

National Budget

Financial Year 2009-10



Ministry of Finance
July 2009

TABLE OF CONTENTS

INTRODUCTION.....	1
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CHAPTER I: ANNUAL FINANCIAL STATEMENTS OF THE FY 2007-08

1.1	Overall financial position of the Government in the FY 2007-08.	2
1.2	Actual budget outcome	4
1.2.1	Expenditure:.....	4
1.2.2	Domestic Revenue:.....	4
1.2.3	Grants:	5
1.2.4	Debt:	5

CHAPTER II: REVISED BUDGET ESTIMATES OF FY 2008-09

2.1	Expenditure Estimate	8
2.1.1	Current Expenditure	8
2.1.2	Capital Expenditure	8
2.2	Domestic Revenue Estimate	8
2.3	External Grants	9
2.4	Fiscal deficit & resource gap Estimate.....	10
2.5	Borrowings Estimate.....	10
2.6	Debt and debt servicing Estimate	10
2.7	Supplementary budget granted during the year	10
2.8	Economic developments in the FY 2008-09.....	15

CHAPTER III: BUDGET ESTIMATES FOR FY 2009-10

3.1	Resources	19
-----	-----------------	----

3.1.1	Domestic Revenue.....	19
3.1.2	Grants.....	20
3.2	Expenditure Outlay	21
3.2.1	Current expenditure	21
3.2.2	Capital expenditure.....	22
3.2.3	Net Lending	22
3.3	Financing	23
3.3.1	External Borrowing	23
3.3.2	Internal borrowing	23
3.3.3	Debt Servicing (principal repayments).....	24
3.4	Budget Estimates for Activities implemented by Dzongkhags and Gewogs.....	24
3.5	Sector allocations	26
3.5.1	Social Services.....	27
3.5.2	Renewable Natural Resources (RNR) Sector.....	32
3.5.3	Trade, Industry and Private Sector Development.....	35
3.5.4	Tourism Sector.....	36
3.5.5	Vocational Training and Employment	37
3.5.6	Roads	39
3.5.7	Urban Development, Housing and Public Amenities.....	41
3.5.8	Communications and Transport.....	42
3.5.9	Energy.....	43
3.5.10	Cultural Services.....	45
3.5.11	Law and Order	46
3.5.12	General Public Service	47

**CHAPTER IV: ECONOMIC OUTLOOK & FISCAL PROJECTIONS
FOR THE FY 2009-10 & BEYOND:51**

CHAPTER V: REPORT ON STATE OWNED ENTERPRISES & GOVERNMENT’S SHARES IN COMPANIES

5.1 Performance of State-owned Enterprises (SoEs) and Investments in Companies57

5.2 DHI60

5.3 National Pension and Provident Fund (NPPF)61

5.4 Royal Monetary Authority of Bhutan62

CHAPTER VI: REPORT ON TRUST FUNDS.....63

6.1 Trust Funds63

6.1.1 Bhutan Trust Fund for Environmental Conservation (BT FEC)....63

6.1.2 Health Trust Fund (HTF).....63

6.1.3 Cultural Trust Fund (CTF).....63

6.1.4 Universal Service Fund for ICT64

CONCLUSION.....65

Schedule of Expenditure Budget for the FY 2009-10 – on the basis of Organisations67

INTRODUCTION

I have the honour to present to this august body, the Royal Government's budget for the financial year (FY) 2009-10, a report on the FY 2008-09 budget and the annual financial statement for the FY 2007-08. My presentation of the budget today coincides with the completion of one year of the Government under parliamentary democracy, a system of governance into which we have successfully progressed. At this juncture, I would like to congratulate the Honourable Members of Parliament on successful completion of their first year in office.

During the year just passed, the world economy witnessed turbulent times due to the financial crisis. However, the Bhutanese people continued to live in peace and harmony, although occasional incidences of natural calamities reminded us of our exposure to certain factors beyond our control. The successes and achievements of the Government have always been guided by the visions of our beloved Kings, and under the present monarch, Druk Gyalpo His Majesty King Jigme Khesar Namgyel Wangchuck, we look forward to continued peace, progress and prosperity.

As stated by the Honourable Prime Minister, in his State of the Nation Annual Report presentation to Parliament on the opening day of this session, considerable achievements have been made in the first year of the Government. Besides consolidating the past achievements, refining plans and securing resources, many planned activities were started in earnest. In the second year, the nation is fully geared towards implementing the activities with greater vigour.

My presentation will be in the sequence as summarized below:

Chapter I - Annual Financial Statements of the FY 2007-08;

Chapter II - Revised Budget Estimates for the FY 2008-09;

Chapter III - Budget Estimates for the FY 2009-10;

Chapter IV - Economic Outlook and Fiscal Projections;

Chapter V - Report on State-owned Enterprises and Government's Shareholdings in companies;

Chapter VI: Report on Trust Funds;

CHAPTER I: ANNUAL FINANCIAL STATEMENTS OF THE FY 2007-08

I have the honour to present the salient features and summarized accounts of the audited Annual Financial Statements (AFS) for the FY 2007-08. *For kind information of the Honourable Members, the complete AFS is submitted as a separate document.*

1.1 Overall financial position of the Government in the FY 2007-08

In the FY 2007-08, there was a fiscal surplus of Nu. 403.549 million, with total realized resources being Nu. 18,316.908 million against a reported expenditure of Nu.17,913.359 million. However, the year ended with a resource gap of Nu. 915.656 million due to the loan repayment of Nu. 2,076.784 million, which was higher than the fiscal surplus plus the receipt of project-tied borrowings of Nu.757.579 million.

During the FY, the domestic revenue not only covered the recurrent expenditure but was also able to finance a small portion (5.5 %) of the capital expenditure. The grant assistance of Nu. 5,935.421 million financed about 60% of the total capital expenditure of Nu. 9,967.310 million. The total government debt stood at Nu. 33,070.990 million, which is about 60 % of the GDP. **Table 1.1** below provides the details, *i.e. the total resources, total expenditure and fiscal balances.*

Table 1.1: Summary of Approved Estimates Vs Actual Outcomes for the FY 2007-08

		Nu. in millions	
		Approved Estimates	Actual Outcome
A	RESOURCES	20,690.094	18,316.908
	1. DOMESTIC REVENUE	11,607.980	12,345.984
	i. Tax	4,843.484	5,238.357
	ii. Non Tax	6,764.496	7,107.627
	2. OTHER RECIEPTS	66.678	35.503
	3. GRANTS	9,015.436	5,935.421
	Total GoI	5,121.522	4,671.114
	Total Others	3,893.914	1,264.307
	i. Programme grants	1,262.000	1,202.413
	a) GoI	1,100.000	1,100.000
	b) Danida	162.000	102.413
	ii. Project-tied grants	7,753.436	4,733.008
	a) GoI	4,021.522	3,571.114
	b) Others	3,731.914	1,161.894
B	OUTLAY	23,051.839	17,913.359
	1. Total Expenditure	24,824.216	19,693.029
	i. Current	10,611.661	9,725.719
	ii. Capital	14,212.555	9,967.310
	2. NET LENDING	-1,772.377	-1,805.391
	3. ADVANCE/ SUSPENCE.(Net)	-	25.721
C	OVERALL BALANCE	-2,361.745	403.549
D	FINANCING	2,361.745	-403.549
	Borrowings (Net):	-464.285	-1,319.205
	i. Borrowings	1,666.431	757.579
	ii. Repayments	2,130.716	2,076.784
E	RESOURCE GAP	-2,826.030	-915.656

1.2 Actual budget outcome

The details of the actual budget outcome are explained below:

1.2.1 Expenditure:

During the FY, the total expenditure (*i.e. the total of recurrent and capital expenditure*) amounted to Nu. 19,693.029 million, which is about 37 % of GDP. This is an increase of 30 % over the previous FY. This increase is attributed to some of the major activities related to the national elections, preparatory activities for national celebrations and the commencement of the debt servicing of Tala Hydro-power Project (THPP).

The total **recurrent expenditure** was Nu. 9,725.719 million, which is about 18 % of GDP, an increase of 27 % over the previous FY's recurrent expenditure. The major shares in the recurrent expenditure were salaries & wages and the interest payments amounting to Nu. 3,524.937 million and Nu. 1,719.236 million, constituting 36.2 % and 17.7 % of the total recurrent expenditure respectively.

The total **capital expenditure** was Nu. 9,967.310 million, which is about 18.5 % of GDP, an increase of 32% over the previous FY's capital expenditure. The increase is attributed to major socio-infrastructure developments carried out during the period in preparation for the national celebrations in 2008.

1.2.2 Domestic Revenue:

During the FY 2007-08, the total internal revenue realized was Nu.12,345.984 million, which is about 23 % of GDP, an increase of 22.45 % over the previous FY. The tax revenue amounted to Nu. 5,238.357 million and non-tax revenue to Nu.7,107.627 million. Tax revenue accounted for 9.5 % of GDP as compared to 8.8 % in the past year. Contribution to tax revenue was mainly from Corporate Income Tax (CIT), Business Income Tax (BIT) and royalties amounting to Nu. 3,386.784 million.

Under **non-tax revenue**, dividends and transfer of profits from corporate sectors were the two major sources contributing to the overall increase in revenue.

1.2.3 Grants:

During the FY 2007-08, the total external grants received both in terms of cash and kind was Nu. 5,935.421 million, which is about 11 % of GDP and 32 % of total resources. It covered 30 % of total expenditure. As in the past, the GoI continued to provide major portion of the grants.

1.2.4 Debt:

During the FY, the Government's total borrowings amounted to Nu.1,484.144 million (Nu.619.718 million from the GoI and Nu.864.426 million from other external sources). No internal borrowings were availed save for ways and means advances. The Government also made a total principal loan repayment of Nu. 2,154.426 million. Total outstanding debt (*internal and external debts*) stood at Nu.33,070.990 million as on 30th June 2008 which is about 60 % of the GDP.

Internal Debt

The total internal debt outstanding was Nu.1,402.419 million being the balance of the loan availed for the purchase of aircraft. It constituted 4.24 % of the total debt. During the FY, the internal debt repayment (*principal*) amounted to Nu. 175.302 million. The loan will be totally liquidated by the FY 2015-16.

External Debt

The total external debt outstanding stood at Nu. 31,668.571 million, which constituted 95.76 % of the total debt and represent about 57.60 % of GDP. The principal repayment amounted to Nu. 1,979.124 million during the FY.

Economic Growth

As per the National Statistics Bureau, the economic growth of Bhutan is projected to have grown by about 13.8 % in FY 2007-08 with substantial contribution coming from electricity, construction, tourism related industries and

communication sectors. Like in the past, the public sector continues to lead the economic growth of the country with increasing spending in the socio-economic development activities.

In concluding, I would like to report that as required by the Financial Rules and Regulations, the Annual Financial Statements have been prepared well within the stipulated time. The timely reporting has been made possible with the use of computer technology in maintaining budget and accounting information. The Annual Financial Statements have also been certified by the Royal Audit Authority, and as the Hon'ble Members would note, there are no major observations.

CHAPTER II: REVISED BUDGET ESTIMATES FOR THE FY 2008-09

Hon'ble Members, I would now like to present the status of the revised budget for the FY 2008-09. The initial approved budget for the FY was Nu. 21,584.720 million. The revised budget stands at Nu.25,519.695 million (as of 15th June 2009) which represents an increase of 18 %. The revised budget includes Nu.286.121 million the details of which are shown in the list of supplementary budget for kind endorsement by the House as shown in *Table 2.3a* below. The revised budget estimates have been prepared after incorporating the supplementary budget approved during the second session of the Parliament and additional resources secured subsequently. *The revised budget is summarized below in Table 2.1.*

Table 2.1: Revised Budget Estimates for the FY 2008-09

	<i>Nu. in millions</i>	
	Original Estimates	Revised Estimates
OUTLAY	21,584.720	25,519.695
1. Expenditure Outlay	23,042.463	26,958.429
i. Current Expenditure	11,471.435	11,910.831
ii. Capital Expenditure	11,571.028	15,047.598
2. Net Lending	-1,457.743	-1,438.734
RESOURCES	15,080.457	23,925.880

I. DOMESTIC REVENUE	11,932.580	14,440.830
<i>i. Domestic</i>	<i>11,932.580</i>	<i>13,848.415</i>
<i>ii. Other Receipts & Balances</i>	<i>0.000</i>	<i>592.415</i>
II. GRANTS	3,147.877	9,485.050
i. Programme Grants	871.200	1,671.200
a) GoI	0.000	1,400.000
b) DPG World Bank	600.000	0.000
c) DANIDA	75.000	75.000
d) The Netherlands	116.000	116.000
e) ADB (2 million USD)	80.200	80.200
ii. Project-tied Grants	2,276.677	7,813.850
a) GoI	0.000	4,433.028
b) Others	2,276.677	3,380.822
DEFICIT (-)/SURPLUS (+)	-6,504.263	-1,593.815
FINANCING (Net Borrowing)	6,504.263	1,593.815
i) Net External Borrowing	125.391	-16.514
a. Project-tied Borrowing	1,649.724	1,778.372
b. Programme Borrowing	160.400	160.400
Less Repayment	1,935.515	1,922.258
ii) Net Domestic Borrowing	6,679.566	1,769.118
a. Project-tied Borrowing	0.000	0.000
Less Repayment	175.303	175.303
b. Resource Gap (Change in Cash Balances)	6,804.957	1,752.604
<hr/>		
<i>GDP estimate</i>	<i>61,942.900</i>	<i>61,942.900</i>
<i>Overall balance % of GDP</i>	<i>10.50%</i>	<i>2.57%</i>
<i>Resource Gap % of GDP</i>	<i>10.99%</i>	<i>2.83%</i>
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The details of the revised budget are as follows:

2.1 Expenditure Estimate

2.1.1 Current Expenditure

The current expenditure projection is revised upwards to Nu.11,910.831 million which is an increase by 3.8 % from the original estimate. Some of the major factors which led to the increase were the establishment of consulate in Kolkata and embassy in Brussels, house rent for RBP personnel, prevention and control of bird flu, recruitment of nurse assistants, retirement benefits, medical treatment outside Bhutan, *kidu* expenses, VVIP visits, national celebrations and other operating expenses met through donor funds. In addition to the RGoB supplementary budget, Nu.275.667 million has also been incorporated under external funding.

2.1.2 Capital Expenditure

The capital expenditure budget estimate has increased to Nu.15,047.598 million, representing a 30% increase from the original capital budget outlay of Nu. 11,571.028 million. The increase is mainly due to the incorporation of additional budget for activities such as farm roads, rural electrification, HRD, vehicles for RBP, national celebrations, minting of cupro-nickel coins, incorporation of project funds for Dungsum Cement Project (DCP) (Nu. 1,598.141 million) and other donor-funded activities amounting to Nu.2,354.185 million.

2.2 Domestic Revenue Estimate

During the year, the projected revenue of Nu.11,932.580 million has been revised to Nu.13,848.415 million. The revision is mainly on account of increase in personal income tax (PIT) due to salary revision, BIT, import duty, excise duty and profit transfer from THPA. *The revised revenue estimates is presented in Table 2.2 below:*

Table 2.2: Revised Revenue Summary for the Financial Year 2008/09*Nu. in millions*

Sources of Revenue		2008-09 (Original)	2008-09 (Revised)
A	Tax Revenue	5,485.999	5,828.807
<i>I</i>	Direct Tax	3,619.268	3,675.889
1	Corporate Tax	2,023.889	1,860.224
2	Business Income Tax	428.064	524.035
3	Personal Income Tax	260.745	371.657
4	Other Tax Revenue	906.570	919.972
<i>II</i>	Indirect Tax	1,866.731	2,152.918
1	Sales Tax	907.102	936.602
2	Excise Duty	850.000	1,055.197
3	Import Duty	100.000	148.088
4	Other Tax Revenue	9.629	13.031
B	Non Tax Revenue	6,446.581	8,019.608
1	Admin. Fees & Charges	277.481	239.719
2	Capital Revenue	91.260	86.720
3	Revenue from Govt. Dept	184.682	250.624
4	Dividend	2,237.098	2,124.569
5	Transfer of Profit	1,971.560	3,653.699
6	Other Non-Tax Revenue	8.531	25.362
7	Interest Receipt from Corporations	1,675.969	1,638.914
Total Domestic Revenue (A+B)		11,932.580	13,848.415

2.3 External Grants

In the FY, the total grants have been revised from Nu. 3,147.877 million to Nu. 9,485.050 million. The increase is mainly due to the confirmation of GoI Programme and Project-tied Grants. Nu. 600 million was projected to be received from the World Bank as Development Policy Grant. It was processed and received last month, and as such, it has been projected in the FY 2009-10 estimates.

2.4 Fiscal deficit & resource gap Estimate

In the revised budget, the estimated fiscal deficit of Nu. 1,593.815 million and resource gap of Nu. 1,752.604 million represents 2.57 % and 2.83 % of GDP respectively. The improvement in the fiscal situation as compared to the original estimate of 11 % of GDP is due to the inclusion of GoI grants and increased domestic revenue collections.

2.5 Borrowings Estimate

Borrowings from external sources have been revised to Nu. 1,938.772 million representing an increase of 7.8 % from the original estimate of Nu. 1,810.124 million. The upward revision is due to the incorporation of loans from IFAD for Agriculture Marketing and Entrepreneur Promotion Program (AMEPP) and from the World Bank for Decentralized Rural Development Programme (DRDP). With the improvement in the fiscal balance due to net increase in the overall resources, the Government did not resort to domestic borrowings during the year.

2.6 Debt and debt servicing Estimate

The total debt outstanding stands at Nu. 35,109.3 million, which is about 56.7 % of GDP. The external debt comprises 96.5 % of the total outstanding debt. The total debt repayment (*i.e. principal plus interest*) is about 5.7 % of GDP, and the external debt service ratio stands at 13.8%.

The total *external* debt outstanding is projected to be about 54.7 % of the estimated GDP. Out of the total outstanding debt, 61.02 % is hydro-power construction loans and 31.98 % availed for other socio-infrastructure development projects.

2.7 Supplementary budgets granted during the year

In the second session of Parliament, a supplementary budget of Nu. 488.439 million (*Nu. 192.073 million for current expenditure and Nu. 296.366 million for capital expenditure*) was approved. Against this, Nu. 319.434 million only

has been incorporated as on 15th June 2009. The balance amount relating to farm road constructions, rental of buildings for police personnel, remedial measures for stabilization of new township at Dagana are incorporated in the FY 2009-10 as spill-over activities.

Since the last session of Parliament, there has been need for further supplementary budget of Nu. 286.121 million (*as shown under Table 2.3a*) under RGoB funding and Nu.3,952.326 million (as shown in *Table 2.3b*) under external funding, the latter incorporated as authorized under Section 60 of the PFA 2007. Technical adjustments as permissible under Section 55 of the PFA 2007, have been made to cover shortfalls in certain sector activities through re-appropriations.

Table 2.3a: Supplementary budget under RGoB funding – December 2008- June 2009

		<i>Nu. in millions</i>
Sl. No.	Purpose	Amount
1	Additional Equity – BDFC	100.000
2	Minting of 200,000 pieces of cupro-nickel coins, NSCC Secretariat	56.500
3	Procurement of Breast Star (Druk Wangyel & Yulgyel)	1.798
4	Kidu expenses	43.703
5	Establishment costs of new Embassy at Brussels, MFA	16.082
6	Retirement benefits for civil servants	15.000
7	Government hospitality & entertainment expenses under various ministries and agencies	11.400
8	Medical treatment in India	8.570
9	Treatment in third country	6.001
10	VVIP travel outside	8.000
11	Acquisition of land for new township, Paro	5.958
12	Procurement & installation of kitchen items, DNP	2.162
13	Const. of rest room, retaining walls & security rooms, Motithang	2.020

14	Maintenance of Palace	2.000
15	Construction of common work shed for painters/tailors, Motithang	0.077
16	Grants to private medical students (12 students for 6 months)	1.800
17	Tongsa Penlop Scholarships	1.028
18	Civil Service Common Examination Expenses, RCSC	0.976
19	Re-roofing of Govt. institutions (natural calamity), Sagteng, Tashigang	1.536
20	Printing of motor vehicle license, MIC	0.710
21	Entertainment of state guests	0.500
22	Bhutan-India Friendship Car Rally, MFA	0.300
Total:		286.121

Table 2.3b: Supplementary budget under external funding

			<i>Nu. in millions</i>
Sl. No.	PURPOSE	Amount	Funding
1	Implementation of micro, small & medium enterprise sector development programme, MEA	70.429	ADB
2	Consultancy service for urban infrastructure development project MWHS	13.836	ADB
3	Financial sector development project, RMA, MoF	12.500	ADB
4	Rural electrification at Phojikha, MEA	33.150	Austria
5	Development of new system (PLaMs) & capacity building, GNHC	20.141	Austria
6	Feasibility study & preparation of project document for Dagachhu Hydro Power Plant, MoF	18.333	Austria
7	Const. of Astrology School at Pangrizampa, MHCA	8.236	Austria
8	Decentralized natural resource management program, MoA	53.140	Danida
9	Environment sector program support, MoA	42.742	Danida
10	Support for land record system & policy development, NLC	27.208	Danida
11	Capacity building & const. of Tashigang Court, Judiciary	19.150	Danida

12	Installation of new transmitter & training for BBSC staff, MoF	17.622	Danida
13	Institutional capacity building of Bhutan Agro Industries Ltd. MoF	5.430	Danida
14	Agriculture sector support programme for farm machineries, MoA	21.116	EU
15	Const. of decoction unit, MoA	5.000	EU
16	Mitigation of Glacial Lake Outbursts in Punakha, W/ Phodang & Chamkhar in Bumthang	37.915	GEF
17	Procurement of 3 Toyota Hilux, 2 Ambulances & 1 Jumbo truck, MoH	8.230	GFATM
18	Dungsam Cement Project	1,598.141	GoI
19	Const. of Tingtibi-Tongsa/Bumthang transmission line, DoE	209.270	GoI
20	Construction of MRRH & JDWNRH, MoH	428.687	GoI
21	Tata Consultancy Services for DHI, MoF	56.474	GoI
22	Const. of National Council building, MWHS	40.241	GoI
23	Local area network for JDWNRH, MoH	34.000	GoI
24	Support to agriculture marketing programme, MoA	26.111	GoI
25	Const. of Youth Centre, MoE	18.131	GoI
26	Installation of rural telemedicine at BHUs & SAARC Telemedicine site preparation, MoH	12.825	GoI
27	Const. of Babesa MSS, Thimphu Thomdey	10.420	GoI
28	Const. of Gyalpoizhing Nganglam road, MWHS	9.770	GoI
29	Const. of Tashidingkha School, Punakha Dzongkhag	8.740	GoI
30	Infrastructure development, RIM	8.450	GoI
31	Preparation of DPRs for Hydropower Projects of Mangdechhu & Punatsangchhu, MEA	7.500	GoI
32	Const. of Garpawung MSS, S/Jongkhar	5.263	GoI

33	Renovation of W/ Phodang Dzong, MHCA	5.000	GoI
34	Const. of Lunakha-Phulusue farm road, Punakha	5.000	GoI
35	Capacity building of local govt. & rural communities, GNHC	10.926	Helvetas
36	AMEPP Rural Credit Loan to BDFC	29.000	IFAD
37	Const. of farm roads from Khomazam to Khoma, Khardung to Lagay & Menji to Chenling, Lhuentse	19.229	IFAD
38	Const. of farm road from Changmadung to Tokhaphu, Tashi Yangtse	6.845	IFAD
39	Others	753.214	Multi-donor
40	Institutional strengthening of energy sector, DoE	9.103	Norway
41	Institutional & human capacity building, ACC	8.500	SDC
42	Institutional & human capacity building, MoF	6.000	SDC
43	Human Resource Development Project, RCSC	83.650	SDS
44	Institutional & human capacity building, ACC	8.500	UNDP
45	Capacity building & management, RAA	5.982	UNDP
46	Strengthening the role of media, MIC	5.901	UNDP
47	Institutional & human capacity building, ECB	5.035	UNDP
48	Conducting poverty survey & procurement of equipment, GNHC	8.729	UNEP
49	Establishment of internet lines to Gasa & Dagana, BICMA	5.654	USF
50	Establishment of IT Park at Wangchhutaba, MIC	27.281	WB
51	HIV/AIDS & STD prevention & control programme, MoH	18.474	WB
52	Const. of Schools, MoE	14.774	WB
53	Improvement of public financial management programme, RAA	11.184	WB

54	National influenza preparedness programme, MoA	7.544	WB
55	Const. of quarters (matron & warden) for Langdurbi & Bjoka CPSs, Zhemgang	8.600	WFP
	Total	3,952.326	

While presenting the revised budget for FY 2008-09, I would also like to inform the Hon'ble Members that the actual expenditure of the budget is likely to be less than estimated. The Ministry of Finance carried out a review of the budget in January 2009, and found that many agencies had been unable to implement a substantial portion of the budgeted activities. Overall, agencies indicated that about 10% of the approved budget would be unutilised. Many of those activities have been taken out of the budget.

2.8 Economic developments in the FY 2008-09.

In concluding the presentation of the FY 2008-09 revised budget, I would like to present a brief overview of the macro-economic development during the year. During the year, the world economy witnessed a severe financial crisis which has slightly affected the Bhutanese economy primarily on the tourism sector. Nevertheless, the Bhutanese economy is projected to have grown by 8.1% with 1.7 % growth in the primary (*agriculture*) sector, 7.5% growth in the secondary (*industry*) sector and 12.1% in the tertiary (*service*) sector. The share of primary, secondary and tertiary sectors to the GDP are 16%, 45% & 36% respectively.

During the period, Bhutan also witnessed inflation rising from 4.78 % in the last quarter of 2007 to as high as 9.3 % in the third quarter of 2008. Thereafter, it has been declining from 9.04 % in the last quarter of 2008 to 7.21 % in the first quarter of 2009, largely following the Indian inflation trend. The unemployment rate as reported stands at 3.7 %.

The Ngultrum follows the Rupee exchange rate and over the period of one year in 2008, the Ngultrum depreciated by more than 15 % against the US dollar. Due

to such significant depreciation, the Government's budget was adversely affected especially in the repayment of convertible currency loans.

Trade balance continued to remain negative with rising imports and the current account also reflected negative balance. However, the overall balance of payments remained positive with the inflow of capital through loans and foreign direct investment (FDI). As such, the international reserves is projected to increase by Nu. 208.5 million by the end of the financial year. At the end of April 2009, the gross international reserves (*convertible currency and Indian Rupee combined*) were recorded at US \$ 676.02 million.

Developments in the Financial Sector

In the financial sector, the performance of the financial institutions have been satisfactory, with increasing loans, advances and deposits. During the period ending December 2008, the total assets and liabilities of the financial institutions grew by 25.15 %. In terms of share in the credit portfolio, the highest credits availed is seen in the housing sector followed by manufacturing & industry and trade & commerce with share of 26.2 %, 19.8% and 17.2 % in the total credit portfolio respectively.

The Government continued to pursue the policy of financial sector liberalisation. In December 2008, the RMA gave "*In Principle*" approval to three new financial institutions to be established. It will create healthy competition amongst the financial institutions and bring about greater efficiency in their services. On the cautious side, while the financial institutions will provide more financial choices and access to the people, the increase in number of financial institutions will also translate into increasing credit growth and the exposure to bad debts could increase accordingly. Therefore, it is critical for the RMA to implement the monetary policies in a sound manner to prevent any monetary or financial crisis as witnessed in other countries. To enable the RMA to pursue its functions in a professional manner, the RMA Act has been revised and the draft has been submitted to the Parliament.

To improve the lending capacity of the financial institutions, the paid-up capital of the financial institutions have also been increased. This would allow the financial institutions to finance larger projects either independently or through consortium.

CHAPTER III: BUDGET ESTIMATES FOR THE FY 2009-10

Having presented the financial position of the Government for the last two fiscal years, I now have the honour to present the budget estimates for the FY 2009-10. The budget is geared towards achieving the core objective of poverty reduction by pursuing focused socio-economic development strategies within a sound macro-economic framework. The macroeconomic framework is based on the general budget policy and a fiscal framework (BPF). As in the past, the Government is guided by the following policies.

- *avoid current operating deficits;*
- *limit the overall fiscal deficit to GDP at sustainable levels;*
- *keep outstanding debt at internationally accepted thresholds;*
- *keep external debt service to exports ratio at low levels;*
- *limit domestic borrowings by the government to avoid crowding out of private sector borrowings;*
- *maintain the momentum of investments in the socio-economic sectors;*
- *invest in industries with potential for significant revenue and employment generation.*

The budget has been formulated generally in line with the budget ceilings drawn from the Tenth Five Year Plan's (10th FYP's) indicative planning figures of the sectors, Dzongkhags, Gewogs and the BPF mentioned earlier. Whatever plans and programmes agencies may propose, ultimately, it has to remain within the Government's capacity to generate matching resources. Thus, resource availability has been taken into account while considering the budget proposals. The other factor was to consider proposals that would impact positively on the lives of the people, as well as those that fitted with the Government's policies and priorities. *For*

*example, realizing the farm roads' contribution towards enhancing the livelihoods of farmers, all the proposals from the Dzongkhags and Gewogs for the construction of farm roads have been considered, but the targets and financial outlay may have been altered slightly. However, if they are able to implement the budgeted farm roads, more funds can be provided. The budget estimates for the FY 2009-10 is summarized in **Table 3.1** below:*

Table 3.1: Budget Summary for the FY 2009-10

	<i>Nu. in millions</i>	
	Recommended	% of Total
RESOURCES	21,498.389	100
I. DOMESTIC REVENUE	14,108.766	66
i. Tax	7,068.352	33
ii. Non-Tax	7,040.414	33
II. OTHER RECEIPTS	35.800	
III. GRANTS	7,353.823	34
Total GoI	4,372.661	20
Total Others	2,981.162	11
i. Programme Grants	2,263.751	11
a) GoI	1,400.000	7
b) DPG World Bank	445.851	3
c) DANIDA	150.000	1
d) The Netherlands	116.000	
e) ADB (2 million USD)	98.000	
f) DANIDA & UNCDF (USD 1.1 m for Local Govt.)	53.900	
ii. Project-tied Grants	5,090.072	24
a) GoI	2,972.661	14
b) Others	2,117.411	10
OUTLAY	26,304.310	100
I. Total Expenditure	27,421.446	104
i. Current Expenditure	13,594.134	52
ii. Capital Expenditure	13,827.312	52
II. Net Lending	-1,117.136	-4

OVERALL BALANCE	-4,805.921	-18
FINANCING	4,805.921	100
i. Project-tied borrowing	1,851.187	39
ii. Program borrowing (ADB Nu. 196 m + WB Nu. 544.929 m)	740.929	16
iii. Less Repayment	2,287.223	-48
iv. Resource Gap (Change in Cash Balances)	4,501.028	93
<hr/>		
GDP	69,585.997	
Overall balance % of GDP	6.91%	
Resource Gap % of GDP	6.47%	
<hr/>		

3.1 Resources

As reflected in *Table 3.1* above, the total resources for the FY is projected at Nu.21,498.389 million, comprising of domestic revenue of Nu. 14,108.766 million and external grants of Nu. 7,353.823 million. *The details are as follows:*

3.1.1 Domestic Revenue

During the FY, domestic revenue is estimated at Nu. 14,108.766 million, which is 2 % increase from the revised revenue estimate of Nu. 13,848.415 million of the previous year. Increase in revenue is expected from PIT, CIT and dividends, but a decline in revenue is expected in tourism royalty and profit transfer from RMA due to the impact of global economic recession. *The domestic revenue projection for the FY 2009-10 is shown below in Table 3.2:*

Table 3.2: Domestic Revenue Projection for the FY 2009-10

Nu in millions

Sources of Revenue		Amount
A	Tax Revenue	7,068.352
<i>I</i>	Direct Tax	4,722.501
1	Corporate Tax	2,854.886
2	Business Income Tax	563.647
3	Personal Income Tax	417.516
4	Other Tax Revenue	886.452

II	Indirect Tax	2,345.851
1	Sales Tax	1,036.831
2	Excise Duty	1,148.583
3	Import Duty	145.798
4	Other Tax Revenue	14.639
B	Non Tax Revenue	7,040.414
1	Administrative Fees & Charges	253.989
2	Capital Revenue	90.462
3	Revenue from Government Departments	271.385
4	Dividend	4,078.796
5	Transfer of Profit	610.000
6	Other Non-Tax Revenue	27.139
7	Interest Receipt from Corporations	1,708.644
	Total Domestic Revenue (A+B)	14,108.766

As can be seen from *Table 3.1*, there is a resource gap of Nu. 4,501.028 million in the new FY. Further, the recurrent expenditure has been increasing at a faster rate than the internal revenue mainly due to the expanding infrastructure. In 2007-08 FY, current expenditure increased by 27 % while revenue increased by 22 % only. To meet the challenges, the MoF will be introducing measures to expand the revenue base. At the same time, the Government is also considering fiscal incentives to stimulate private sector growth primarily to enhance employment opportunities.

3.1.2 Grants

The total external grants of Nu. 7,353.823 million estimated in the FY is based on the donors' commitments and agreements, including Nu. 600 million Development Policy Grant received from the World Bank at the end of FY 2008-09. It constitutes about 34 % of the total resources (*i.e. domestic revenue plus grants*) and covers about 27 % of the total expenditure.

A significant portion of the grants are provided by the GoI as in the past. For the FY, the total GoI grants of Nu. 4,372.661 million is presently projected,

of which, the Programme Grant is Nu. 1,400 million and the project grants is Nu. 2,972.661 million. The quantum of Project Grants from GoI is expected to increase substantially during the course of the year, as many of the larger identified projects become ready for implementation. I would like to inform the Hon'ble Members that an important component of GoI assistance for the 10th FYP is the Small Development Project (SDP), which could not be implemented as the modality had not been finalised. However, the Honourable Members will be pleased to learn that this will now materialise. Under the initiative of the Honourable Prime Minister, agreement has been reached on the modality. Through this funding source, a large share of the local government activities will be undertaken. Besides the GoI, Project-tied Grants of Nu. 2,117.411 million and Programme Grants of Nu. 863.751 million is expected from other bilateral and multilateral agencies.

Since the inception of the nation's first FYP, the Government has come a long way in enhancing the domestic revenue. Over the years, domestic resources have been able to finance increasing proportions of the developmental needs. However, external grants continue to be an important mode of finance for Bhutan's socio-economic development.

On behalf of the Royal Government of Bhutan, I would like to thank the GoI and other development partners for their continued support.

3.2 Expenditure Outlay

The total expenditure outlay (*i.e. total expenditure + net lending*) for the FY 2009-10 is estimated at Nu.26,304.310 million. It is an increase of 3.07 % from that of the revised expenditure outlay of the FY 2008-09. The increase is within the indicative planning figures of the 10th FYP.

3.2.1 Current expenditure

The estimated current expenditure is Nu. 13,594.134 million, which is about 18% higher than the revised estimates of FY 2008-09. The increase is mainly

on account of salary revision including Provident Fund (PF) contributions, new appointments, enhanced travel budget, budget for new offices, operating costs and interest payments. *Salaries and wages* account for about 43 % of the total current expenditure and is an increase of 23 % as compared to FY 2008-09.

With the expansion of government infrastructures and increase in development activities, the operation and maintenance cost is increasing every year. It is estimated to be Nu. 5,319.784 million for the FY constituting about 39 % of the total current expenditure. In view of the rising expenditure on operation & maintenance, measures are being taken to minimize wasteful expenditures. The MoF has issued circulars on cost cutting measures.

Interest payments for the FY 2009-10 is estimated at Nu. 1,761.529 million, of which, 85 % is on account of loans availed for Tala and Kurichhu hydro-power projects (*Nu.1,497.558 million*). Interest payment for domestic loan is estimated to be about Nu. 67.491 million.

Subsidies is estimated at Nu.649.736 million in the FY. The major portion of subsidy recipients are Druk Air for its interest on loans for the purchase of aircraft (*Nu.132.678 million*), Bhutan Broadcasting Service Corporation (*Nu. 90 million*), Rural Life Insurance scheme (*Nu.34.268 million*) and rural house insurance scheme (*Nu.7.152 million*), Thimphu Thomdey (*Nu. 30.100 million*) and Bhutan Postal Corporation for the City Bus Service and for rural mail delivery. (*Nu. 12.589 million*).

3.2.2 Capital expenditure

Capital expenditure is estimated at Nu. 13,827.312 million which accounts for about 50 % of the total expenditure outlay. Over 70 % of the amount is estimated for financing from external grant and loans. The outlay includes only activities from confirmed grants and loans, and as such the amount may increase through incorporation of additional amounts as and when they get confirmed. *The details of the capital expenditure are provided under sector allocation.*

3.2.3 Net Lending

During the FY, lending to the corporations is estimated at Nu. 693.667 million, of

which, Nu.587 million will be provided to BPC for rural electrification, and the balance is on-lending to BDFC for rural credit related activities. Recovery of loans from the corporations is estimated at Nu. 1,810.803 million of which THP project principal loan recovery accounts for 77 %.

3.3 Financing

3.3.1 External Borrowing

A total external loan disbursement of Nu. 2,592.116 million is estimated in the FY 2009-10. The expected loan includes programme borrowing equivalent of Nu. 544.929 million from the World Bank & Nu. 196 million from the Asian Development Bank. *The details of external borrowings, excluding programme borrowings are presented in Table 3.3 below:*

Table 3.3 : External Borrowings

		<i>Nu. in millions</i>
Sl. No.	Lender	Amount
1	Asian Development Bank	745.427
2	International Fund for Agricultural Development	156.745
3	Japan International Cooperation Agency	500.000
4	World Bank	449.015
TOTAL		1,851.187

3.3.2 Internal borrowing

If the planned and budgeted activities of the FY are implemented as expected, the Government will resort to internal borrowing to the extent of Nu. 4,501.028 million. In order to do this, the Ministry of Finance will introduce Treasury bills (T-bills) for which details are currently being worked out. The T-bills will not only help to finance the resource gap but also facilitate the development of a capital market in the country.

3.3.3 Debt Servicing (principal repayments)

The total principal repayment is estimated to be Nu. 2,287.223 million, of which, Nu. 2,111.920 million (92 %) is on account of external loans and Nu. 175.303 million for domestic loans. The debt service ratio is projected to remain at 9.20 %. *The details of the principal loan repayment by lender are presented in Table 3.4 below:*

Table 3.4: Principal loan repayments for the FY 2009-10

		<i>Nu. in millions</i>
Sl. No.	Lender	Amount
1	ADB	210.221
2	Austria	125.302
3	Denmark	85.856
4	GoI	1,581.840
5	IFAD	31.676
6	World Bank	77.025
Total external principal repayment		2,111.920
Total internal principal repayment		175.303
Grand Total		2,287.223

3.4 Budget Estimates for Activities implemented by Dzongkhags and Gewogs

The combined budget estimates of all activities implemented by the Dzongkhags & Gewogs comes to Nu. 6,928.205 million, as shown in *Table 3.5* below. It constitutes about 26 % of the total expenditure outlay and an increase of 11 % over their revised budget of the FY 2008-09. Of the total estimated amount, 87 % will be implemented by Dzongkhags and 13 % by Gewogs.

Table 3.5: Summary of Budget for Activities implemented by Dzongkhags & Gewogs

Description	<i>Nu. in millions</i>	
	2008-09 Revised Budget	2009-10 Budget Estimates
Dzongkhags	5,050.778	6,001.676
Current	3,220.275	3,758.801
Capital	1,830.503	2,242.875
Gewogs	926.348	926.529
Current	114.930	135.297
Capital	811.418	791.232
Dzongkhags & Gewogs	5,977.126	6,928.205
Current	3,335.205	3,894.098
Capital	2,641.921	3,034.107

Activities implemented by Gewogs include construction of farm roads, Gewog offices, irrigation channels, water supply, RNR activities, and others. Activities which are larger and/or cover more than one Gewog or which are beyond the capacity of a Gewog are implemented by the Dzongkhags. Besides what the local authorities implement, there are many other activities in the Gewogs and Dzongkhags which are implemented by the central organisations. The amount shown above does not include such activities implemented by Dzongkhags and central agencies. *Including all such activities, the actual investment in the local areas are considerably higher.*

Besides, Gewog offices and RNR centres have been determined to be standard facilities in every Gewog. Therefore, for the Gewogs which lack these facilities, the budget provided for the construction of these standard facilities are *over and above their budget ceiling.*

It may also be mentioned that the ceilings *have not been applied strictly* and particularly for the construction of farm roads as this activity is the highest in demand and also the most effective in bringing about rapid development of

the rural areas. Their *implementation capacity* has however been taken into account, but assurances have been given that more funds will be provided for this if capacity improves. Most of the Gewogs and Dzongkhags do not have adequate number of technical manpower to carry out many activities, and as a result most of the activities spill over to the next financial year.

In addition, the local governments will benefit from the Constituency Development Grant activities. As approved by Parliament, the Government introduced the programme for the Members of the National Assembly. Detailed rules of implementation and reporting have been issued. The grant will enable local communities to meet unplanned needs and those not covered under the normal budgetary activities.

The details of the capital activities are explained in the respective sectors.

3.5 Sector allocations

The sector-wise allocation is given in the **Table 3.6** below:

Table 3.6: Sector allocation for the FY 2009-10

Sectors	<i>Nu. in millions</i>			
	Current	Capital	Total	Percent
Social Services	4,409.630	3,210.080	7,619.710	25.1%
Health	1,396.266	914.059	2,310.325	7.6%
Education	3,013.364	2,296.021	5,309.385	17.5%
Economic and Public Services	2,728.738	6,994.595	9,723.333	32.0%
Agriculture	1,445.722	1,946.521	3,392.243	11.2%
Mining & Manufacturing Industries	223.974	313.147	537.121	1.8%
Roads	252.316	2,470.545	2,722.861	9.0%
Housing & Community Amenities	371.767	909.433	1,281.200	4.3%
Communications	380.087	635.483	1,015.570	3.3%
Energy	54.872	719.466	774.338	2.5%
Religion & Cultural Services	485.546	584.561	1,070.107	3.5%
Law and Order Services	1,419.535	830.067	2,249.602	7.4%

General Public Services	2,789.156	2,208.009	4,997.165	16.4%
National Debt Services	1,761.529	2,980.890	4,742.419	15.6%
Repayment	1,761.529	2,287.223	4,048.752	13.3%
Lending	0.000	693.667	693.667	2.3%
Total	13,594.134	16,808.202	30,402.336	100.0%

3.5.1 Social Services

As always, high priority is given to the health and education sectors. The two sectors combined receive the highest share of about 25 % of the total budget, a trend which has been maintained over the years.

Health

The overall thrust of the health sector is to improve the quality of life through sustained professional health care system. *The major activities in the health sector for the FY are as shown in Table 3.7a.*

Table 3.7a: Major areas of expenditure under health sector

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Funding
1	Procurement of mosquito nets under vector-borne disease control program	22.500	GFATM
2	Procurement of CD 4 and Elisa machines	6.575	GFATM
3	Const. of 150-bedded Central Regional Referral Hospital at Gelephu	20.000	GoI
4	Const. of 40-bedded Samtse Hospital	19.000	GoI
5	Const. of public health laboratory, Thimphu	15.000	GoI
6	Procurement of insecticides, Malaria Control Programme	5.000	GoI
7	Procurement of hospital equipment	120.967	RGoB
8	Const. and rehabilitation of RWSS (for Dzongkhags)	119.860	RGoB
9	Const. of BHUs in Dzongkhag budget	115.903	RGoB
10	Procurement of essential drugs	110.000	RGoB
11	Treatment of patients in India, JDWNRH	94.909	RGoB

12	Procurement of hospital expendable materials	85.000	RGoB
13	Expansion of JDWNRH (spill-over and additional works)	42.795	RGoB
14	Replacement of 10 ambulances	30.000	RGoB
15	Maintenance of hospital equipment	7.429	RGoB
16	Const. of car park and site development at Mongar Regional Referral Hospital	6.328	RGoB
17	Expansion of Mongar Regional Referral Hospital (spill-over)	6.200	RGoB
18	Const. of Out-reach clinics	45.000	RGoB
19	Procurement of vaccines	13.900	UNICEF
20	Procurement of materials for school water supply schemes	11.712	UNICEF
21	Set up laboratory information system under public health laboratory	6.240	World Bank

The budget under consideration has provided for constructions of one regional hospital, 1 Dzongkhag hospital, 55 ORCs, 18 new BHUs, 3 reconstructions and relocations of BHUs and two up-gradations of ORCs to BHUs. As per the commitment of the Government to equip every district hospital with a minimum of 2 ambulances, the budget also includes the supply of ten ambulances during the FY.

Water supply for the rural areas is also one of the top priorities of the Government. Due to lack of proper maintenance, some of the previously constructed schemes have become non-functional.

Many others have become defunct as water sources have dried up. The budget covers 246 new water supply schemes, 171 rehabilitations and 30 source protections.

One of the serious constraints in the health sector is the shortage of doctors and other medical professionals. Towards meeting this shortage, the Government has regular programmes of scholarships. In this budget, a sum of Nu. 71.315 million has been allocated to cover expenses for both on-going and new scholarships of 177 doctors, nurses and technicians. In addition, in order to accelerate the mitigation of the shortage, a scheme to subsidize private medical students has been introduced for which an amount of Nu. 8.1 million has been kept aside.

Education

As enshrined in the Constitution, the provision of free education up to tenth standard is the responsibility of the state. The Government will endeavour to enhance accessibility and improving the quality of education. To achieve these education goals, the Government continues to provide additional education infrastructures, teachers and instructors. The new constructions and up-gradation of existing infrastructures as listed in **Table 3.7b** are some of the major components of the education budget in Dzongkhags and Gewogs. The budget also covers scholarships for 475 existing students (*Nu. 122.057 million*) and for 268 new students (*Nu. 70.495 million*).

Out of the total budget allocated to the education sector, Nu. 132.284 million is kept for the Royal Education Council (REC) which was set up towards improving the quality of education. The budget is mainly for consultancy services (*Nu. 104.14 million*). *The list of major activities of the education sector is presented in Table 3.7b below.*

Table 3.7b: Major capital works in the education sector

Sl. No.	Activity	<i>Nu. in millions</i>	
		Amount	Funding
1	Up-gradation of Peljorling MSS, Samtse	18.000	GoI
2	Expansion of Gelephu LSS, Sarpang	9.000	GoI
3	Expansion of Damphu LSS, Tsirang	8.190	GoI
4	Const. of staff quarters, hostel, etc. at Mandalgang MSS, Tsirang (spill-over)	6.560	GoI
5	Const. of Karmaling HSS, S/Jongkhar (New)	8.000	GoI
6	Const. of admn. & academic block at NID, Khaling (spill-over)	32.300	RGoB
7	Const. of hostels & MPH, Thinleygang MSS, Punakha (spill-over)	16.900	RGoB
8	Const. of Class Rooms, Phuentsholing LSS, Chhukha	8.000	RGoB
9	Const. of MPH at Chamgang LSS, Thimphu (spill-over)	8.000	RGoB

10	Const. of MPH at Genyekha LSS, Thimphu (spill-over)	7.500	RGoB
11	Const. of MPH at Garpawung MSS, S/Jongkhar (spill-over)	7.800	RGoB
12	Consultancy, Royal Education Council	107.130	RGoB
13	Const. of academic block,, staff quarters and hostel at Buli MSS, Zhemgang (spill-over)	40.680	WB
14	Const. of academic block and staff quarters at Sonamthang MSS, Zhemgang (spill-over)	13.910	WB
15	Const. of academic block, staff quarters and hostel at Autsho MSS, Lhuentse (spill-over)	34.340	WB
16	Const. of MoE Secretariat building, Thimphu (spill-over)	30.000	WB
17	Const. of academic block at Changzamtok MSS, Thimphu (spill-over)	17.000	WB
18	Const. of academic block and principal's quarter at Kuzugchen LSS, Thimphu (spill-over)	15.770	WB
19	Const. of academic block and principal's quarter at Rinchhen Kuenphen LSS, Thimphu (Spill-over)	11.640	WB
20	Const. of academic block, staff quarter and hostel at Bartsham MSS, Tashigang (spill-over)	24.260	WB
21	Const. of academic block and staff quarter at Tashigang MSS (spill-over)	16.290	WB
22	Const. of academic block, hostels, principal's quarter etc. at Dungtsi MSS, T/gang (spill-over)	10.000	WB
23	Const. of academic block, staff quarters and hostel at Lobesa MSS, W/Phodang (spill-over)	23.180	WB
24	Const. of academic block and staff quarter at Ramjer MSS, T/Yangtse (spill-over)	16.040	WB
25	Const. of academic block and staff quarters at Lango MSS, Paro (spill-over)	15.250	WB
26	Const. of academic block, staff quarters and hostel at Dametse MSS, Mongar (spill-over)	14.450	WB
27	Const. of academic block, staff quarters and hostel at Tendu MSS, Samtse (spill-over)	11.150	WB
28	Const. of academic block, staff quarters and hostel at Tshapel LSS, Ha (spill-over)	8.080	WB
29	Const. of Gelephu Education Regional store, Sarpang (spill-over)	6.750	WB

Human Resource Development (HRD)

The Government has always accorded priority towards human capital investment to improve efficiency and professionalism of the civil servants. Although this is not a sector as such, because of its importance, a separate mention of it is made here. During the FY, besides health and education sectors, the Ministry of Agriculture is allocated Nu. 55.498 million, the Ministry of Works and Human Settlement with Nu. 35.674 million, while there are also provisions in other government agencies.

The major HRD provisions for various agencies are presented in Table 3.7c below.

Table 3.7c: Human resource development budget

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Funding
1	Post graduate scholarship, RCSC	94.000	GoI/SDS
2	Capacity development of micro, small and medium enterprise sector development program, MEA	4.885	UNDP
3	Capacity building, DUDES, MWHS	17.803	Danida/ SDS
4	Capacity building of energy sector, MEA	10.746	GoI
5	Undergraduate scholarship for students, MoE	192.552	RGoB/GoI
6	Fellowships for MoE	5.000	IDA
7	Distance education and award bearing programs for teachers, MoE	25.425	RGoB
8	Capacity building, MoF (DPA)	6.477	Danida
9	Post graduate & diploma courses in RIM	16.584	RGoB
10	Capacity building, ACC	2.500	SDC
11	Capacity building, Sustainable Development Secretariat	8.000	SDS

12	Capacity building, GNHC	18.536	SDS/ UNDP
13	Capacity building, National Statistics Bureau	4.662	UNFPA/ UNICEF
14	Capacity building of health personnel (non-clinical), MoH	19.760	Multi-donors
15	Specialization, masters, diploma courses for doctors, nurses and technicians, MoH	71.315	RGoB/ Multi-donors
16	E-Governance development training programme, MIC	4.200	GoI
17	Capacity building, Judiciary	6.490	Danida
18	Capacity development, NEC	4.000	Danida
19	Training for police personnel, RBP	8.384	RGoB
20	HRD for private and corporate sector, MLHR	4.190	GoI
21	Capacity building, MoA	84.189	EU/ GoI

3.5.2 Renewable Natural Resources (RNR) Sector

Poverty in Bhutan is concentrated in the rural areas, where people depend on agriculture for their livelihood. One of the primary constraints to bringing about further improvements in the rural areas has been the lack of roads. Roads not only enable faster service delivery but also helps optimise the utilisation of service facilities. The Government has therefore placed considerable importance on the construction of farm roads, especially to the Gewog centres.

In line with this objective, Nu. 248.556 million has been provided for construction of new farm roads (203 km) and there is additional allocation of Nu.149.276 million for spill-over construction of farm roads (115 km) from last FY. For renovation, improvement and up-gradation of existing farm roads, budget of Nu. 29.433 million is earmarked. Besides, a pool provision of Nu. 200 million is kept as *reserve for the construction of farm/ feeder roads* that will be made available based on the work progress and readiness to start new ones.

In particular, one of the commitments of the Government is to provide motorable road access to all the Gewog centres. There are 66 Gewogs which do not have motorable road access. In the budget, Nu. 80 million has been provisioned to construct road access to 19 Gewog centres and work continuation of 7 Gewogs. Some of the roads are long and the provision kept is only for what can be done in the FY. Out of the 66 Gewogs, construction of roads to 14 Gewog centres depends on the prior completion of other main roads.

At this juncture, it is appropriate to mention that *resources are being mobilised* in earnest for the construction of rural roads. The Government is confident that the targets will largely be met. As of now, the sources for rural roads are WB, ADB and IFAD, besides the Government’s own resources. Negotiations are going on also with Danida for their mixed-credit scheme, and with Japan Fund for Poverty Alleviation (JFPR). Substantial amounts are also expected from the GoI under the Small Development Project funding window, which will become operational in the coming months.

Another important rural development programme budgeted in the FY under this sector is the *constructions of RNR centres* which are part of the standard facilities for a Gewog. Currently, there are 92 Gewogs which do not have RNR centres. Budget provision has been made for the construction of 39 RNR centres. *The budget projected for some of the major activities under the RNR sector is presented in Table 3.8 below:*

Table 3.8: Major capital works in the RNR sector

		<i>Nu. in millions</i>	
Sl. No.	Activity	Amount	Funding
1	Development of infrastructure at national feed & fodder development, Bumthang (spill-over)	14.400	GoI
2	Const. of regional poultry breeding centre, Sarpang	7.000	GoI
3	Const. of quarantine stations, Gelephu and S/Jongkhar	7.345	Gol

4	Commercial pig production model farm, Yusipang	12.520	GoI
5	Const. of national animal hospital, Chhubachhu, Thimphu	22.750	GoI
6	Const. of national centre for animal health, Serbithang	14.101	GoI
7	Const. of standard national veterinary laboratory Serbithang, Thimphu (spill-over)	17.000	GoI
8	Development of regional veterinary laboratories, Kanglung, Tsimasham, Zhemgang, W/Phodang & G/phug	8.606	GoI
9	Dzongkhag vetrnry. hospital const., P/ling	6.000	GoI
10	Producing, processing & marketing dairy products, MoA	19.500	GoI
11	Strengthening of disease surveillance and diagnosis capacity	7.280	GoI
12	Strengthening of regional pig breeding centre, Lingmithang	6.900	GoI
13	Const. of class rooms at UWIEFS (spill-over)	9.130	McArthur
14	Const. of hostel at UWIEFS, Bumthang (spill-over)	13.160	McArthur
15	Const. of laboratory building (UWIEFS), Bumthang (spill-over)	7.500	McArthur
16	Dog Control Programme	10.000	RGoB
17	Const. of BAFRA offices in Gasa, Dagana, Samdubchheoling, Zhemgang & Lhuentse	13.260	RGoB
18	Const. of barracks at Royal Manas National Park (spill-over)	8.700	RGoB
19	Construction of 52 irrigation channels	27.036	RGoB
20	Const. of RNR centre at Sampheling Gewog, Chhukha	5.000	RGoB
21	Const. of RNR centre at Gesarling, Dagana (spill-over)	6.000	RGoB
22	Const. of cold storage, National Post Harvest Centre, Paro	7.700	RGoB
23	Const. of RNR centre at Chhubu, Punakha	5.500	RGoB
24	Const. of RNRC cum staff quarter at Sagteng, Tashigang	6.000	RGoB

25	Re-location & re-const. of RNRC at Kanglung, Tashigang	6.000	RGoB
26	Re-location & Re-Const. of RNRC at Phongmey, Tashigang	6.000	RGoB
27	Const. of RNR centre at Genyekha, Thimphu	8.000	RGoB
28	Const. of RNR centre at Kawang Gewog, Thimphu (spill-over)	5.500	RGoB
29	Const. of RNR centre at Dunglagang, Tsirang (spill-over)	5.200	RGoB
30	Const. of RNR centre at Patalay, Tsirang (spill-over)	5.200	RGoB
31	Const. of RNR centre at Phuentenchhu, Tsirang (spill-over)	5.200	RGoB
32	Const. of RNRC - Ramjer, Bumdeling & Khamdang, Tashi Yangtse	9.000	RGoB
33	Const. of RNR centre at Dangchhu, W/Phodang	5.000	RGoB
34	Renovation of 83 irrigation channels	24.431	RGoB
35	Reserve for new construction of farm roads	200.000	RGoB
36	Land management campaign	5.500	RGoB/ GoI
37	Construction of farm roads (203 kms)	248.556	Various
38	Construction of farm roads (115 kms) – spill-over	149.276	Various
39	Renovation and improvement of farm roads	29.433	Various

3.5.3 Trade, Industry and Private Sector Development

Being one of the key sectors which can provide opportunities for economic growth and employment, considerable importance have always been placed on this. The number of industries with a relatively small resource base today is a testimony to that. While in the past large industries were initiated by the Government due to lack of capital and experience in the private sector. Over the years, the private sector gained strength and today they are able to undertake large projects as well. Thus, more and more, the Government's main role is in creating and improving the enabling environment. Towards that, the Private Sector Development Committee has been revitalised, the *Economic*

Development Policy is being developed with appropriate fiscal incentives and the *Foreign Direct Investment Policy* is being revised. Thus, the budget includes the operational expenses of the agencies involved, and the expenditure on the development and maintenance of industrial sites. The fiscal incentives the Government initiated in the past had mixed results. The new incentive scheme will therefore be more focussed. Other support to the private sector include the continuation of assistance to the private sector people in attending trade fairs and other relevant meetings, and HRD. *The major activities included in the FY 2009-10 budget are highlighted in Table 3.9 below:*

Table 3.9: Major capital works in the trade and industry sector

Sl. No.	Activity	Nu. in millions	
		Amount	Funding
1	Development of industrial system and Industrial Act, MEA	5.000	RGoB
2	Dredging of river beds at Pasakha, Chhukha	2.000	RGoB
3	Development of micro, small and medium enterprises, MEA (Spill-over)	42.408	UNDP
4	Construction of new water supply line at Pasakha, Chhukha	9.409	UNDP
5	Road black topping at Pasakha Industrial Estate, Chhukha (spill-over)	6.516	UNDP

3.5.4 Tourism Sector

Tourism is a major service industry in Bhutan. It not only generates valuable foreign exchange and revenue for the Government but also provides employment to the Bhutanese. In 2008, there were over 27,000 tourists who visited Bhutan, and in the FY 2008-09, the revenue from tourism is projected to be Nu. 490.1 million, which is an increase from Nu. 435 million of actual revenue collected in FY 2007-08. However, tourism revenue is projected to decline to around Nu. 417 million in FY 2009-10 with decreasing number of tourists mainly due to the impact of the global recession. While the impact is inevitable, it is expected that the recession will be over soon and the world economy will pick up once again. It is most crucial

for Bhutan as we have developed a great deal of capacity in this sector.

During the FY, the most significant budget for the sector is the amount of Nu.166.231 million allocated for completing the construction of the Hotel and Tourism Management Training Institute in Motithang including operation and maintenance. Although not large, another activity budgeted for, that is significant in terms of the benefits, is the construction of road-side amenities for tourists. *The major tourism related activities included in the FY are highlighted in Table 3.10.*

Table 3.10: Major capital works in the tourism sector

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Funding
1	Tourism Master Plan	2.200	Austria
2	Construction of Hotel Tourism Management & Training Institute, Thimphu	163.045	Austria & RGoB
3	Development of Dur Tshachhu, Bumthang	3.060	Helvetas
4	Development of road amenities at various tour spots	4.000	RGoB
5	Market strategy development	4.000	RGoB
6	Development & screening of promotional films on Bhutan	3.200	RGoB
7	Sustainable tourism development at Zhemgang	3.270	SDS
8	Restoration of heritage village at Zhemgang	2.715	SDS

3.5.5. Vocational Training and Employment

Vocational training is one of the key strategies of the Government to absorb the growing number of youth in gainful employment. During the FY 2008-09, the Government established two Internship Service Centres in Thimphu and Tashi Yangtse. There are now nine vocational training institutes imparting various skills to the job-seekers. In the current FY, two new training institutes i.e. VTI in Jigmeling and Zorig Chusum in Tsirang are to be established

and budget has been provisioned accordingly. Besides imparting skills, the Government continues to study, identify and implement strategies to generate employment and reduce the unemployment rate to below 2.5 % in the 10th FYP. For youth pre-employment program, a budget provision of Nu. 7.2 million is kept to cover six months wages for around 666 job seekers @ Nu. 1,800 per month. The provision for the youth pre-employment is based on the existing arrangement where the monthly wages are shared in the ratio of 60% by the government and 40% by the prospective private sector employer. *The major activities budgeted in the FY are as in Table 3.11:*

Table 3.11: Major capital works in vocational training & employment sector

Nu. in millions

Sl. No.	Activities	Amount	Funding
1	Rural skill development, MLHR	20.498	ADB
2	Training on occupational skills & standards, MLHR	6.445	Danida
3	Development of quality assurance system, MLHR	4.195	Danida
4	Development & implementation of national accreditation system, MLHR	3.018	Danida
5	Establishment of new VTI, Jigmeling, Sarpang	14.875	GoI
6	Establishment of new institute of Zorig Chusum, Tsirang	14.875	GoI
7	Special training for schools leavers, MLHR	8.400	GoI
8	Occupational health and safety, MLHR	4.800	GoI
9	Special skills development programme, MLHR	3.180	GoI
10	Equipment for VTIs and Zorig Chusum	40.000	RGoB
11	Const. of river protection wall, Rangjung VTI	20.000	RGoB
12	Const. of class III & IV staff quarters, Rangjung, Tashigang	8.544	RGoB

13	Youth pre-employment engagement programme, MLHR	7.200	RGoB
14	Const. of administrative block, IZC, Tashi Yangtse	6.930	RGoB
15	Const. of auto workshop, Samthang, W/ Phodang	5.900	RGoB
16	Const. of mechanical workshop shed, VTI Chhumey, Bumthang	2.330	RGoB
17	Labour force survey, MLHR	2.000	RGoB

3.5.6. Roads

Over the years, the Government has built 1,634.3 km of expressway and national highways, 481.2 km of district roads, 809.2 km of feeder roads, 150.6 km of urban roads, 716.9 km of farm roads and 559.6 km of forest roads. The construction of roads in Bhutan is costly given the mountainous and fragile terrain of the country. However, the development of road networks remains one of the top priorities of the Government. In the FY, a budget provision of Nu. 854.997 million is kept for road resurfacing, improvement and maintenance, Nu. 961.716 million for road constructions and Nu. 283.601 million for construction of bridges. *The list of major works are presented in Table 3.12 below:*

Table 3.12: Construction of roads & bridges

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Target (Km/No.)
A	Const. of Primary National Highways (Km)	537.500	95
1	Const. of Nangar-Ura Road, Bumthang	37.500	10
2	Const. of Gyalpoizhing-Nganglam Road, Mongar	295.000	20
3	Const. of Samtse-Phuentsholing Road	50.000	50
4	Const. of Gongphu - Panbang Road, Zhemgang	90.000	5
5	Const. of Tingtibi-Wangduegang Road, Zhemgang	65.000	10
B	Const. of Secondary National Highways (Dzongkhag Roads - Km)	43.850	47

1	Const. of Damji-Zameychhu Road, Gasa	8.850	9
2	Const. of Zameychhu-Gasa Road, Gasa	5.000	13
3	Const. of Halaley-Dorokha Road, Samtse	30.000	25
C	Const. of Dzongkhag Roads (Feeder Roads -Km)	380.366	99
1	Const. of Meritsem-Bongo Road, Chhukha	21.072	17
2	Const. of Dujeygang-Balung Road, Dagana	63.423	8
3	Const. of Autsho-Gumrang Road, Lhuentse	36.653	15
4	Const. of Gorbagtang-Chhali Road, Lhuentse	32.299	12
5	Extension of Lhuentse-Dungkar Road, Lhuentse	6.644	1
6	Const. of Khar-Tsebar Road, Pema Gatshel	53.000	10
7	Const. of Tsebar-Yurung, Pema Gatshel	52.650	9
8	Const. of Kharungla-Kangpara Road, Tashigang	73.000	16
9	Const. of Jangchhubchholing-Tashidingkha, W/ Phodang	25.500	5
10	Const. of Tekizam-Bjena Road, W/Phodang	16.125	6
D	Construction of Bridges (No.)	283.601	16 Nos.
1	Const. of suspension bridges (material procurements only for Dzongkhags)	26.710	SDS
2	Const. of Chamkharchhu Bridge, Bumthang	10.000	1
3	Const. of Amochhu Bridge, Phuentsholing	75.000	1
4	Const. of Zameychhu Bridge, Gasa	9.000	1
5	Const. of Phawan Bridge, Lhuentse	3.600	1
6	Const. of Kerung & Kurungchhu Bridges, Mongar	26.200	2
7	Const. of Zimsorong Bridge, Mongar	25.500	1
8	Const. of Khakari Bridge, Mongar	7.650	1
9	Survey & Design of Gongri Bridge, Mongar	3.927	1
10	Const. of Kameychhu Bridge, W/Phodang	7.020	1
11	Const. of Baychhu Bridge, W/Phodang	6.240	1
12	Const. of Nishoka Bridge (1500 m span), Panbang	30.000	1
13	Const. of Redigang Bridge, Zhemgang	30.000	1

14	Const. of Wangduegang Bridge, Zhemgang	8.877	1
15	Const. of Yesheygangchhu Bridge, Zhemgang	8.877	1
16	Const. of Pangtang Bridge, Zhemgang	5.000	1

3.5.7 Urban Development, Housing and Public Amenities

Currently, there are urban structural plans for 31 towns, of which, the implementation of plans for around 17 towns are underway. The implementation of urban structural plans involves acquiring land, provision of basic amenities and services for which substantial resources are required. *Table 3.13 shows the major activities included in the FY 2009-10 budget.*

Table 3.13: Major activities in the urban development sector

Sl. No.	Activity	Nu. in millions	
		Amount	Funding
1	Development of urban infrastructure, Thimphu	155.906	ADB
2	Development of urban infrastructure, P/ling	41.935	ADB
3	Development of urban infrastructure, Damphu, Tsirang	37.090	Danida
4	Development of urban infrastructure, G/phu	21.930	Danida
5	Development of urban infrastructures, Gyalpoizhing	9.990	Danida
6	Development of urban infrastructure, Tashigang	4.700	Danida
7	Development of urban infrastructure, Samtse	1.700	Danida
8	Const. & furnishing of housing for Ministers & constitutional post holders	132.430	RGoB
9	Major renovation of staff quarters in Thimphu & Phuentsholing	13.500	RGoB
10	Slope stabilization works of new township, Dagana	12.000	RGoB

11	Geological study for new urban towns	11.270	RGoB
12	Government land registration & fees, NHDC	7.000	RGoB

3.5.8. Communications and Transport

The Information and Communications Technology (ICT) sector plays an important role in enhancing socio-economic development. In the FY 2009-10 budget, provision amounting to Nu. 321.8 million is kept for installation of internet broadband. The establishment of an IT Park in Wangchhutaba is another important project in this sector for which a budget of Nu. 12.55 million is earmarked to provide connections for water supply & sewerage, power supply and telecommunications. This project is expected to provide the much needed employment for the Bhutanese youth.

The budget also provides for support to the private media and for the master-plan preparation for establishing domestic airports in Gelephu and Bumthang. *The major activities included in the budget are shown in Table 3.14 below.*

Table 3.14: Major capital works in the communications & transport sector

Nu. in millions

Sl. No.	Activities	Amount	Funding
1	Installation of broadband (Master Plan) in various agencies	321.800	GoI
2	Installation of E-Governance systems in various agencies	63.350	GoI
3	Procurement of traffic safety and communication equipment	16.190	GoI
4	River protection work at Paro Airport	15.000	GoI
5	Expansion of airport terminal building, Paro	15.000	GoI
6	Construction of fire station at Paro Airport	15.000	GoI
7	Construction of runway turn pad, Paro	10.000	GoI
8	Establishment of IT Park at Wangchhutaba	12.550	IDA, WB

9	Construction of bus terminal at Paro	10.000	RGoB
10	Dev. of master plans for Gelephu & Bumthang domestic airports	5.000	RGoB
11	Subsidy to private media organizations, MIC	4.000	RGoB
12	Establishment of community information centres in Gewogs	3.750	RGoB

3.5.9. Energy

The energy sector is the back bone of the Bhutanese economy and given the huge potential, the Government has decided to accelerate the investments in the sector. The Government remains committed to achieve 10,000 MW generation of hydro-electricity power by the year 2020, and as such, budget provisions of Nu. 170.413 million has been kept for the preparation of the Detail Project Report (DPR) for several hydropower projects in the FY. The constructions for the Puna-tsangchhu HP I project has already commenced. As it is outside the normal budget, the budget does not feature here.

The target of 100 % rural electrification by the year 2013 remains one of the top priorities of the Government, and therefore, a budget provision of Nu. 983.955 million is earmarked for the FY 2009-10 which is an increase from Nu.656.787 million kept during the FY 2008-09. There are over 42,000 households yet to be provided electricity within the remaining 4 years of the 10th FYP. The FY 2009-10 budget will provide electricity to 15,778 households.

Of the total estimate of Nu. 983.955 million, the Government is resorting to external soft loan from JBIC & ADB and grants from Austria to the extent of Nu. 633.620 million. The balance of Nu. 350.335 million is from RGoB as counterpart funds. The Government is confident that the target of full rural electrification will be achieved as resource mobilization for this purpose is very likely to be successful. *The major activities under this sector are listed in **Table 3.15** below.*

Table 3.15: Major capital activities in the energy sector

Nu. in millions

Sl. No.	Activity	Amount	Funding
1	Rural electrification (RGoB counterpart for JBIC)	252.138	RGoB
2	Rural electrification under JBIC	500.000	JBIC
3	Rural electrification (ADB phase IV)	87.000	ADB-IV
4	Rural electrification (RGoB counterpart for ADB Phase IV)	86.353	RGoB
5	DPR for Kuri-Gongri (1,800 MW)	71.886	GoI
6	DPR for Chamkharchhu I, Digala (670 MW)	51.781	GoI
7	Rural electrification under ACB-VI Project	46.620	Austria
8	DPR for Kholongchhu, Gomokora (486 MW)	41.746	GoI
9	Preparation of national transmission grid development Master Plan	30.000	GoI
10	Solar electrification at Bumthang, P/Gatshel, S/Jongkhar, T/phu, T/gang, T/Yangtse & Mongar	37.731	RGoB
11	Installation of early flood warning system in Punakha, W/Phodang and Chamkhar Valleys	23.620	UNDP
12	Rural electrification under accelerated RE project	11.844	RGoB
13	Diesel power subsidy for Panbang Dungkhag	8.000	RGoB
14	Integrated energy master plan	6.000	GoI
15	Hydropower development at Lingzhi (100 kw)	5.804	RGoB
16	DPR for Sunkosh (4060 MW)	5.000	GoI
17	Institutionalization of cleaner technology environment management	5.000	Danida
18	Const. of meteorology & hydrology site office, Sumpa, Lhuentse & Sherimung, Mongar	3.962	RGoB
19	Hydropower development at Soe Jangothang (50 kw), Thimphu	3.869	RGoB
20	Equipment procurement for flood warning system	2.300	GoI

3.5.10 Cultural Services

Being one of the pillars of Gross National Happiness, the conservation and promotion of religious and cultural traditions, heritage and institutions is of high significance to Bhutan. During the year, a substantial budget has been earmarked for new construction and renovation of some of the old Dzongs. *The major works under cultural services are listed in Table 3.16 below:*

Table 3.16: Major capital works of the Culture sector

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Funding
1	Construction of Dashag & renovation of Dzong, Lhuentse	25.600	GoI
2	Renovation of Paro Dzong	27.600	GoI
3	Construction of Pema Gatshel Dzong	96.150	GoI
4	Expansion of Tango Buddhist College	17.544	GoI
5	Const. of National Conservation Lab. Thimphu	15.100	GoI
6	Renovation of T/Yangtse Dzong & construction of Dashag, Dagana	31.890	GoI
7	Renovation of W/Phodang Dzong	46.100	GoI
8	Development of Datshang Master Plan	4.700	RGoB
9	Const. of traditional kitchen at Folk Heritage Museum	5.195	RGoB
10	Development of management information system for Datshang	3.700	RGoB
11	Construction of men's hostel, RAPA	1.500	RGoB
12	Construction of aqua-privy toilet in 15 institutions	12.300	UNICEF
13	Supply of safe drinking water in 10 religious institutions	3.350	UNICEF

3.5.11 Law and Order

Besides giving high importance of maintaining law and order and as the Honourable Members are fully aware, particularly at this juncture, it is critical to dispense quality justice for the general public to have faith and confidence in the parliamentary democracy. Therefore, due consideration has been given for ensuring provision of adequate budget for the programmes of the sector. The main agencies are the Judiciary and the Royal Bhutan Police. *The major activities included in the FY 2009-10 budgets of these agencies are as in Table 3.17:*

Table 3.17: Major capital works in the Law and Order sector

		<i>Nu. in millions</i>	
A.	Royal Bhutan Police	Amount	Funding
1	Const. of family quarters, in P/ling, Panbang, Tashi Gatshal, Tsimasham, Dagana, Samtse, S/Jongkhar, Thimphu,	81.400	RGoB
2	Const. of officers' quarters, P/ling	5.000	RGoB
3	Site dev. works for Dolungang Prison, Sarpang	10.000	RGoB
4	Const. of quarter for prison OC, S/Jongkhar	4.000	RGoB
5	Installation of transformer 1500 KVA at HQ, Thimphu	13.000	RGoB
6	Strengthening of security at Chamgang Prison, Thimphu	7.710	RGoB
7	Expansion of facilities for urban detention centres	4.000	RGoB
B.	Judiciary		
1	Const. of Supreme Court, Thimphu	218.790	GoI
2	Const. of Dungkhag Courts at Lhamoidzingkha, Sibusu, Panbang, Jomotsangkha, Samdubchhoeling & Nganglam.	27.600	GoI
3	Const. of District Court, Tashigang	20.000	Danida
4	Const. of District Court, Mongar	11.240	Danida
5	Const. of Dungkhag Court, Gelephu	8.400	Danida

3.5.12 General Public Service

The general public service includes, among others, the activities relating to local Government administrations, finance, audit, foreign, election and anti-corruption offices, Parliament, the Commissions such as National Land Commission, GNH Commission, and National Environment Commission, etc. Some of the significant activities falling under this category *are as follows*:

One of the major activities included is the “Accelerating Bhutan’s Economic Development Project” to be implemented by GNH Commission to increase the scope, strength and effectiveness of our development plans. The project will aim to achieve the three objectives of; i) Improving the efficiency and effectiveness of public services, ii) Generating employment and iii) Enabling and managing change. The Government is in the process of procuring the services of an internationally renowned consultancy firm for this project. The consultancy firm will not only identify areas of concern and develop strategies, but also pilot and implement it. Therefore, this is a unique project of its kind and the Government is confident, it will meet all its objectives and also help achieve other outlined objectives of the 10th FYP. The project is expected to take-off in the FY 2009-10 and it will be for a period of two years. The consultancy cost is expected to be around US \$ 10 million, and a budget of Nu 350 million, is kept in the FY. Although the cost seems high, it is expected to result in equal or more cost savings through efficiency gains.

As the Hon’ble Members are aware, the 16th SAARC Summit will be held in Bhutan in April 2010. This will be for the first time that Bhutan will be hosting such a high level meeting. To coordinate the preparatory activities for holding the Summit, a high level committee under the chairmanship of the Foreign Minister has been set up. As the cost is yet to be properly estimated, a tentative budget provision of Nu 50 million has been kept. The GoI has also been requested to support some of the costs.

Another important initiative that the Parliament has already ratified is the establishment of the SAARC Development Fund (SDF) Secretariat in Bhutan.

While the preparatory activities are going on, a budget of Nu 150 million has been kept to meet Bhutan's annual contribution to the Fund.

Also in this category, one of the important activities is the constructions of Gewog offices. Gewog offices are one of the standard facilities in every Gewog. Currently, there are 34 Gewogs which do not have proper office. In the new budget year, provision has been made for the construction of 17 Gewog offices with a provision of Nu. 20.670 million. *Major capital budgets included under this sector are presented in Table 3.18:*

Table 3.18: Major activities in the General Public Services

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Funding
1	Construction of Gewog Office (17)	20.670	RGoB
2	Loan to RMA for financial sector development, MoF	73.600	ADB
3	Development of new systems (PLaMS) & capacity building for LG, GNHC	11.940	Austria
4	Capacity building for self assessment multi scale project, NEC	10.880	Austria
5	Enhancing adaptive capacity to climate change, NEC/MEA	27.580	Danida
6	Nation-wide land use and land cover classification, National Land Commission	5.380	Danida
7	Capacity dev. for financial decentralization at local levels, DPA	6.090	Danida
8	Capacity building of local governance & rural community, GNHC	8.650	Helvetas
9	Capital grants to BBSC, MoF	73.080	RGoB
10	Construction of sports facilities, BoC	7.100	RGoB
11	Construction of RAA Training Centre cum office at Tsirang	5.000	RGoB

12	Accelerated economic development project, GNHC	350.000	RGoB
13	Survey pegging & monuments (National Land Commission)	91.480	RGoB
14	Contribution to SAARC Development Fund, MoF	150.000	RGoB
15	Const. of security guard quarter & rest house at Motithang Palace, MoF	10.730	RGoB
16	Construction of goldsmith workshop, DNP	6.000	RGoB
17	Construction of vehicle parking below RCSC office	4.800	RGoB
18	Contribution to Indo-Bhutan Friendship Association, MoF	14.340	RGoB
19	Construction of regional immigration office, S/Jongkhar (spill-over)	6.000	RGoB
20	Construction of border check post & wall maintenance, Samtse, S/Jongkhar, Gelephu & Phuentsholing	5.000	RGoB
21	Construction of regional immigration office building, Gelephu	5.000	RGoB
22	Construction of immigration office building, HQ, Thimphu	3.000	RGoB
23	Capital grants to Thimphu City Corporation	55.300	RGoB
24	Capital grants to Phuentsholing City Corporation	31.150	RGoB
25	Field data collection, NSB	7.140	UNFPA
26	Development of medium term fiscal framework, MoF	5.650	WB

Further, in addition to reserves kept for new appointments, establishment of new offices, spill-over works, transfer benefits, retirement benefits, foreign travel and government hospitality, budget provision has been kept for the following purposes as reflected in *Table 3.19* below.

Table 3.19: Contingency Reserves for the General Public Services*Nu. in millions*

Sl. No	Activity	Amount	Remarks
1	Local government elections	165.000	This will be made available to the Election Commission
2	Disaster relief	200.000	Maintained to meet expenses related to restoration works after natural calamities, especially in light of May 2009 flood damages
3	Constituency development grant	188.000	47 constituencies
4	<i>Ad hoc</i> provision for the 16 th SAARC Summit in Bhutan	50.000	A nominal amount is kept. The actual requirement is yet to be ascertained. Some costs are likely to be financed by the GoI.
5	Monsoon restoration works (<i>other than roads</i>)	30.000	A lump sum amount of Nu. 110 m is kept with DoR for monsoon damages caused on roads. This will cover other restoration works for damages caused by monsoon.
6	HM's Relief Fund	20.000	As per Article 14, Section 12 of the Constitution.
7	Grants to private medical students (27 students)	8.100	

As we have been painfully reminded last month, we have to be prepared for natural disasters. The cost of the damages has been estimated at Nu. 719.11 million. Adequate budget provisions have been made for the restoration works in the budgets of the respective sectors. This is besides the normal reserves (*Nu. 30 million in FY 2009-10*) that are maintained for restoration of roads damaged by the monsoon rains. In addition, a reserve of Nu. 200 million has also been provided for. The Government also is undertaking works at the glacial lakes to prevent outburst. A budget of Nu.33.575 million is provided for.

As per the Constitution, a separate budget head exists for HM's Relief Fund, and an amount of Nu. 20 million has been incorporated in the new budget. This budget will be enhanced as and when the balances deplete.

It may also be reported that adequate budget provisions have been made for the independent administration of constitutional bodies, namely the High Court, the Election Commission, the Royal Audit Authority, the Civil Service Commission and the Anti-corruption Commission. For the local government elections, an amount of Nu. 165 million has been kept in reserves.

CHAPTER IV: ECONOMIC OUTLOOK & FISCAL PROJECTIONS FOR THE FY 2009-10 & BEYOND:

The projections for the next two fiscal years are made to provide an indication of the impact of the present budget on the future macro-economic variables. *The projections are as in Table 4.1.*

Table 4.1 : Budget Policy and Fiscal Framework Statement

	Nu. in millions				
	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Revised Budget	Budget	Proj.	Proj.
Total Revenue & Grants	18,316.90	23,925.88	21,498.39	21,108.40	22,427.80
Domestic Revenue	12,346.00	13,848.42	14,108.77	14,256.20	15,118.80
Grants	5,935.40	9,485.05	7,353.82	6,852.20	7,309.00
Project-tied Grants	4,733.00	7,813.85	5,090.07	5,106.00	5,643.00
<i>India</i>	3,571.10	4,433.03	2,972.66	2,800.00	3,080.00
<i>Others</i>	1,161.90	3,380.82	2,117.41	2,306.00	2,563.00
Program Grants	1,202.40	1,671.20	2,263.75	1,746.20	1,666.00
<i>India</i>	1,100.00	1,400.00	1,400.00	1,400.00	1,400.00

<i>Others</i>	102.40	271.20	863.75	346.20	266.00
Other receipts	35.50	592.42	35.80	0.00	0.00
Expenditure + Net Lending	17,913.30	25,519.70	26,304.31	23,459.80	25,078.60
Total Expenditure	19,693.00	26,958.43	27,421.45	24,370.10	26,600.40
Current expenditure	9,725.70	11,910.83	13,594.13	13,664.00	14,214.90
of which interest on Tala loans	1,295.90	1,295.90	1,295.90	1,295.90	1,295.90
Capital expenditure	9,967.30	15,047.60	13,827.31	10,706.10	12,385.50
Project tied capital expenditure	5,597.50	10,320.80	6,934.70	7,689.60	9,328.20
Financed by project-tied loans	864.50	2,064.40	1,851.19	2,583.60	3,685.20
Financed by project-tied grants	4,733.00	8,256.40	5,083.51	5,106.00	5,643.00
Other capital expenditure	4,369.80	4,726.80	6,892.61	3,016.50	3,057.30
Net lending (NL)	-1,805.40	-1,438.73	-1,117.14	-910.30	-1,521.80
Advance/Suspense (Net)	25.70	0.00	0.00	0.00	0.00
Fiscal Balance (including all grants)	403.60	-1,593.82	-4,805.92	-2,351.40	-2,650.80
Financing, net	-403.60	1,593.82	4,805.92	2,351.40	2,650.80
Project-tied loans, net	-1,319.20	-158.79	304.89	449.90	1,529.80
Disbursements (1851.2+740.9)	757.60	1,938.77	2,592.12	2,583.60	3,685.20
Repayments	2,076.80	2,097.56	2,287.22	2,133.70	2,155.40
of which Tala & Dagachhu	1,395.20	1,395.20	1,395.20	1,395.20	1,395.20
Resource gap, net	915.60	1,752.60	4,501.03	1,901.50	1,121.00
Domestic financing, net	915.60	1,752.60	4,501.03	1,901.50	1,121.00
Ways and Means, net	915.60	1,752.60	4,501.03	1,901.50	1,121.00

	<i>Percentage to GDP</i>				
Total Revenue & Grants	33.33	38.63	30.89	26.93	25.38
Domestic Revenue	22.46	22.36	20.28	18.19	17.11
Grants	10.80	15.31	10.57	8.74	8.27
Other receipts	0.06	0.96	0.05	0.00	0.00
Expenditure + Net Lending	32.59	41.20	37.80	29.93	28.38
Total Expenditure	35.83	43.52	38.41	31.09	30.10
Current expenditure	17.70	19.23	19.54	17.43	16.09
of which interest on Tala loans	2.40	2.10	1.90	1.70	1.50
Capital expenditure	18.14	24.29	19.87	13.66	14.02
Net lending (NL)	-3.29	-2.32	-1.61	-1.16	-1.72
Fiscal Balance (including all grants)	0.73	-2.57	-6.91	-3.00	-3.00
Resource gap, net	1.67	2.83	6.47	2.43	1.27
Memorandum Items:					
Total government debt (% of GDP)	60.20	56.70	59.30	59.40	63.80
Foreign debt (% of GDP)	57.60	54.70	57.80	58.20	63.00
Of which hydropower debt (% of GDP)	36.30	32.40	32.70	36.30	45.20
<i>Domestic debt (% of GDP)</i>	2.60	2.00	1.50	1.10	0.80
External debt service (% of exports of G&S)	17.00	13.80	9.20	8.00	6.80
Nominal GDP at market prices (Nu. in millions)	54,958	61,943	69,586	78,378	88,360
Real GDP (annual % change)	13.80	8.10	8.10	7.80	7.80

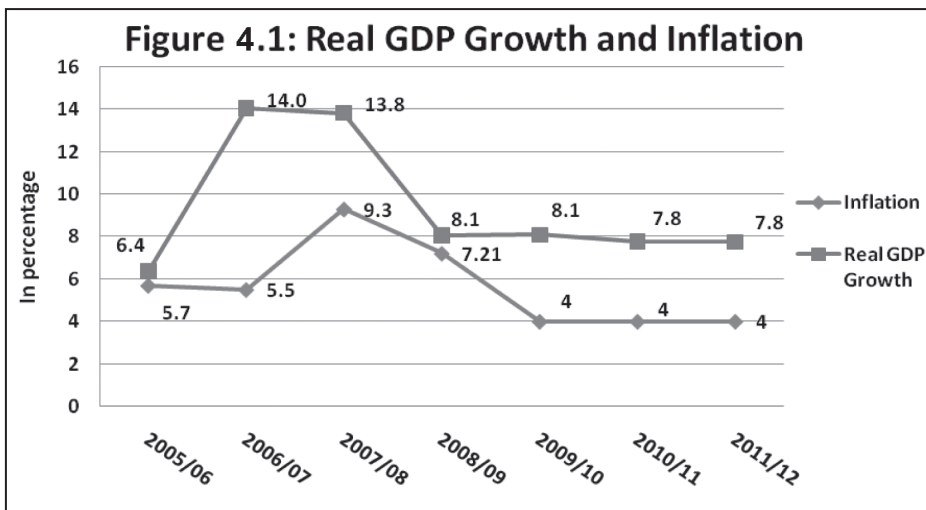
Source: Macroeconomic Framework Coordination Committee.

Economic Growth

During the FY 2009-10, the economy is projected to grow by around 8 % and similar trends are projected in the FYs 2010-11 and 2011-12. The share of primary, secondary and tertiary sectors to the GDP on an average is projected to be 14 %, 46 % & 36 % respectively. The economic growth will continue to be significantly driven by electricity and construction. The high growth in these sub-sectors is mainly due to the major socio-infrastructure developments such as the hydropower project constructions. Also, the impact of the global economic crisis is likely to be minimal as the global economies are expected to recover by 2010. However, in the short run, the negative impact of global recession may continue to be felt mostly on the international reserves, trust funds and the tourism industry. Despite these negative externalities, the Bhutanese economy is projected to grow at a healthy pace.

Inflation

Inflation which was at a high of 9.3 % in the third quarter of 2008, started to fall with decreasing global fuel prices and tradable commodities. As such, inflation is projected to go down to around 4 % in the FY 2009-10 and in the subsequent two FYs as shown in figure 4.1. However, the prices of non-tradable goods and services may increase with increasing disposable income of the Bhutanese people.



Balance of Payments and Reserves

In the external sector, the overall balance of payments is projected to remain positive with significant flow of loans and grants despite the negative current account balance. Therefore, the gross international reserves will continue to be built up and sustain around 7 months of imports of total goods and services in the next three fiscal years. This will be within the constitutional requirement of 12 months essential imports.

Fiscal Position

One of the main aspects of the Government's fiscal policy is to maintain the fiscal deficit to a sustainable level of the GDP, and hence, the fiscal deficit is projected at 3 % in the FYs 2010-11 and 2011-12. However, for FY 2009-10, the fiscal deficit is currently projected at about 6.91 %. Domestic revenue is projected to increase at a steady pace with almost 50% of the total revenue coming from CIT and dividends from hydro-power projects and the corporate sector. The total external grants for FYs 2009-10, 2010-11 and 2011-12 have been projected based on known commitments and disbursement trends.

External Debt Position

Debt Stock

Based on the projected disbursements of committed loans and scheduled repayments, the external debt outstanding for the FY 2009-10 is projected at Nu. 40,217.43 million, which accounts for 57.80 % of the estimated GDP. as presented below in **Table 4.2**. The projected debt stock is 18.69 % higher as compared to the previous FY due to the expected disbursement of the ADB loan for Dagachhu Hydropower project. Further, with the implementation of the mega-hydropower projects, external debt stock is projected to grow at a faster rate than the GDP. Nevertheless, of the total external debt stock, 60.86 % comprises of bilateral loans for hydro-power projects which are self liquidating. The non-hydropower loans account for

about 39.14 % of the estimated GDP and are borrowed from International Financial Institutions at highly concessionary terms.

External debt outstanding as percentage of estimated GDP for the FYs 2010-11 and 2011-12 is projected at 58.20 % and 63.00 % respectively.

Debt Service

Debt service ratio for the FY 2009-10 is estimated at about 9.20 %. With only one large loan (THPP) to be serviced, the debt service ratio is projected to fall during the FYs 2010-11 and 2011-12 as presented in **Table 4.2**. Total debt service ratio is projected to gradually come down from 8.0 % in FY 2010-11 to around 6.8 % in the medium term.

Table 4.2: Projected Debt and Debt Indicators

	2007-08 (Actual)	2008-09 (Revised Estimate)	2009-10 (Estimate)	2010-11 (Projctn)	2011-12 (Projctn)
External Debt Outstanding Total (Nu. m)	31,669.48	33,882.23	40,217.43	45,643.48	55,640.96
<i>Indian Rupee (Rs. m)</i>	<i>17,320.25</i>	<i>18,830.10</i>	<i>20,138.80</i>	<i>23,566.40</i>	<i>30,126.90</i>
<i>Convertible Currency (US \$ m)</i>	<i>334.79</i>	<i>351.50</i>	<i>409.00</i>	<i>464.00</i>	<i>533.80</i>
Hydro-power Debt (Nu. m)	20,475.09	21,425.15	24,477.48	29,132.22	37,893.89
External Debt Outstanding Total (% of GDP)	57.62	54.70	57.80	58.24	62.97
Debt Service Ratio	17.00	13.80	9.20	8.00	6.80

CHAPTER V: REPORT ON STATE-OWNED ENTERPRISES & GOVERNMENT'S SHARES IN COMPANIES

5.1 Performance of State-owned Enterprises (SoEs) & Investments in Companies

The Royal Government has established many companies, and its shares have been divested over the years. Today there are 16 companies in which the Royal Government has the majority shares (*12 fully-owned and 4 semi-owned*). The Government's minority share-holdings are in five companies namely *BNB: 13.61 %*, *BFAL: 25.73 %*, *RICB: 39.25 %*, *PCA: 47.09 %* and *BBPL: 47.74 %*. On the whole, the Royal Government's assets in the various corporations are on a net worth basis Nu. 25,866.41 million or 41.7 % of GDP as of December 2008. *Their financial position as on December 2008 as in Table 5.1 .*

Table 5.1 Financial Position of Companies in which Government has shares.

Nu. in millions

Corporations	Govt.	PBT		Assets		Reserves		Net Assets	
	Holdg	2007	2008	2007	2008	2007	2008	2007	2008
DHI	100 %								
AWP	100%	62.02	53.75	410.55	418.14	211.79	271.95	204.68	238.95
BAIL	100%	3.47	3.67	62.34	62.70	27.81	26.85	56.88	55.91
DGPC	100%	2,939.29	3,064.239	13,863.51	14,273.89	596.417	810.91	7,450.01	7,936.356
BFAL	25.73%	1.57	392.09	1,364.01	1,527.51	297.99	494.00	447.99	644.00
PCA	47.09%	463.68	293.11	1,391.02	1,476.76	787.77	763.54	1,014.43	1,103.54
WCC	100%	2.26	11.10	44.80	40.20	-	-	22.35	30.90
NRDC	100%	138.84	49.64	530.06	522.56	378.36	412.25	408.36	442.25
BBPL	47.74%	44.04	19.86	271.75	248.29	55.66	67.25	202.67	207.25
B. Postal	100%	10.11	20.04	179.12	185.95	66.17	79.47	89.76	103.07
B. Telecom	100%	584.35	297.23	3,113.57	3,151.03	1,218.85	1,280.61	2,072.93	2,134.69
BDFC	87%	69.63	93.20	1,921.46	2,546.16	643.51	738.56	743.51	838.56
BoBL	80%	255.68	241.92	1,9630.17	21,069.29	1,248.20	1,315.82	1,348.20	1,515.82
BNBL	13.61%	362.14	451.15	10,481.06	16,733.96	950.31	933.14	1,021.72	1,288.65
RICBL	39.25%	151.91	170.37	2,022.99	2,920.32	435.54	550.05	531.54	646.05
BBSC	100%	(34.36)	(4.40)	351.19	406.32	325.95	380.34	324.00	373.99
Kuensel	51%	6.65	11.17	169.02	172.80	94.23	97.70	144.23	147.70

Druk Air	100%	31.15	194.94	4,069.81	4,276.35	-		1,631.84	1,786.83
BPC	100%	573.16	927.13	10,933.61	11,858.04	1,410.28	2,815.36	7,771.42	8,701.84
FCB	100%	2.89	(1.34)	278.63	284.94	167.29	168.65	245.83	246.74
STCBL	51%	(12.64)	61.14	467.34	303.00	36.76	79.56	56.76	99.56
Consolidated		5,655.83	6,349.98	71,556.01	82,478.21	8,952.87	11,286.01	25,789.11	28,542.64

The performance of the companies are as summarised in **Table 5.2**.

Table 5.2 Summary Indicators of Performance:

Corporations	Holdings	Return on Capital Employed		Earnings Per Share		Corporate Income Tax		Subsidy	
		2007	2008	2007	2008	2007	2008	2007	2008
DHIL	100%								
AWP	100 %	30.30 %	22.49 %	248 %	215 %	19.46	19.47	-	-
BAIL	100%	6.10 %	6.56 %	12 %	13 %	-	1.10	-	-
DGPC	100%	24.17 %	24.75 %	43 %	43 %	897.57	919.35	-	-
PCA	47.09%	45.71 %	26.56 %	142 %	86 %	142.54	130.92	-	-
BFAL	25.73%	0.13 %	30.73 %	1.05 %	261 %	0.45	113.58	-	-
NRDC	100%	34. %	11.22 %	463 %	165 %	43.31	15.22	-	-
WCC	100%	6.75 %	31.39 %	-	-	0.68	3.15	1.80	1.80
BBPL	47.74%	21.73 %	9.58 %	31 %	14 %	14.33	6.87	-	-
Bhutan Post	100%	11.26 %	19.44 %	46 %	85 %	0.69	6.13	2.50	3.00
Bhutan Telecom	100%	20.59 %	10.13 %	68 %	35 %	178.74	106.28	-	-
BDFC	87%	3.89 %	3.94 %	70 %	93 %	-	-	25.89	30.46
BoB	80%	18.96 %	15.96 %	256 %	121 %	72.34	74.29	-	-
RICB	39.25%	7.36 %	6.29 %	1.58 %	1.77 %	45.57	51.11	-	-
BNB	13.61%	35.44 %	35.01 %	304 %	127 %	112.60	140.79	-	-
BBSC	100%	-7.42 %	-0.85 %	-26 %	-3 %	-	-	49.42	78.44
Kuensel	51%	4.72 %	7.56 %	13 %	22 %	1.99	3.35	-	-
Druk Air	100%	0.80 %	4.80 %	1 %	9 %	-	39.75	135.67	157.66
BPC	100%	5.68 %	8.46 %	10 %	16 %	117.54	257.52	11.50	8.83
FCB	100%	1.18 %	-0.54 %	19 %	-9 %	1.14	-	17.10	16.32
STCB	51%	22.27 %	61.41 %	-63 %	306 %	3.13	18.34	-	-

Income and Net Worth

All companies with Government share-holding, except FCB and BBS, have posted positive results. During the period reported, the companies recorded an average growth of 13 % in terms of turnover compared to 2007. Their gross income was Nu. 18,651.31 million as compared to Nu. 16,538.15 million in the previous year and total profit before tax was Nu. 6,349.37 million compared to Nu.5,655.84 million in 2007 (12.26 %).

Combined net-worth of the companies was Nu. 28,542.64 million as compared to Nu. 25,789.11 million in 2007 recording a growth of more than 10 %. Book value of total assets increased by Nu. 10,922.20 million from Nu. 71,556.01 million to Nu. 82,478.21 million by the end of 2008.

Profitability

Except for BBS and FCB which posted combined loss of Nu. 5.742 million, (*BBS: Nu. 4.4 million and FCB: Nu. 1.34 million*) all other incorporated companies have posted positive results during the year. Bhutan Post, STCBL, DGPC, BNB and BFAL achieved high profitability compared to the previous year with STCBL achieving the highest return on equity of 61.41 %, DGPC 38.61 %, BFAL 60.88 % and BNB achieving 35.01 %.

Compared to the previous year, Bhutan Postal Corporation has achieved marked improvement. It achieved the highest profitability with a Return on Equity (RoE) of 19.44%. Profit before tax (PBT) increased from Nu. 0.60 million in 2006 to Nu. 20.037 million in 2008.

The BoBL, NRDC and Bhutan Telecom among the SoEs, and BBPL and PCA among the non-SoEs, experienced fall in profits during the year.

The net profit of Bank of Bhutan decreased due to cautious approach adopted by the bank with regard to its provisioning for risks. The net profit of Bhutan Telecom decreased due to competition from a new service provider which commenced its business from 2008.

BBS continued to post losses due to the lack of market and the developmental nature of its operations. Nevertheless, its loss declined from Nu. 34.36 million in 2007 to Nu. 4.40 million in 2008. Its gross income was Nu. 43.97 million (*excluding subsidies*), while its expenses were Nu. 151.759 million. During the year, the Government provided subsidies amounting to Nu. 78.44 million for current expenditures and Nu. 28.27 million for capital expenditures.

FCB posted a minor loss of Nu. 1.34 million in 2008 due to high increase in expenditure especially on stock of food commodities. One of the reasons for low profitability in these companies was because of social obligations these enterprises undertake besides their commercial objectives.

Druk Air has improved its financial performance since 2007, and there is a further improvement in 2008. However, this is after discounting the subsidy of interest payments on its loan for aircraft purchase.

Revenue Contributions

The total contribution from the companies in the form of dividend and CIT was Nu. 4,033.014 million constituting more than 32 % of the total domestic revenue in 2008. The hydroelectric generating companies, now consolidated under one company as Druk Green Power Corporation, continued to be the largest source of the Government's revenues. It contributed Nu. 2,702.63 million in the form of taxes and dividends.

5.2 DHI

Since its incorporation on 11th November 2007, DHI prepared its audited annual report for the first time for the year ending December 2008. The total book value of investments of the Government on the date of incorporation was Nu. 15,998.982 million. The year ended with 22 % increase in the net worth coming mainly from transfer of Dungsam Cement Project (*Nu.3,070 million*) and Dagachhu Hydro-power Project (*Nu.270 million*) by RGoB to DHI. DHI's income constitute mainly

of dividends declared by companies with Government share-holdings. During the year, DHI received a total amount of Nu. 2,223.380 million in the form of dividends and a grant amounting to Nu. 31.667 million from the Government of India for its capacity enhancement. Total expenditure for the year was Nu. 67.894 million, bulk of which was incurred on professional consultancy charges and personnel emoluments.

The total remittance from DHI to the Government was Nu. 2,110.493 million compared to Nu. 2,120.446 million received from all these companies in the previous year prior to the formation of DHI.

5.3 National Pension and Provident Fund (NPPF)

The gross income of the NPPF grew by 8.04% from Nu. 392.03 million to Nu. 423.54 million during the year 2007-08 compared to 14.50 % during the previous year. The return on fund was 6.5 % as against 7.04 % in the previous financial year. The decrease was due to the increase in fund size by 16.45 % from Nu. 5,592.19 million during the previous year to Nu. 6,512.07 million and due to adverse challenges encountered during the year in the field of investments. The NPPF declared a rate of return of 6.5 % to its members compared to 6.8 % in the previous year due to subdued returns on investments. The number of pension beneficiaries increased from 490 to 597, and the pension payment increased by 84.6 % from Nu. 10.37 million to Nu. 19.12 million under the civil pension scheme. Under the Armed Forces pension scheme, there were 1,155 pension beneficiaries against 976 in the previous year, and the total payment was Nu. 25.03 million compared to Nu. 18.61 million in the previous year.

In order to improve the future sustainability of the fund, pragmatic reforms have been undertaken during the year through enhancement of contribution rates and rationalization of pension benefits. The pension delivery system have also be been simplified and Bhutan Post appointed as the agent for pension delivery in addition to the Bank of Bhutan.

5.4 Royal Monetary Authority of Bhutan

The Royal Monetary Authority of Bhutan (RMA) derives its income from the investment of foreign currency reserves in secured investments outside the country. The gross operating income of the Authority during the FY 2007-08 was Nu. 927.714 million as against Nu. 963.708 million in FY 2006-07. The decline in the gross income was on account of fall in the interest earnings on the deposits of foreign currency reserves. The net surplus fell by Nu. 134.71 million from Nu. 791.454 million to Nu. 656.746 million compared to the previous year. The decrease was due to reduced interest income and higher interest payments amounting to Nu. 92.749 million on RMA bills.

Total asset increased from Nu. 22,449.099 million to Nu. 26,856.723 million which resulted in improvement in net worth by 57.88 % mainly contributed by increased time deposits of reserves with banks.

CHAPTER VI: REPORT ON TRUST FUNDS

6.1 Trust Funds

As the Hon'ble Members are aware, the Government has established Trust Funds to mobilize and generate funds to carry out specific activities. The status and a brief report on the Trust Funds as follows:

6.1.1 Bhutan Trust Fund for Environmental Conservation (BT FEC):

The pioneer in environmental trust funds, it was established in 1991 with an initial fund of US \$1 million from the WWF-US followed by US\$ 10 million contribution from Global Environment Facility (GEF-World Bank) in 1992. Currently, the total balance stands at US\$ 39.934 million, the increase, amongst others is because of income accumulated from investments. 95 % of the fund at present is invested in the US, of which 75 % is in treasury bills.

The fund is used exclusively for environment related activities. Till date, the fund has contributed around Nu. 97 million to various programmes, of which Nu. 37 million was spent in FY 2008-09.

6.1.2 Health Trust Fund (HTF)

To ensure a sustainable financing mechanism for the essential drugs and vaccines component of primary health care services, the Health Trust Fund was established in 1998. The initial fund was US \$ 1 million from the Royal Government, with major contributions from the Gates Foundation, Summit Foundation and the Government of Norway. Today the fund balance is US \$ 23 million, with continuing contributions from within and abroad and income from interest accumulation. The target capital of the fund is US \$ 24 million. The fund is lying in fixed deposits in local banks and invested in Druk Air bonds while some amount is also invested in short term fixed deposits with the State Bank of India. Till date around Nu 5 million has been utilized on vaccines and drugs from the accumulated income of the fund.

6.1.3 Cultural Trust Fund (CTF)

Recognizing the significance of the nation's cultural heritage and traditions, the Government established the CTF in 1999. With contributions from the Royal

Government and from abroad the fund was instituted with an initial capital of Nu. 31.267 million. At present, the fund balance is Nu. 41.596 million, and the increase is mainly from accumulated interest income. It is maintained in fixed deposits with the Bhutan National Bank. However, the fund is not yet operational.

6.1.4 Universal Service Fund for ICT

In accordance with the Bhutan Information, Communication and Media Act 2006, the Universal Service Fund for ICT was established to compensate any ICT facility provider or ICT service provider who is required to provide universal service. Universal service includes the building of reliable national ICT infrastructure as well as providing access to ICT services in those areas where such services are currently not accessible. Further, the service may also include providing public voice telephony services together with free calls to emergency services and directory assistance, internet access together with free internet access for schools and hospitals etc.

As required by the Act, each ICT licensee should contribute towards the fund as determined by Bhutan Information and Communications Media Authority (BICMA). Currently, the source of the fund is the initial license fees (25%) levied on both Bhutan Telecom Ltd. and Tashi InfoComm Ltd. The fund balance stands at Nu. 360.182 million, which is in current deposits with the Bank of Bhutan.

There are various projects on-going under the fund amounting to around Nu. 309 million. Among these, one significant project in the pipeline is the Rural Communications Project of around Nu.250 million, which targets to connect those *Gewogs/ Chiwogs/villages* which are not accessible to mobile cellular services. Other significant projects are the installation of overhead ground wire optic fibre cable for Tingtibi – Tongsa - Bumthang transmission (*Nu. 43 million*) and installation of transmission link to Gasa and Dagana (*Nu. 1.45 million*).

The following **Table 6.1** shows the current status of the Trust Funds:

Table 6.1: Summary of Trust Funds

Sl. No.	Trust Fund	Amount (2008-09 Budget)	Amount (present level)
1	Bhutan Trust Fund for Environment Conservation	US \$ 32.650 million	US \$ 39.934 million
2	Health Trust Fund	US \$ 22.500 million	US \$ 23.000 million
3	Cultural Trust Fund	Nu. 40.780 million	Nu. 41.596 million
4	Universal Service Fund for ICT	Nu.263.770million	Nu. 360.182 million

CONCLUSION

In concluding, I trust that the budget will be found reasonable, and the House will have no difficulty in endorsing it. The Ministry of Finance took great care to frame the budget, and ensured that the deficit did not rise to very high levels. It was a difficult task to accommodate all the wishes of the people while attempting to contain the deficit at manageable limits. As the Honourable members are aware, a high budget deficit translates into inflation. Although the Government's policy is to limit the deficits to generally not more than about 5 % of GDP, this particular budget projects a slightly higher deficit of over 6 %. Ultimately, the actual deficit will depend largely upon the capacity of agencies to implement the programmes. I would also like to remind the House that as Bhutan is highly import-dependent, a high budget has direct impact on the balance of payments and foreign exchange reserves.

The successful implementation of the budget will also depend on the flow of international assistance as projected in the budget. In this regard, the Government remains ever grateful for the generous assistance of our development partners. As we all remember, the visit of the Indian Prime Minister last year was very important for us in many ways. Amongst others, India committed Nu. 100 billion for Bhutan's 10th FYP. The amount has now

been identified for different purposes, and as always, assistance from India remains pivotal to the successful implementation for our development plans.

With the blessings of our guardian deities, the enlightened and farsighted leadership of our King and the support from the people, I pray that Bhutan will continue to enjoy peace, prosperity and happiness at all times.

Thank you

Annexure - I

Schedule of Expenditure Budget for the FY 2009-10 – on the basis of Organisations

<i>Nu. in millions</i>				
Sl. No.	Agency	Current	Capital	Total
1	His Majesty's Secretariat	41.629	73.825	115.454
2	His Majesty the 4 th Druk Gyalpo's Secretariat	17.554	0.100	17.654
3	National Assembly of Bhutan	52.696	3.676	56.372
4	National Council of Bhutan	37.877	4.205	42.082
5	Cabinet Secretariat	20.700	2.734	23.434
6	Judiciary	137.390	315.250	452.640
7	Office of the Anti-Corruption Commission	18.215	23.865	42.080
8	Office of the Election Commission	24.163	25.895	50.058
9	Royal Audit Authority	74.541	11.458	85.999
10	Council for Religious Affairs	401.461	69.075	470.536
11	Royal Civil Service Commission	24.453	96.800	121.253
12	Bhutan Information, Comm. & Media Authority	10.209	1.740	11.949
13	Bhutan Narcotics Control Agency	11.501	2.953	14.454
14	Bhutan Olympic Committee	28.941	9.779	38.720
15	Centre for Bhutan Studies	7.330	2.690	10.020
16	Drug Regulatory Authority	4.461	1.885	6.346
17	Dzongkha Development Commission	13.882	5.428	19.310
18	Gross National Happiness Commission	34.305	409.686	443.991
19	National Commission for Women and Children	10.253	0.826	11.079
20	National Environment Commission	17.104	57.368	74.472
21	National Land Commission	144.811	137.320	282.131
22	National Statistics Bureau	20.970	17.649	38.619
23	Office of the Attorney General	12.736	4.350	17.086
24	Royal Institute of Management	36.774	38.240	75.014
25	Royal University of Bhutan	302.999	513.902	816.901
26	Thimphu Thomdey	247.737	38.965	286.702
27	Tourism Council	34.580	201.903	236.483
Total Autonomous		1,789.272	2,071.567	3,860.839

Sl. No.	Agency	Current	Capital	Total
28	Ministry of Home and Cultural Affairs	840.506	500.421	1,340.927
A	Secretariat	38.962	8.142	47.104
B	Department of Census & Civil Registration	24.099	6.700	30.799
C	Department of Culture	65.355	269.131	334.486
D	Department of Disaster Management	11.941	8.932	20.873
E	Department of Immigration	52.583	15.637	68.220
F	Department of Local Governance	4.180	6.390	10.570
G	Royal Bhutan Police	643.386	185.489	828.875
29	Ministry of Finance	3,661.908	4,370.605	8,032.513
A	Secretariat	317.324	207.744	525.068
B	Department of Revenue & Customs	172.079	23.253	195.332
C	Department of National Property	70.223	31.686	101.909
D	Department of National Budget	858.003	852.713	1,710.716
E	Department of Public Accounts	2,244.279	274.319	2518.598
i	Lending		693.667	693.667
ii	Repayment		2,287.223	2,287.223
30	Ministry of Foreign Affairs	364.117	22.429	386.546
A	Secretariat	91.831	1.790	93.621
B	Embassies and Missions Abroad	272.286	20.639	292.925
31	Ministry of Agriculture	1,062.501	848.567	1,911.068
A	Secretariat	164.869	167.857	332.726
B	Department of Agriculture	208.952	164.776	373.728
C	Department of Forestry	390.164	167.941	558.105
D	Department of Livestock	182.289	309.524	491.813
E	Council for Renewable Natural Resources Research of Bhutan	116.227	38.469	154.696

Sl. No.	Agency	Current	Capital	Total
32	Ministry of Economic Affairs	235.304	820.875	1,056.179
A	Secretariat	53.852	11.542	65.394
B	Department of Energy	54.872	719.466	774.338
C	Department of Geology & Mines	86.182	10.556	96.738
D	Department of Industries	27.334	76.574	103.908
E	Department of Trade	13.064	2.737	15.801
33	Ministry of Works and Human Settlement	360.358	3,002.010	3,362.368
A	Secretariat	45.516	17.740	63.256
B	Department of Roads	252.192	2,423.872	2,676.064
C	Dept. of Urban Dev. & Engineering Services	45.515	398.488	444.003
D	National Housing Development Organisation	17.135	161.910	179.045
34	Ministry of Information and Communications	132.111	560.663	692.774
A	Secretariat	21.265	4.962	26.227
B	Department of Civil Aviation	40.205	81.841	122.046
C	Department of Information & Media	4.661	16.625	21.286
D	Department of Information & Technology	30.358	415.200	445.558
E	Road Safety & Transport Authority	35.622	42.035	77.657
35	Ministry of Health	894.939	506.183	1411.122
A	Secretariat	59.640	68.500	128.140
B	Department of Public Health	142.860	142.969	285.829
C	Department of Medical Services	692.439	304.714	997.153
36	Ministry of Education	191.133	801.833	992.966
A	Secretariat	105.571	155.319	260.890
B	Department of Adult & Higher Education	9.553	204.294	213.847

Sl. No.	Agency	Current	Capital	Total
C	Department of School Education	49.627	434.509	484.136
D	Department of Youth & Sports	26.382	7.711	34.093
37	Ministry of Labour and Human Resources	167.887	258.942	426.829
A	Secretariat	14.510	1.782	16.292
B	Department of Employment	14.859	23.898	38.757
C	Department of Human Resources	125.141	206.016	331.157
D	Department of Labour	8.962	9.835	18.797
E	Department of Occupational Standards	4.415	17.411	21.826
	Dzongkhags & Gewogs			
38	Dzongkhag Chhukha	362.084	290.076	652.160
A	Dzongkhag Activities	351.406	223.102	574.508
B	Bjabchho Gewog	0.607	5.644	6.251
C	Bongo Gewog	2.624	12.916	15.540
D	Chapchha Gewog	0.700	5.657	6.357
E	Darla Gewog	0.812	7.701	8.513
F	Dungna Gewog	0.574	1.075	1.649
G	Geling Gewog	0.475	4.710	5.185
H	Getena Gewog	0.612	1.921	2.533
I	Lokchina Gewog	2.106	6.024	8.130
J	Metakha Gewog	0.566	1.660	2.226
K	Phuentsholing Gewog	0.817	8.050	8.867
L	Sampheling Gewog	0.785	11.616	12.401
39	Dzongkhag Haa	124.419	91.094	215.513
A	Dzongkhag Activities	120.667	76.164	196.831
B	Bji Gewog	0.631	3.314	3.945
C	Gakidling Gewog	0.661	2.825	3.486
D	Iusu Gewog	0.624	2.862	3.486
E	Katsho Gewog	0.613	1.907	2.520
F	Sama Gewog	0.618	2.972	3.590
G	Sombay Gewog	0.605	1.050	1.655

Sl. No.	Agency	Current	Capital	Total
40	Dzongkhag Paro	248.214	105.688	353.902
A	Dzongkhag Activities	241.710	69.002	310.712
B	Dobshari Gewog	0.613	3.590	4.203
C	Dogar Gewog	0.671	2.175	2.846
D	Dotey Gewog	0.580	1.515	2.095
E	Hungray Gewog	0.559	1.365	1.924
F	Lango Gewog	0.648	3.649	4.297
G	Lugyni Gewog	0.630	2.820	3.450
H	Naja Gewog	0.791	3.485	4.276
I	Shaba Gewog	0.705	4.539	5.244
J	Tsento Gewog	0.691	6.330	7.021
K	Wangchang Gewog	0.616	7.218	7.834
41	Dzongkhag Samtse	285.716	268.776	554.492
A	Dzongkhag Activities	274.818	189.135	463.953
B	Bara Gewog	0.825	4.845	5.670
C	Biru Gewog	0.787	5.050	5.837
D	Chargharay Gewog	0.653	2.079	2.732
E	Chengmari Gewog	0.729	3.990	4.719
F	Denchukha Gewog	0.731	4.120	4.851
G	Dorokha Gewog	0.641	10.730	11.371
H	Dumtoe Gewog	0.641	2.270	2.911
I	Lahreni Gewog	0.674	4.718	5.392
J	Pugli Gewog	0.885	9.527	10.412
K	Samtse Gewog	0.812	6.199	7.011
L	Sibsu Gewog	0.671	5.036	5.707
M	Tading Gewog	0.819	7.198	8.017
N	Tendu Gewog	0.699	6.495	7.194
O	Ugyentse Gewog	0.607	4.060	4.667
P	Yoedseltse Gewog	0.724	3.324	4.048
42	Dzongkhag Tsirang	141.568	111.622	253.190
A	Dzongkhag Activities	134.542	84.627	219.169
B	Barshong Gewog	0.612	2.000	2.612

Sl. No.	Agency	Current	Capital	Total
C	Beteni Gewog	0.612	1.690	2.302
D	Dunglagang Gewog	0.550	2.015	2.565
E	Goseling Gewog	0.612	2.010	2.622
F	Kikhorthang Gewog	0.594	4.400	4.994
G	Mendalgang Gewog	0.598	2.850	3.448
H	Pataley Gewog	0.555	1.930	2.485
I	Phuentenchhu Gewog	0.593	2.400	2.993
J	Rangthangling Gewog	0.575	1.990	2.565
K	Shemjong Gewog	0.557	1.910	2.467
L	Tsholingkhar Gewog	0.593	2.200	2.793
M	Tsirangteod Gewog	0.575	1.600	2.175
43	Dzongkhag Dagana	164.711	161.956	326.667
A	Dzongkhag Activities	156.661	122.191	278.852
B	Deorali Gewog	0.575	2.100	2.675
C	Dorona Gewog	0.575	7.150	7.725
D	Dujeyang Gewog	0.593	3.310	3.903
E	Gesarling Gewog	0.557	2.990	3.547
F	Goshi Gewog	0.557	3.380	3.937
G	Kana Gewog	0.593	3.250	3.843
H	Khebisa Gewog	0.593	1.950	2.543
I	Lajab Gewog	0.575	2.385	2.960
J	Lhamoidzingkha Gewog	0.575	3.065	3.640
K	Nichula Gewog	0.557	1.000	1.557
L	Tashiding Gewog	0.575	2.550	3.125
M	Tsangkha Gewog	0.575	2.180	2.755
N	Tsendagang Gewog	0.575	2.285	2.860
O	Tseza Gewog	0.575	2.170	2.745
44	Dzongkhag Punakha	207.186	170.631	377.817
A	Dzongkhag Activities	200.583	137.988	338.571
B	Chhubu Gewog	0.600	2.680	3.280
C	Goenshari Gewog	0.548	1.140	1.688
D	Guma Gewog	0.590	5.540	6.130

Sl. No.	Agency	Current	Capital	Total
E	Kabjisa Gewog	0.590	6.158	6.748
F	Lingbukha Gewog	0.586	0.950	1.536
G	Shengana Gewog	0.645	1.700	2.345
H	Talo Gewog	0.619	2.060	2.679
I	Teowang Gewog	0.646	2.150	2.796
J	Zomi Gewog	0.591	1.710	2.301
K	Babi Gewog	0.573	4.370	4.943
L	Toebi Gewog	0.615	4.185	4.800
45	Dzongkhag W/Phodang	208.306	154.165	362.471
A	Dzongkhag Activities	198.613	105.809	304.422
B	Athang Gewog	0.630	2.880	3.510
C	Bjena Gewog	0.637	2.923	3.560
D	Daga Gewog	0.637	2.390	3.027
E	Dangchhu Gewog	0.752	2.920	3.672
F	Gangtey Gewog	0.640	2.280	2.920
G	Gasey Tshogongm Gewog	0.660	2.469	3.129
H	Gasey Tshowogm Gewog	0.587	1.710	2.297
I	Kazhi Gewog	0.655	2.205	2.860
J	Nahi Gewog	0.587	2.750	3.337
K	Nyisho Gewog	0.622	8.180	8.802
L	Phangyul Gewog	0.642	4.091	4.733
M	Phobji Gewog	0.660	2.663	3.323
N	Ruepisa Gewog	0.752	4.340	5.092
O	Sephu Gewog	0.645	3.625	4.270
P	Thedtsho Gewog	0.587	2.930	3.517
46	Dzongkhag Bumthang	132.120	74.668	206.788
A	Dzongkhag Activities	129.161	57.573	186.734
B	Chhoekhor Gewog	0.739	6.990	7.729
C	Chhumey Gewog	0.776	4.790	5.566
D	Tang Gewog	0.722	2.695	3.417
E	Ura Gewog	0.722	2.620	3.342

Sl. No.	Agency	Current	Capital	Total
47	Dzongkhag Sarpang	221.114	129.803	350.917
A	Dzongkhag Activities	213.747	96.267	310.014
B	Bhur Gewog	0.612	2.032	2.644
C	Chhuzagang Gewog	0.649	3.052	3.701
D	Dekiling Gewog	0.649	4.020	4.669
E	Doeban Gewog	0.630	3.624	4.254
F	Gelephu Gewog	0.612	4.170	4.782
G	Hilley Gewog	0.649	3.499	4.148
H	Jigmechholing Gewog	0.704	4.671	5.375
I	Sarpangtar Gewog	0.569	3.060	3.629
J	Serzhong Gewog	0.586	1.154	1.740
K	Singhi Gewog	0.557	1.100	1.657
L	Umling Gewog	0.612	1.859	2.471
M	Tareythang Gewog	0.538	1.295	1.833
48	Dzongkhag Zhemgang	189.447	154.159	343.606
A	Dzongkhag Activities	182.451	116.343	298.794
B	Bardo Gewog	1.414	3.821	5.235
C	Bjoka Gewog	0.575	1.940	2.515
D	Goshing Gewog	1.690	6.443	8.133
E	Nangkor Gewog	0.685	5.442	6.127
F	Ngangla Gewog	0.704	3.910	4.614
G	Phangkhar Gewog	0.649	4.010	4.659
H	Shingkhar Gewog	0.649	3.220	3.869
I	Tong Gewog	0.630	9.030	9.660
49	Dzongkhag Tongsa	134.963	104.533	239.496
A	Dzongkhag Activities	131.518	79.330	210.848
B	Dagteng Gewog	0.649	5.417	6.066
C	Korphu Gewog	0.593	9.686	10.279
D	Langthel Gewog	0.722	3.110	3.832
E	Nubi Gewog	0.851	4.070	4.921
F	Tangbi Gewog	0.630	2.920	3.550

Sl. No.	Agency	Current	Capital	Total
50	Dzongkhag Lhuentse	142.047	127.703	269.750
A	Dzongkhag Activities	137.181	86.525	223.706
B	Gangzur Gewog	0.649	13.200	13.849
C	Jarey Gewog	0.598	2.080	2.678
D	Khoma Gewog	0.637	7.400	8.037
E	Kurtoe Gewog	0.603	3.550	4.153
F	Minjay Gewog	0.577	2.490	3.067
G	Minbi Gewog	0.612	4.410	5.022
H	Metsho Gewog	0.595	2.350	2.945
I	Tsankhar Gewog	0.595	5.698	6.293
51	Dzongkhag Mongar	254.225	224.799	479.024
A	Dzongkhag Activities	244.650	171.417	416.067
B	Balam Gewog	0.490	2.800	3.290
C	Chhali Gewog	0.566	2.650	3.216
D	Chaskhar Gewog	0.546	3.325	3.871
E	Dametse Gewog	0.561	2.880	3.441
F	Depung Gewog	0.526	1.965	2.491
G	Gongdue Gewog	0.586	2.320	2.906
H	Jurmey Gewog	0.546	2.320	2.866
I	Kengkhar Gewog	0.607	4.245	4.852
J	Mongar Gewog	0.612	6.220	6.832
K	Narang Gewog	0.544	2.080	2.624
L	Ngatshang Gewog	0.541	2.965	3.506
M	Saleng Gewog	0.618	4.720	5.338
N	Sherimung Gewog	0.542	3.330	3.872
O	Silambi Gewog	0.646	4.082	4.728
P	Thangrong Gewog	0.546	3.190	3.736
Q	Tsakaling Gewog	0.569	2.740	3.309
R	Tsamang Gewog	0.529	1.550	2.079
52	Dzongkhag Pema Gatshel	193.416	121.803	315.219
A	Dzongkhag Activities	186.466	91.222	277.688

Sl. No.	Agency	Current	Capital	Total
B	Chhimong Gewog	0.605	1.241	1.846
C	Chhokhorling Gewog	0.566	1.907	2.473
D	Chongshing Gewog	0.643	1.285	1.928
E	Dechhenling Gewog	0.667	2.797	3.464
F	Dungmin Gewog	0.589	2.250	2.839
G	Khar Gewog	0.673	2.770	3.443
H	Nanong Gewog	0.675	5.427	6.102
I	Norbugang Gewog	0.614	2.936	3.550
J	Shumar Gewog	0.698	4.614	5.312
K	Iurung Gewog	0.589	1.755	2.344
L	Zobel Gewog	0.631	3.599	4.230
53	Dzongkhag Samdub Jongkhar	203.342	173.509	376.851
A	Dzongkhag Activities	197.303	122.724	320.027
B	Gomdar Gewog	0.596	4.630	5.226
C	Langchenphu Gewog	0.551	1.780	2.331
D	Lauri Gewog	0.654	4.890	5.544
E	Martshala Gewog	0.608	4.820	5.428
F	Orong Gewog	0.555	4.990	5.545
G	Pemathang Gewog	0.552	5.090	5.642
H	Phuentshothang Gewog	0.677	9.675	10.352
I	Samrang Gewog	0.170	1.000	1.170
J	Serthi Gewog	0.613	4.810	5.423
K	Wangphu Gewog	0.532	3.780	4.312
54	Dzongkhag Tashigang	352.447	304.079	656.526
A	Dzongkhag Activities	341.225	212.771	553.996
B	Bartsham Gewog	0.669	3.780	4.449
C	Bidung Gewog	0.674	8.220	8.894
D	Kanglung Gewog	0.794	8.296	9.090
E	Kangpara Gewog	0.664	3.650	4.314
F	Khaling Gewog	0.699	7.140	7.839
G	Lumang Gewog	1.085	9.655	10.740

Sl. No.	Agency	Current	Capital	Total
H	Merag Gewog	0.634	2.890	3.524
I	Phongmey Gewog	0.723	4.595	5.318
J	Radi Gewog	0.725	6.000	6.725
K	Sagteng Gewog	0.611	3.880	4.491
L	Samkhar Gewog	0.718	7.815	8.533
M	Shongphu Gewog	0.706	3.358	4.064
N	Thimshing Gewog	1.103	7.759	8.862
O	Uzorong Gewog	0.733	8.425	9.158
P	Yangnyer Gewog	0.684	5.845	6.529
55	Dzongkhag Thimphu	107.840	107.571	215.411
A	Dzongkhag Activities	102.635	81.011	183.646
B	Chang Gewog	0.714	4.585	5.299
C	Dagala Gewog	0.551	1.465	2.016
D	Genyey Gewog	0.736	5.930	6.666
E	Kawang Gewog	0.649	3.866	4.515
F	Lingzhi Gewog	0.581	2.085	2.666
G	Mewang Gewog	0.822	5.094	5.916
H	Naro Gewog	0.558	0.985	1.543
I	Soe Gewog	0.594	2.550	3.144
56	Dzongkhag Gasa	59.290	28.463	87.753
A	Dzongkhag Activities	56.675	19.854	76.529
B	Khamey Gewog	0.662	1.338	2.000
C	Khatoe Gewog	0.634	0.792	1.426
D	Laya Gewog	0.659	3.115	3.774
E	Lunana Gewog	0.660	3.364	4.024
57	Dzongkhag Tashi Yangtse	161.643	129.009	290.652
A	Dzongkhag Activities	156.789	99.820	256.609
B	Bumdeling Gewog	0.628	3.366	3.994
C	Jamkhar Gewog	0.591	3.525	4.116

Sl. No.	Agency	Current	Capital	Total
D	Khamdang Gewog	0.673	4.250	4.923
E	Ramjer Gewog	0.528	1.688	2.216
F	Toetsho Gewog	0.644	3.626	4.270
G	Tongzhang Gewog	0.585	2.120	2.705
H	Yalang Gewog	0.613	2.228	2.841
I	Yangtse Gewog	0.592	8.386	8.978
Total Dzongkhags and Gewogs		3,894.098	3,034.107	6,928.205
TOTAL (Including lending and repayment)		13,594.134	16,808.202	30,402.336
