom. We also salute the beloved ones of our fallen soldiers who bore the burden of grief with extreme courage and with the conviction that they have made supreme sacrifices for their country at its most perilous hour.

Our deep appreciation is also due to the Emergency Medical Team of the Health Ministry for their exceptional role during the crucial phase of the operation.

## **CONCLUSION**

In concluding, it gives me great satisfaction to reiterate that under the wise and able guidance of His Majesty the King, we have achieved substantial progress on all fronts in the last one year. The process of empowering our people, to take charge of their own lives is going smoothly with the implementation of the GYT and DYT Chathrim. It will receive a further boost when the manual for the implementation of the two chathrim are approved and distributed by the Lhengye Zhungtsog. In addition, we are all aware of the vigour with which work on the draft Constitution continues signalling our advancement to the very last stage of the complete democratisation of the Bhutanese society.

As His Majesty leads us into a new era of historic political reforms, it is our duty to ensure that we exercise our franchise responsibly. We must choose our leaders and representatives carefully and responsibly, be it at the GYT, DYT or at the national level. We must select those who are not only capable but are worthy of our trust. Upon having exercised our right to choose our leaders, we must remain concerned and be informed of their actions and have the courage to hold them accountable or remove them from office if necessary.

Our private sector is still small but it is growing steadily. The concept of PIT has been accepted, albeit with some reservation. This is a clear demonstration of the will of the people to stand on their own feet toward national self reliance. Our civil servants and public sector employees, who deserve our appreciation, are now assured of a secure retirement with the Pension Fund.

The security impediment having been removed, the 9th Plan will now make progress toward its ambitious objectives. Happily, we have also witnessed the spawning of several non-profit organizations, all geared to assist the government in its efforts to create avenues for the integration of the needy and the disabled. This again, is a very significant trend in as much as it will contribute towards enhancing sustainable development and the engendering of a caring civil society.

I wish to take this opportunity to express our deep appreciation to the outgoing councillors for their valuable contributions in the discharge of the important responsibilities of the Lhengye Zhungtshog. On behalf of the government, I would like to wish them well in their future endeavours and hope that they will continue to work for the cause of the nation.

Before concluding, I, on behalf of the people and Royal Government, would like to extend our profound gratitude to all our development partners for their goodwill and generous assistance. In particular, I would like to thank the people and Government of India, Bhutan's oldest and closest friend and the largest development partner, for their friendship and generous assistance over the years.

On behalf of the Council of Ministers, it is my honour and privilege to take this opportunity to express our deepest gratitude to His Majesty for His guidance and inspiration and for His trust and confidence in us. We are deeply grateful to the Honourable Members of the National Assembly and all others who have provided us valuable cooperation and support in fulfilling our sacred duty to the **Tsawa Sum**.

The people and the Royal Government offer our deepest gratitude to His Majesty for the love and care that He has given us and the sacrifices that He has made so that we the people of Bhutan may find Happiness in life. To His Majesty, we renew our pledge of unwavering loyalty. We pray for the long life of His Majesty and the happiness of our beloved Royal Family.

TASHI DELEK