

NATIONAL BUDGET FINANCIAL YEAR 2011-12



MINISTRY OF FINANCE
JUNE 2011

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INTRODUCTION

Honourable Speaker,

As we come to the end of the third year of the first democratic government of our country, I have the honour to present to Parliament, the Royal Government's budget for the financial year (FY) 2011-12. I present this budget with a great sense of pride and joy as the new financial year will witness one of the most historic moments of our times, the Royal Wedding of our beloved King, which will further ensure the continued lineage of the Wangchuck dynasty. We the Bhutanese people have had the great fortune to have compassionate and caring Kings. Our present King, His Majesty Jigme Khesar Namgyal Wangchuck is most special, and hence affectionately known as the "People's King". The Royal Wedding of His Majesty in October this year will be a moment of great emotion and pride, especially for our older generation, for whom such occasions may not happen again in their lives. I would therefore, like to dedicate this year's budget to the joyous occasion of the Royal Wedding.

Honourable Speaker,

We end the current financial year with a great sense of achievement as we saw through the mid-term review of the development activities. Against this backdrop and with the findings from the mid-term review, the budget for the penultimate year has been framed.

As the Hon'ble Members are aware, the Government carried out the Mid-term Review (MTR).of the entire government including Dzongkhags and Gewogs. The Hon'ble Ministers, Members of Parliament, Government Secretaries and the relevant Chief Executive Officers of several public corporations participated in the meetings. The review meetings at the local governments

were held in the respective Dzongkhags, where the local community leaders, Dzongkhag administration officials, senior citizens, representatives of the Datshang, and the business community were present. The MTR for the Local Governments saw a major departure from past practices in the form of presentations by the Gups themselves.

The Government was able to assess the progress of key development goals of the 10th plan, as well as address some of the challenges and issues faced in implementation. Since the Hon'ble Members participated in the MTR of their respective Dzongkhags, mention may not be necessary, but nonetheless, it should be reported that the progress indicated by the Gups in the 205 Gewogs exceeded our expectations on most fronts.

Going into the penultimate year of the Government's term and that of the 10th plan, we take comfort and satisfaction from the fact that the priority targets set in the plan with the vision of prosperity for our people does indeed look achievable. I will report the implementation progress status on some of the key areas in the later parts.

While these have been matters of great satisfaction, there have been tremendous challenges as well. There were tragedies in the form of -repeated fire incidents in Chamkhar town in Bumthang which claimed lives and damaged properties worth millions, wind storms that hit 16 Dzongkhags causing enormous damages to numerous rural homes, Lhakhangs, Chheodtens, schools and other government structures and then the plane accident in Nepal which claimed the lives of 18 Bhutanese pilgrims. In these terrible times, His Majesty the King, with his immeasurable compassion and wisdom, brought immediate relief and solace to the unfortunate victims. In support of His Majesty's most benevolent initiatives, the Government provided relief and rehabilitation measures. Specifically, the Government continues to provide support towards the cost of CGI sheets damaged during the natural disasters

including transportation up to the road head. For the fire victims in Chamkhar town, the Government has decided to exempt payment of income tax for the year 2010.

Honourable Speaker,

Turning to the main presentation, the following will be the sequence.

- Chapter I: Annual Financial Statements of the FY 2009-10;*
- Chapter II: Macro-economic Developments in the last two years;*
- Chapter III: Revised Budget Estimates of FY 2010-11;*
- Chapter IV: Budget Estimates for the FY 2011-12;*
- Chapter V: Tax Measures*
- Chapter VI: Economic Outlook in the Medium Term;*
- Chapter VII: Report on State-owned Enterprises and Companies with Government Shareholdings;*
- Chapter VIII: Report on NPPF and RMA;*
- Chapter IX: Developments in the Financial Sector*
- Chapter X: Report on Trust Funds;*
- Chapter XI: Conclusion*

CHAPTER I: ANNUAL FINANCIAL STATEMENTS OF THE FY 2009-10

The actual outcome of the Royal Government's budgetary operations for the FY 2009-10 is detailed in the report circulated to the Honourable Members. I shall however take this opportunity to present the gist of the operational results.

1.1 Overall financial position

With the actual realized resources of Nu. 30,990.676 million (m) against the total expenditure of Nu. 29,889.990 m, the FY closed with a positive fiscal balance of

Nu. 1,101.686 m. This closely reflects the net balance of external funds earmarked for specific projects and programmes.

Domestic revenue fully covered the recurrent expenditures. Thus, the Government's key fiscal policy objective and a requirement of the Constitution was once again achieved.

The total grant assistance received was Nu. 11,118.877 m while the net borrowing amounted to Nu. 81.989 m. These financed about 86 % of the capital expenditure. The total government debt outstanding was Nu. 36,788.483 m, accounting for 55 % 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 Original Budget Vs Actual Outcomes for
FY 2009-10**

		Nu. in millions	
		Original Budget	Actual Outcome
A	RESOURCES	21,498.393	30,990.676
	1. DOMESTIC REVENUE	14,108.770	15,638.434
	i. Tax	8,347.180	9,655.781
	ii. Non Tax	5,761.590	5,982.653
	2. OTHER RECEIPTS	35.800	4,233.365
	3. GRANTS	7,353.823	11,118.877
	Total GoI	4,372.661	7,306.388
	Total Others	2,981.162	3,812.489
	i. Programme grants	2,263.751	1,969.326
	a) GoI	1,400.000	1,400.000
	b) Other Donors	863.751	569.326
	ii. Project-tied grants	5,090.072	9,149.551
	a) GoI	2,972.661	5,906.388
	b) Other Donors	2,117.411	3,243.163
B	OUTLAY	26,304.310	29,889.990
	1. Total Expenditure	27,421.446	25,831.827
	i. Current	13,594.134	12,902.684
	ii. Capital	13,827.312	12,929.143
	2. Net Lending	-1,117.136	-400.374
	3. Advance/suspense (net)		334.728
	4. Other Payments		4,122.686
C	OVERALL BALANCE	-4,805.917	1,101.585
D	FINANCING	4,805.917	-1,101.686
	Borrowings (Net):	304.893	81.986
	i. Borrowings	2,592.116	2,817.511
	ii. Repayments	2,287.223	2,735.525
E	Resource Gap	4,501.024	-1,183.672
	<i>GDP Estimates</i>	69,585.997	65,851.870
	<i>Overall balance % of GDP</i>	6.91%	-1.67%
	<i>Resource gap % of GDP</i>	6.47%	-1.80%

1.2 Actual budget outcome

1.2.1 Expenditure

The **total expenditure** was Nu. 25,831.827 m, registering a growth of 23.7 % over the previous year and accounted for 38.6 % of GDP. The raise in public service pay and allowances and the reconstruction of infrastructure damaged by natural disasters, besides other planned development activities, contributed to the growth in expenditure.

The **recurrent expenditure** of Nu. 12,902.685 m represents a 16.6 % increase over the previous year. The expenditure on *salaries & wages* (Nu. 5,599.243 m) and *interest payments* (Nu. 1,743.182 m) accounted for the major portion (56.5 %) of the recurrent expenditure. Salary and wages accounted for 43 % of recurrent expenditures or 36 % of internal revenue. Similarly, interest payment accounted for about 13.5 % of recurrent expenditures or 11 % of domestic revenue.

The **capital expenditure** was Nu. 12,929.143 m, an increase of 31.5 % from the previous FY, and it accounted for 19 % of GDP. The increase is attributable to the reconstruction cost of infrastructures damaged by Cyclone Aila and earthquake, which together amounted to Nu. 113.04 m. Given the same or a marginal improvement in implementing capacity, the growth by over 31 % was significant.

1.2.2 Domestic revenue:

The total domestic revenue realized during the FY was Nu. 15,638.434 m accounting for 23.5 % of GDP. This was an increase of 11.3 % over the previous FY. Tax revenues increased by about 49 % from the past year as a result of increase in receipts from Corporate Income Tax (CIT) by 101 %,

Personal Income Tax (PIT) by 46 %, Sales Tax (ST) by 30 % and Excise Duty by 21 %.

Non-tax revenues fell by about 21 % as compared to the previous FY mainly due to the decrease in transfer of profits, other non-tax revenue and capital revenue. The transfer of profit dropped sharply 81% due to the drop in interest earnings of the Royal Monetary Authority (RMA) and the corporatization of Tala Hydro-power Project under Druk Green Power Corporation (DGPC).

1.2.3 Grants:

The external grant received during the year was Nu. 11,118.877 m including assistance-in-kind of Nu. 1,571.374 m. This represents 78 % increase from the previous year and amounted to 17 % of GDP. Grant receipt constituted about 36 % of the total resources covering about 43 % of total expenditure. As in the past, the major portion of the grants, amounting to Nu. 7,306.388 m, or 66.25 % were from the GoI. The grant amount received during the year include Nu. 277.3 m for preparations of the 16th SAARC Summit from the GoI, Nu. 462 m from the World Bank as budgetary support under Development Policy Financing arrangement and direct payment of Nu. 90.074 m from the ADB.

1.2.4 Debt:

During the year, the total borrowings (withdrawals) amounted to Nu. 2,817.511 m including Nu. 497.513 m raised in the domestic market through the issuance of Treasury Bills. The external borrowings of Nu. 2,319.998 m included Nu. 565 m received under the WB's Development Policy Financing for budgetary support. The total *principal loan repayment* was Nu. 2,735.525 m, of which Nu. 672.815 m was on account of internal borrowing. The total outstanding debt (*internal and external debts*) was Nu. 36,788.483 m as of 30th June 2010 representing 55 % of the GDP.

Internal debt

The internal debt outstanding at the start of the FY was Nu. 1,227.117 m which was entirely on account of the loan availed by the Government to purchase aircraft for Druk Air Corporation. With the repayment of Nu. 175.302 m and redemption of the treasury bills, the internal loan outstanding as on 30th June, 2010 was Nu. 1,051.815 m. The loan availed for the purchase of aircraft is expected to be liquidated by FY 2015-16.

External debt

The total external debt outstanding rose to Nu. 35,736.668 m as disbursements grew. It constituted 97.14 % of the total debt and about 54.26 % of GDP. A sum of Nu. 2,062.710 m was repaid during the year.

The Annual Financial Statements have been certified by the Royal Audit Authority, and I am pleased to report that there have been no major observations.

CHAPTER II: MACRO-ECONOMIC DEVELOPMENTS

I now turn to an overview of the macro-economic developments in our economy over the past year.

2.1 Gross Domestic Product (GDP)

The construction cycle of major hydro-power projects dictates the ebbs and tides of our economy. The completion and operationalization of the Tala HP Project contributed to a high real growth rate of more than 11.0 % in FY 2007-08. Thereafter, with its completion, as well as the ending of the implementation of the Ninth Plan programmes, the economy grew by 5.7 % in FY 2008-09 as the base became very high in FY 2007-08. In the FY 2009-10, growth is expected to have been impacted by the effects of the global economic crisis through lower export earnings and tourism receipts. However, at the same time, the strong momentum in the Punatsangchhu HP project and the acceleration of other development activities are expected to have maintained the rate to around 8.7 %.

2.2 Employment

The unemployment rate for 2010 was reported at 3.3 % or 11,000 persons as per the eighth *Labour Force Survey* 2010. This is a significant improvement from the 4 % and 3.7 % estimated during two rounds of surveys conducted in 2009 and 2007 respectively. The services sector has played an important role in reducing unemployment.

2.3 Balance of Payments

The *current account* deficit rose from 1.6 % of GDP in FY 2008-09 to 13.17 % in FY 2009-10. The sharp increase is attributable to the increase in imports related to the Punatsangchhu project. Despite this widening in the *current account*, the *overall balance* was in surplus, at around 6.6 % of GDP. This

was due to the positive balance in the *capital and financial account* owing to the sizeable inflows associated with the commencement of construction of the *Punatsangchhu – I* and *Dagachhu* hydro-power projects. Growth in the capital account increased by about 38.4 % in FY 2009-10 as compared with the previous year, when it experienced a decrease of 10.4 %.

2.4 Foreign Exchange Reserves and FDI

The surplus in the overall balance of payments resulted in an increase in the gross international reserves from US \$ 772.478 m in FY 2008-09 to US \$ 868.109 m in FY 2009-10. This was an increase of US \$ 95.631 m or 12.3 %. The increase is mainly attributed to the Government's receipt of grants and loans amounting to about US \$ 298.722 m for development activities and the large hydro-power loans and grants. As of the end of June 2010, reserves were adequate to finance over 12 months of merchandise imports and fully covered the external outstanding debt.

In the FY 2009-10, there was continued interest in FDI. Two hotel projects and one steel plant project were approved, bringing the total approved FDI project to 26.

2.5 Debt & Debt Service

Our total debt outstanding as on 30th June 2010 was estimated at Nu. 36,788.483 m or US \$ 788.56 m,- equivalent to 55.3 % of GDP. This was an increase by 5.8 % as compared with Nu. 34,759.937 m (59.6 % of GDP) in the previous fiscal year. Of this, external borrowing accounted for 97 % of the total debt, while the remaining 2.9 % was on account of domestic borrowings. Of the total stock of debt, Rupee debt constituted about 49.7 % entirely on account of *Kurichhu*, *Tala*, and *Punatsangchhu – I* hydro-power projects.

Debt service as a percentage of exports of goods and services rose slightly from 12.9 % in FY 2008-09 to 13.1 % in FY 2009-10.

2.6 Exchange Rate

The value of our currency during the FY 2008-09 was on average Nu. 47.78 to a US dollar, appreciating by 2.4 % to Nu. 46.65 in FY 2009-10 in line with the rate for Indian Rupee. As our trade is largely with India and as our currency is pegged to the Indian Rupee, the movement of exchange rate of our currency against third country currencies have only marginal indirect impact.

2.7 Price

As our country imports over 80 percent of goods from India, our inflation continues to largely reflect price movements in India except for some non-tradable items. The inflation rate in the first two quarters of the FY 2008-09 were high at 9.3% and 9.04%. However, by end-June 2009, it had slowed down to 2.96%. Prices in FY 2009-10 had grown by 6.14 % with food prices rising by 7.82 %.

2.8 Banking and the Financial Sector

2.8.1 Credit

Total domestic credit registered a significant growth of 44.2 % in FY 2009-10 compared to 18.2% in the previous year. This was driven by credit to the private sector which expanded by 38.6 % as compared to 31.1 % in the preceding year. This followed a general trend of rising domestic credit averaging 23.5 % per annum from FY 2006-07 to FY 2008-09. In terms of sector-wise distribution, the building and construction sector continued to be the largest beneficiaries at 24.9 %, followed by manufacturing at 16.6%. This is indicative of increasing economic activity, reflecting the Government's objective to facilitate private sector development and growth. However, the central bank has been mindful of the impact of the high credit growth rates on prices and on the balance of payments and has been taking necessary actions to limit the impact.

2.8.2 Non-performing Loans (NPLs)

In terms of the exposure of the financial institutions to non-performing loans (NPL), the NPL ratio improved from 18.3 % in June 2009 to 10.1 % in June 2010. The continuous monitoring and supervision by the RMA has contributed to this improvement. The overdraft/ working capital (with 26.5 %), housing (24.0 %), and service and tourism (14.1 %) sectors had the highest NPLs.

Conclusion

As in the past years, the economy has performed well despite the spillover effects of the global recession. The outlook for the future will be presented in a later part of the report.

CHAPTER III: REVISED BUDGET ESTIMATES OF FY 2010-11

The budget is reviewed in the third quarter of the FY taking into consideration the implementation progress of the activities, the receipt of additional resources from donors, the changes in the domestic revenue projections and the budget proposals received from the agencies for the next FY. Accordingly, on the original outlay of Nu. 31,586.779 m. a budget of Nu. 3,397.258 m was incorporated under external funding, and Nu. 589.408 m under RGoB funding. At the same time, there was also a budget withdrawal of Nu. 1,340.980 m in respect of donor-funded projects with a view to keep the provision based on the respective agencies' implementing capacity. Thus, the budget outlay at the end of April, 2011 rose to Nu. 34,196.615 m, representing an increase of 8.26 %.

The detail of revised budget summary is provided in *Table 3.1* below.

Table 3.1: Revised Budget Estimates for FY 2010-11

	<i>Nu. in millions</i>	
	Original Estimates	Revised Estimates
RESOURCES	26,774.538	30,549.658
I. DOMESTIC REVENUE	15,816.334	16,962.551
i. Tax	10,139.976	11,097.886
ii. Non-Tax	5,676.358	5,864.665
II. OTHER RECEIPTS	53.066	63.704
III. Adjustment of Previous Years' Advances		209.408
III. GRANTS	10,905.138	13,313.995
<i>Total GoI</i>	<i>8,068.180</i>	<i>9,261.469</i>
<i>Total Others</i>	<i>2,836.958</i>	<i>4,052.526</i>
i. Programme Grants	1,905.700	1,883.794
a) GoI	1,400.000	1,400.000
b) Others	505.700	483.794
ii. Project-tied Grants	8,999.438	11,430.201

	<i>Nu. in millions</i>	
	Original Estimates	Revised Estimates
b) Others	2,331.258	3,568.732
I. Total Expenditure	32,427.398	35,073.084
i. Current Expenditure	15,158.869	15,772.269
ii. Capital Expenditure	17,268.529	19,300.815
II. Net Lending	-840.619	-876.469
OVERALL BALANCE	-4,812.241	-3,646.957
FINANCING	4,812.241	3,646.957
i. Project-tied Borrowings	2,270.806	1,802.992
ii. Programme Borrowings	1,081.000	1,303.377
Less Repayment	2,348.059	2,348.059
iii. Resource Gap (Change in Cash Balances)	3,808.494	2,888.647
<i>GDP estimated</i>	<i>76,556.767</i>	<i>75,690.510</i>
<i>Overall balance % of GDP</i>	<i>-6.29%</i>	<i>-4.82%</i>
<i>Resource Gap % of GDP</i>	<i>4.97%</i>	<i>3.82%</i>
<i>Exchange rate (1 USD = Nu. 47)</i>		

The details of the revised budget are as follows:

3.1 Expenditure estimate

3.1.1 Current expenditure

The current expenditure is projected to rise to Nu. 15,772.269 m, representing an increase of Nu. 613.4 m, or about 4% from the original estimate of Nu. 15,158.869 m. The increase is mainly due to the revision of pay and allowances of public servants (Nu. 380 m) effective from January 2011, incorporation of additional project funds for current expenditures under external sources, and budget line provided for the adjustment of previous years' advances.

3.1.2 Capital expenditure

The capital expenditure is projected to rise to Nu. 19,300.815 m, an increase of about 12 % from the original outlay of Nu. 17,268.529 m. The increase is mainly due to the incorporation of budget for activities and for adjustment of prior years' advances under donor-funding.

The details are as listed in *Table 3.2* below.

Table 3.2: Activities with Budget Incorporated as of the end of April 2011 for the FY 2010-11

<i>Nu in millions</i>			
Sl. No.	Purpose	Amount	Funding
Under External Funding			
1	Construction of HTMTI, TCB	64.646	Austrian Govt.
2	Rural Electrification, DoE	17.093	Austrian Govt.
3	HRD Training, DoE	53.152	Austrian Govt.
4	Road Network Project-II, DoR	53.394	ADB Grant
5	Up-gradtn of schools and Integrtn of Disaster Project, MoE	39.088	ADB
6	Health Care Services, MoH	5.170	Bhutan Foundation
7	UWIEF, Bumthang, DoF	4.600	BTFEC
8	Devlpmnt of National Forestry Inventory & Ecosystem, MoA	8.319	BTFEC
9	Institutional Strengthening of the Judiciary	11.200	DANIDA
10	Strengthening of MFA Phase-II, MFA	4.137	DANIDA
11	River Training Works at Khuruthang VTI, MLHR	15.000	Disaster Fund
12	Aila-caused Recnstrctn Works, Paro Dzongkhag	34.402	Disaster Fund
13	Aila-caused Recnstrctn Works, Punakha Dzongkhag	14.061	Disaster Fund
14	Aila-caused Recnstrctn Works, Tongsa Dzongkhag	5.901	Disaster Fund

Sl. No.	Purpose	Amount	Funding
15	Aila-caused Recnstrctn Works, Tsirang Dzongkhag	4.668	Disaster Fund
16	Aila-caused Recnstrctn Works, Zhemgang Dzongkhag	22.600	Disaster Fund
17	Support Livestock Sector, MoA	4.400	EU
18	Support to Agriculture Production, MoA	4.127	EU
19	Bio-Safety Policy, BAFRA	12.207	GEF
20	Sustainable Land Management, MoA	10.803	GEF
21	Malaria Prevntn and Control Program, MoH	21.505	GFATM
22	Chiphen Rigphel Project, MIC	115.000	GoI
23	DRP for Punatsangchhu -II HPP, DoE	19.298	GoI
24	DRP for Bunakha HPP, DoE	75.831	GoI
25	DPR for Wangchhu HPP, DoE	45.766	GoI
26	DPR for Sunkosh HPP, DoE	67.283	GoI
27	Master Plan for Intgrtd Energy Mangmnt, DoE	10.433	GoI
28	Pre-constrctn activities for Punatsangchhu-II HPP, DoE	26.840	GoI
29	Pre-constrctn activities for Mangdeychhu-II HPP, DoE	60.000	GoI
30	DPR for Chamkharchhu I (Digala 670 MW) HPP, DoE	36.399	GoI
31	DPR for Kuri - Gongri (1,800 MW) HPP, DoE	44.670	GoI
32	Power Transmission, DoE	6.500	GoI
33	Constrctn of Tingtibi - Praling Road, DoR	69.000	GoI
34	Constrctn of Gyalpoizhing - Nganglam Road, DoR	21.091	GoI
35	Const of Manmung - Digala Road, DoR	35.000	GoI
36	Constrctn of Gongthung MSS, Tashigang Dzongkhag	19.646	GoI
37	Constrctn of Taba PS, Thimphu Thom	15.000	GoI

Nu in millions

Sl. No.	Purpose	Amount	Funding
38	Constrctn of Zilukha, LSS, Thimphu Throm	11.500	GoI
39	Constrctn works at various Colleges & Insttts, RUB	214.972	GoI
40	Expnsn of Education Infrstrctr, Tongsa Dzongkhag	8.000	GoI
41	Nerhu Wangchuck Scholarship, RCSC	8.000	GY
42	E-Governance Project, MHCA	18.744	GoI
43	Infrastructure Development, RIM	14.016	GoI
44	National Institute of Traditional Medicine, MoH	20.000	GoI
45	Small Devlpmnt Project (GoI), in various agencies	577.317	GoI
46	Constrctn of Tangkizom RCC Bridge, Bumthang, DoR	5.432	Helvetas
47	Rural Livelihood Project, MoA	7.300	Helvetas
48	Education Development Project, MoE	11.612	IDA
49	AMEP Project, Tashigang Dzongkhag	4.802	IFAD
50	AMEP Project, MoA	22.909	IFAD
51	Agriculture development programme	19.307	KR-II
52	Sustainable Tourism Development, TCB	5.330	NET O
53	One-stop service delivery, DLG	14.735	SDS
54	HRD- Training, CBS	5.000	SDS
55	Rural Economy Advncmnt Progrmm, GNHC	12.769	SDS
56	Strengthng of Tour Operators Assctn of Bhutan, TCB	6.888	SDS
57	Nursing Training Project, MoH	7.500	Health Trust Fund
58	MSME, CPE	11.652	UNCDF
59	Local Elections, Election Commission	5.055	UNDP
60	Scaling-up of HIV Prevention, MoH	66.038	UNFPA
61	Support to MCH & Nutrition, MoH	4.727	UNFPA
62	Quality Education, MoE	31.889	UNICEF

Nu in millions

Sl. No.	Purpose	Amount	Funding
63	National Influenza Preprdnss & Response Project, MoA	20.582	W/Bank
64	Decentrldz Rural Dev. Project, Zhemgang Dzongkhag	5.195	W/Bank
65	Dzongkhag Town Devlpmnt Project, DUDES	26.460	W/Bank
66	Urban Development Project, DUDES	25.000	W/Bank/ DANIDA
67	Other Development Activites	857.593	Various Donors
68	Budget for Adjstmnt of Prior Years' Advances	268.704	Various Donors
	Total Budget Incorporation(External)	3,397.258	
	Under RGoB Funding		
1	Pay Revision	380.000	
2	Budget for Adjustment of Prior Years' Advances	209.408	
	Total Budget Incorporation (RGoB)	589.408	
	Total (External + RGoB)	3,986.666	

3.2 Domestic revenue estimate

The revenue is estimated to rise to Nu. 16,962.551 m, an increase of 7.2 % from the original estimate of Nu. 15, 816.334 m. Conventionally, the practice for revenue projection is done based on the initial projection of the revenue estimates of the preceding year (FY 2009-10), and revised during the year based on the actual collection.

The increase in CIT is on account of better performance by especially Tala owing to improved generation. Also, PIT is projected to increase as a result of the pay revision for public servants from January 2011 and the growing number of employees falling under the tax bracket. The projected increase is also attributable to the improved compliance by tax payers following the continuous and improved assessment efforts of the Department of Revenue

and Customs. There is also an upward revision in the Excise Duty refund from the Government of India and increase in receipts from Dividends.

While there is an increase in the overall projection, there is a downward revision in the revenue from Sales Tax due to non-implementation of the measures to enhance motor vehicles tax and the proposals for broadening and rationalization of taxes. As everyone would be aware, based on the verdict of Supreme Court, the revised rates of customs duty and sales tax on motor vehicles were withdrawn and so far about Nu. 28 m has been refunded to the vehicle importers.

The revised revenue estimates is presented in *Table 3.3* below.

Table 3.3: Revised Revenue Summary for F Y 2010-11

		<i>Nu. in millions</i>	
Sources		2010/11 (Original)	2010/11 (Revised)
A	Tax Revenue	10,139.976	11,097.886
<i>I</i>	<i>Direct Tax</i>	<i>7,171.991</i>	<i>8,140.332</i>
1	Corporate Tax	4,695.060	5,430.412
2	Business Income Tax	665.715	888.654
3	Personal Income Tax	494.611	741.218
4	Other Tax Revenue	1,316.605	1,080.048
<i>II</i>	<i>Indirect Tax</i>	<i>2,967.985</i>	<i>2957.554</i>
1	Sales Tax	1,459.741	1,228.326
2	Excise Duty	1,270.703	1,492.896
3	Import Duty	218.465	220.658
4	Other Tax Revenue	19.076	15.674
B	Non-tax Revenue	5,676.358	5,864.665
1	Admin. Fees & Charges	238.945	302.046
2	Capital Revenue	88.498	96.949
3	Revenue from Govt. Depts.	247.719	235.109
4	Dividend	2,816.340	2,997.207

Table 3.3: Revised Revenue Summary for Financial Year 2010-11

		<i>Nu. in millions</i>	
Sources	2010/11 (Original)	2010/11 (Revised)	
5	Transfer of Profit	454.000	406.761
6	Other Non-tax Revenue	42.956	35.593
7	Interest from Corporations	1,787.900	1,791.000
Total Domestic Revenue (A+B)		15,816.334	16,962.551

3.3 External grants

The original external grants estimates, based on the commitments and agreements with the development partners, was Nu. 10,905.138 m. The grant is now estimated at Nu. 13,313.995 m. The increase of 22 % from the original estimates is due to the increase in the GoI grant disbursements expected during the year of Nu. 1,193.289 m under project-tied category, and Nu. 1,237.475 m from other donors.

However, there was a slight decrease in the programme grants as a result of reclassification of the grant from the Netherlands as a project tied grant.

3.4 Fiscal deficit & resource gap

In the revised budget estimates, the fiscal deficit is estimated to decrease to Nu. 3,646.957 m from the original estimate of Nu. 4,812.241 m. The revised deficit projected is 4.82 % of GDP. Similarly, the resource gap is expected to be at Nu. 2,888.647 m, which is 3.82 % of GDP. The fall in the deficits is mainly attributable to the upward revision of revenue estimates for the year.

3.5 Borrowings

Projected external borrowings have been revised downward to Nu. 3,106.369 m. The decrease by Nu. 245.437 m is due to the lower expected withdrawals based on the utilization capacity.

Since our domestic revenue is just about sufficient to cover the recurrent expenditure, the Government has to explore resources from outside for financing the capital expenditures. During the year, new loans amounting to US \$ 41.25 million was contracted, and signing of a loan agreement for US \$ 26 million is scheduled with the Government of Japan in June for Rural Electrification Phase II project. The agreement for grants and loans signed and expected to be signed within FY 2010-11 is given in **Table 3.4** below.

Table 3.4: Agreements signed during FY 2010-11

Amount in millions

Sl. No.	Programme	Lender	Amount
Loan Agreement			
1	Development Programme Credit	World Bank	US \$ 24.750
2	Rural Electrification	Government of Austria	Euro 5.800
3	MAGIP	IFAD	US \$ 8.500
4	Rural Electrification II	JICA	US \$ 26.000
Grant Agreement			
1	Rural Electrification V	Asian Development Fund	US \$ 21.590

3.6 Debt and debt servicing

The total debt outstanding at the end of the FY is estimated at Nu. □42,912.340 m, which is about 56.7 % of GDP. The growth in the debt stock by about 16.7 %, is primarily due to disbursements for the hydro-power projects. Out of the total, 60 % is estimated to be on account of hydro-power construction loans

and 40 % on account of loans availed for other socio-economic infrastructure development projects.

The total debt service (*i.e. principal plus interest*) is estimated to be about 6.7% of GDP, and the external debt service ratio at 14.3 %.

As mentioned in my previous presentations on the budget, the actual expenditure outcome of the budget is likely to be less than estimated. The past trend has been that the agencies are unable to implement their budgeted activities fully mainly due to lack of engineering capacity. The lack of adequate strength of engineering staff was a common issue across the Dzongkhags as reported during the 10th FYP mid-term review.

The Government initiated many measures to address the capacity issue. The hiring of consultant engineers' services has been considered with their cost apportioned to the different project/ works. The out-sourcing of services for designs and estimates, especially for farm roads was another initiative. Also, some procurement procedures for capital works were eased, especially for the Local Governments, to facilitate faster implementation. These initiatives are expected to address the capacity issue to some extent and thereby lead to effective and efficient utilization of the budget.

Now, I conclude the presentation of the **Revised FY 2010-11 Budget**, and the kind endorsement of the House is requested.

CHAPTER IV: BUDGET ESTIMATES FOR THE FY 2011-12

I now have the honour to place before the House the budget for the FY 2011-12. As in the past, the Government is guided by the following policies and guidelines for budgeting:

- *avoid current operating deficits;*
- *limit the overall fiscal deficit to GDP at sustainable levels;*
- *keep outstanding debt at prudent levels by ensuring, among others, that loans are contracted only for commercially viable projects and for investments in social infrastructure for which grant financings are not available;*
- *keep external debt service to exports ratio at prudent levels;*
- *limit domestic borrowings by the Government to sustainable amounts;*
- *maintain the momentum of investments in the socio-economic sectors;*
- *invest in industries with potential for significant revenue and employment generation.*

We have always taken a cautious approach in our economic policies and budget formulations have been carried out within these economic parameters. The budget for FY 2011-12, as in the past, was prepared after discussions with the budget agencies and allocations made in line with the 10th FYP objective of poverty alleviation.

Also, the FY 2011-12 being the second last year of the 10th FYP, the budget has been formulated on a more ambitious note. Most of the plan targets have to be achieved during this 4th financial year, so that the last year of the Plan could be devoted more towards consolidation. Accordingly, this budget has accommodated all priority activities, especially from the local governments. At the same time, it should be recognised that there are genuine constraints such as the number of contractors, technical manpower, etc. which impede

budget implementation, and these aspects should be borne in mind at the time of evaluating the actual performance.

The budget estimates for the FY 2011-12 is summarized in **Table 4.1** below:

Table 4.1: Budget Summary for the FY 2011-12

	<i>Nu. in millions</i>	
-	<i>Estimates</i>	<i>% of Total</i>
RESOURCES	32,546.035	100
I. DOMESTIC REVENUE	18,606.980	58
i. Tax	12,857.021	40
ii. Non-Tax	5,749.959	18
II. OTHER RECEIPTS	79.933	
III. GRANTS	13,859.122	42
<i>Total GoI</i>	10,294.098	31
<i>Total Others</i>	3,565.024	11
i. Program Grants	1,900.740	6
a) GoI	1,400.000	4
b) Others	500.740	1
ii. Project-tied Grants	11,958.382	37
a) GoI: (includes Nu. 3,373.45 m or SDP)	8,894.098	27
b) Others	3,064.284	9
OUTLAY	37,923.257	100
I. Total Expenditure	38,020.166	100
i. Current Expenditure	17,185.309	45
ii. Capital Expenditure	20,834.857	55
II. Net Lending	-96.909	
OVERALL BALANCE	-5,377.222	
FINANCING	5,377.222	
i. Project-tied Borrowings	2,219.196	
ii. Program Borrowings (USD 4 m from ADB)	184.000	
Less Repayment	2,353.410	
iii. Resource Gap (Change in Cash Balances)	5,327.436	
GDP	84,399.858	
Overall balance % of GDP	6.37%	
Resource Gap % of GDP	6.31%	
<i>Exchange rate (1 USD = Nu. 47)</i>		

4.1 Resources

As reflected in *Table 4.1* above, the total resources for the FY is projected at Nu. 32,546.035 m, comprising of domestic revenue of Nu. 18,606.980 m and external grants of Nu. 13,859.122 m. *The details are as follows:*

4.1.1 Domestic revenue

Domestic revenue has been increasing annually, and the growth in FY 2011-12 is expected to be around 9.7 %, surpassing the estimated growth in the current expenditure of 9 %. Also, the ratio of tax to non-tax revenue has improved to 69:31 reflecting the growing positive characteristics of the economy. The estimated domestic revenue of Nu. 18,606.980 m is projected to cover current expenditure fully.

Revenue has been estimated using the average effective tax rates, and where applicable, the likely revenue impact from policy changes. The CIT has been estimated with the assumption that the corporate sector will continue to perform better. The increase is also expected to be contributed by the refund of excise duty from the GoI for two income years (2008 and 2009) instead of the usual one income year.

The increase in PIT revenue is estimated because of the full implementation of the public servants' pay revision and the increase in corporate salary. Also, the number of tax payers is expected to increase, especially salaried employees falling under tax brackets. Moderate growth in BIT has been estimated based on past trends.

While the overall revenue is projected to grow, revenue from hydro-power is envisaged to decrease slightly. The DGPC's income is expected to fall owing to the increased domestic energy consumption, higher operations and maintenance costs of its existing plants and substantial investments required

to address problems in the Tala plant. Further, the Royal Government has decided to discontinue the lottery operations in India, and with this, we will no longer receive the lottery revenue projected to be Nu. 220 m this year.

The estimate is shown below in *Table 4.2*:

Table 4.2: Domestic Revenue Estimate for the FY 2011-12

Nu in millions

Sources of Revenue		Amount
A	Tax Revenue	12,857.021
<i>I</i>	<i>Direct Tax</i>	<i>8,690.769</i>
1	Corporate Tax	5,345.465
2	Business Income Tax	1,012.798
3	Personal Income Tax	928.398
4	Other Tax Revenue	1,404.108
<i>II</i>	<i>Indirect Tax</i>	<i>4,166.252</i>
1	Sales Tax	1,338.437
2	Excise Duty	2,573.333
3	Import Duty	237.240
4	Other Tax Revenue	17.242
B	Non Tax Revenue	5,749.959
1	Administrative Fees & Charges	297.599
2	Capital Revenue	122.924
3	Revenue from Government Departments	265.073
4	Dividend	2,987.738
5	Transfer of Profit	200.000
6	Other Non-Tax Revenue	40.125
7	Interest Receipt from Corporations	1,836.500
Total Domestic Revenue (A+B)		18,606.980

4.1.2 Grants

In FY 2011-12, the grant disbursement is estimated to be at the level of Nu. 13,859.122 m. This constitutes 42.6 % of the total resources (i.e. domestic revenue plus grants) and covers about 66.5 % of the total capital

expenditure. The expected disbursement is based on the agreements signed with the development partners.

Disbursement of grants from the GoI is projected to be Nu. 10,294.098 m representing 74.3 % of the total grants. Of this, the programme grant is Nu. 1,400 m, and project grants Nu. 8,894.098 m (*including Nu. 3,373.450m of which SDP*). From other bilateral and multilateral agencies put together, project-tied grant disbursement is estimated at Nu. 3,064.284 m and programme grants at Nu. 500.740 m.

As seen from above, external grants continue to be an important source of finance for our socio-economic development, and the support from the GoI is significantly substantial. I would like to take the opportunity to extend our gratitude to the Government and the people of India for their unparalleled support and to all other development partners.

4.2 Expenditure outlay

The total outlay (*i.e. total expenditure + net lending*) for the FY 2011-12 is estimated at Nu. 37,923.257 m. It is an increase of 10.9 % from that of the revised expenditure outlay of the FY 2010-11

4.2.1 Current expenditure estimate

The estimated current expenditure is Nu. 17,185.309 m. This is higher than the revised estimates of the FY 2010-11 by about 9 %. The increase is on account of the full implementation of salary revision for the public servants (Nu. 720 million), provisions kept for new appointments□, and higher maintenance costs due to increased public infrastructure. Also, up-gradation of some divisions into departments such as the Department of Curriculum, Research & Development under MoE, etc. has contributed to the increase in the current expenditure.

Salaries and wages account for 42.4 % of the total current expenditure and 39.16 % of the domestic revenue. Among many allowances, salaries and wages include the officiating allowance as per the Civil Service Rules. The operations and maintenance cost is increasing every year due to the creation of more public infrastructure, and it is estimated at Nu. 6,649.565 m in the FY 2011-12. This constitutes about 38.69 % of the total current expenditure.

Interest payments is estimated at Nu. 1,915.654 m, of which, about 85 % is on account of loans availed for hydro-power projects (Nu. 1,630.549 m). Interest payment for domestic loans is estimated to be about Nu. 62.084 m. Interest payment accounts for 11.14 % of the current expenditure budget and about 5 % of the total expenditure.

Current Subsidies is estimated at Nu. 1,333.252 m. The subsidy budget is at an increased level this year as compared to the previous year due to the corporatization of NHDC, establishment of Gelegphu and Samdup Jongkhar Thomdeys, the delinking of the Royal University of Bhutan from the civil service and support to the Agency for the Promotion of Indigenous Crafts. Also, in support to private sector development, the Government increased the budget subsidy to the BCCI by 71% from the previous year.

The details of major subsidy items are given in **Table 4.3.** below.

Table 4.3: Subsidy Payments

Nu. in millions

Sl. No.	Agencies	Amount		
		Current	Capital	Total
1	Agency for the Promotion of Indigenous Crafts	5.000	10.000	15.000
2	BCCI Secretariat	6.000		6.000
3	Bhutan Broadcasting Service Corporation	110.000	80.000	190.000
4	City Bus Service (Bhutan Post)	14.500		14.500

Nu. in millions

Sl. No.	Agencies	Amount		
		Current	Capital	Total
5	Druk Air Corporation	132.678		132.678
6	National Housing Development Corporation	20.000	5.000	25.000
7	Royal University of Bhutan	436.660	47.238	483.898
8	RSPN	0.326		0.326
9	Rural House Insurance Scheme		20.000	20.000
10	Thomdey Gelegphu	19.380	56.650	76.030
11	Thomdey Phuentsholing		100.000	100.000
12	Thomdey S/Jongkhar	10.461	63.000	73.461
13	Thomdey Thimphu	69.449	145.485	214.934
14	Wood Craft Centre	1.800		1.800

4.2.2 Capital expenditure

Capital expenditure is estimated at Nu. 20,834.857 m which is 55 % of the total expenditure outlay. It is projected to increase by about 7.9 % from the previous year. Besides the normal increase, the increase is attributable to the additional activities that were accommodated in line with the Government's objective to complete the priority development works of the 10th FYP by December 2012.

4.2.3 Net lending

During the FY, lending to the government corporations is estimated at Nu. 1,801.164 m, of which Nu. 1,746.136 m will be provided to the BPC for **rural electrification works**, and the balance is on-lending to BDFC for **rural credit** activities. Recovery of loans from corporations is estimated at Nu. 1,898.073 m of which THP project principal loan recovery accounts for 73.5%.

4.3 Financing

4.3.1 External borrowing

A total external loan withdrawal of Nu. 2,219.196 m is estimated along with programme borrowing of Nu. 184 m from the Asian Development Bank. *The details of external borrowings are presented in Table 4.4 below:*

Table 4.4: External borrowings disbursement estimated to be made during the FY

	Lender	<i>Nu. in millions</i>
1	Asian Development Bank	708.413
2	International Fund for Agricultural Development	120.485
3	Japan International Cooperation Agency	1,282.739
4	World Bank	222.452
5	Government of Austria	69.107
	TOTAL	2,403.196

4.3.2 Internal borrowing

After deducting the total resources available (*domestic revenue + grants + project-tied borrowings*) from the total estimated expenditure, there is a resource gap of Nu. 5,327.436 m. It is about 6.31 % of the GDP or 14% of the total outlay. While the magnitude seems large, it should be manageable as it will be met from the fund balances of the past year, and the balance will be secured through internal borrowings by issuing treasury bills. While deficit financing is unavoidable for a developing economy, there are several implications to the economy such as effects on trade balance, interest rates, inflation, debt stock, etc. However, I would like to inform the House that the Government is cognisant of such implications and has considered them as prudently as possible.

4.3.3 Debt servicing (principal repayments)

The total principal repayment is estimated to be Nu. 2,353.410 m, of which, Nu. 2,178.107 m (92.55 %) is on account of external loans. The debt service ratio is projected to remain at 13.28%, a slight decrease from 13.39 % in the last FY 2010-11. The details of the principal loan repayment by lender are presented in *Table 4.5* below:

Table 4.5: Principal loan repayments to be made in the FY 2011-12

Sl. No.	Lender	<i>Nu in millions</i>
1	Asian Development Bank	203.984
2	Austria	190.558
3	Denmark	84.314
4	Government of India	1,581.842
5	International Fund for Agricultural Development	36.734
6	World Bank	80.675
<i>Total external principal repayment</i>		<i>2,178.107</i>
<i>Total internal principal repayment</i>		<i>175.303</i>
Grand total		2,353.410

4.4 Budget on Sector Basis

I will now proceed with the presentation of Sector budget for FY 2011-12 and the details of the capital activities are explained in the respective sections. As in the past years, this is a pro-poor budget with about one fourth earmarked for the social sector. Additionally, more than one third (37%) has been allocated for the Economic and Public Services that include large shares for the agriculture (13%) and roads (11%) sectors, areas that require sustained investments if we are to reduce poverty to desired levels.

The sector-wise allocation is given in the *Table 4.6* below:

Table 4.6: Sector Budget for the FY 2011-12

<i>Nu. in millions</i>				
Sectors	Current	Capital	Total	Percent
Social Services	5,598.367	4,318.388	9,916.755	24%
<i>Health</i>	1,681.273	1,277.771	2,959.044	7%
<i>Education</i>	3,917.094	3,040.617	6,957.711	17%
Economic and Public Services	3,374.163	12,246.908	15,621.071	37%
<i>Agriculture</i>	1,813.824	3,548.306	5,362.130	13%
<i>Mining & Manufacturing Industries</i>	287.942	321.866	609.808	1%
<i>Roads</i>	270.849	4,217.687	4,488.536	11%
<i>Housing & Community Amenities</i>	501.582	1,942.537	2,444.119	6%
<i>Communications</i>	440.018	1,401.358	1,841.376	4%
<i>Energy</i>	59.948	815.154	875.102	2%
Cultural Services	576.653	820.037	1,396.690	3%
Law and Order Services	2,494.631	1,092.813	3,587.444	9%
General Public Services	3,225.841	2,356.711	5,582.552	13%
National Debt Services	1,915.654	4,154.574	6,070.228	14%
<i>Repayment</i>	1,915.654	2,353.410	4,269.064	10%
<i>Lending</i>	-	1,801.164	1,801.164	4%
Total	17,185.309	24,989.431	42,174.740	100%

In view of the high priority accorded to the health and education sectors, the highest share of the budget at 24% has been allocated to this sector. This year's allocation is 1% more than the previous year's.

4.4.1 Health

One of the key indicators of progress in the health sector is the reduction in child mortality. In terms of infant mortality rate, it is at 40.1 per 1,000 live births and the MDG target is to reduce it to 30 by 2015. In terms of maternal health, the MDG target is to reduce maternal mortality to 140 per 100,000 live

births by 2015. In order to achieve these targets, we have been allocating large budgets to the sector year after year. In the new FY, the sector's estimated budget is Nu. 2,959.044 m including the current expenditure budget of Nu. 1,681.273 m.

Health units and outreach clinics

Among others, the sector's budget contains Nu. 313.068 m for the constructions, re-constructions and renovations of health units and outreach clinic. With this, the total number of BHUs will increase by 50 and ORCs by 25 which will help to expand the coverage of basic health services.

Ambulance service

Another important factor in improving people's accessibility to health services is the ambulance services. I am happy to report that as pledged, the Government has provided all the Dzongkhag hospitals and the BHUs (which have motor vehicle road access) with the required number of ambulances. Budget provision has been kept for the replacement of old ones based on priority.

HRD

A budget provision of Nu. 61.9 m has been made for scholarships. This is part of the Government's on-going efforts to address the shortage of medical personnel. However, for a more permanent solution, the Government has embarked upon the establishment of an institute for medical sciences. The construction of the institute called Bhutan Institute of Medical Sciences (BIMS) is underway with kind support of the Government of India. A sum of Nu. 79.593 m is provided for this.

The Hon'ble Members will be interested to know that the revenue from Health Contribution has been increasing at an average of 20-25% in the last five years. During FY 2010-11, it is expected to contribute Nu. 129.87 m to national revenue. However, this represents only 0.7% of total revenue, whereas Government spending on the sector is as high as 7% of total outlay.

The major activities in the sector for the FY are as shown in Table 4.7a.

Table 4.7(a). Major areas of expenditure in health sector

<i>Nu. in millions</i>			
Sl. No.	Activities	Amount	Funding
1	Constrctn of Gelegphu Regional Referral Hospital (150 beds)	53.286	GoI
2	Constrctn of Institute of Medical Science College/ Re-modelling of old wards	79.593	GoI
3	Advanced Health Nursing Training Project, MoH	6.282	RGoB
4	Constrctn of Medical Supply Depot, Phuentsholing	20.000	RGoB
5	Constrctn of Public Health Laboratory (Wangchhutaba)	30.000	GoI
6	Constrctn of RWSS Schemes	285.325	SDP
7	Constrctn of Therapy Unit at ITMS, Kawangjangsa	10.000	RGoB
8	Contntn of GNM/ANM Courses for Nurse Assistants, MoH	10.540	RGoB
9	Contntn of Long-term HRD Programmes for Doctors, Nurses & Technologists, MoH	27.840	RGoB
10	Nurse Assistants training in India, MoH	11.520	RGoB
11	Procurement of hospital equipment & instruments	70.000	RGoB
12	Re-constrctn of 40-bedded Samtse Hospital	32.500	GoI
13	Specilstn /Masters courses for Doctors, Nurses & Technologists, MoH	12.000	RGoB
14	Constrctn of Ura BHU II/ Dur BHU II, Bumthang	6.000	SDP
15	Constrctn of BHU II at Rangaytung/ BHU I at Khatekha/ BHU II at Dungna, Chhukha	25.124	RGoB/SDP
16	Constrctn of Doctor's Quarter at Khatekha/ Staff qtrrs at Ragaytang, Darla & Dungna, Chhukha	19.500	RGoB/ SDP

Nu. in millions

Sl. No.	Activities	Amount	Funding
17	Constrctn of Sub-post at Metekha, Chhukha	4.600	SDP
18	Constrctn of BHU at Ngangtsena/ BHU I at Sibjithang, Ha	10.500	RGoB
19	Constrctn of Thangrong BHU (Spillover), Mongar	7.000	RGoB
20	Reconstrtn of Narang BHU, (Spillover), Mongar	12.000	GoI
21	Up-gradation of ORC to BHU II at Sengor & Muhung, Mongar (Spillover)	14.000	SDP
22	Constrctn of BHU II at Goenshari (Spillover) & Thinleygang, Punakha	10.640	SDP
23	Constrctn of BHU II at Bara, Samtse	5.000	RGoB
24	Constrctn of BHU II at Biru, Samtse	5.000	RGoB
25	Constrctn of BHU II at Chargaray, Samtse	5.000	RGoB
26	Constrctn of BHU II at Namgaychheoling, Samtse	5.000	RGoB
27	Constrctn of BHU II at Ugyentse (Spillover), Samtse	5.600	RGoB
28	Constrctn & Relocation of Martshala BHU II (Spillover), S/Jongkhar	5.000	RGoB
29	Constrctn of BHU II at Pemathang (Spillover), S/ Jongkhar	11.000	RGoB
30	Constrctn of BHU at Tareythang, Dovan, Sarpangsir, Chheokhorling & Singhi, Sarpang	16.500	SDP
31	Constrctn of BHU-I, 4 Unit Staff Quarter & Doctor Quarter at Chhuzargang, Sarpang	6.000	RGoB
32	Re-constrctn of Yangnyer BHU/ Radi BHU (Spillover), Tashigang	9.000	SDP
33	Relocation & Constrctn of Gr-I BHU at Khaling (Spillover), Tashigang	5.000	SDP
34	Constrctn of BHU I at Eusa, W/Phodang	11.500	RGoB
35	Constrctn of BHU I at Zhemgang (Spillover) & Namraygang, Bjoka Gewog, Zhemgang	16.500	SDP

Rural Water Supply

Providing safe and clean water supply to the rural population is a national

priority and substantial resources have been allocated for construction and rehabilitation of rural water supply schemes. Thus far, during the 10th FYP, 494 new RWSS have been constructed and 370 schemes rehabilitated. I am happy to report that the RWSS coverage has now increased to 93% from 87% at the start of the plan (only 67% of schemes were functional then). To take the coverage further, a budget of Nu. 285.325 m has been allocated in FY 2011-12 for construction of 320 new schemes, extension of 5 schemes, rehabilitation of 265 schemes and protection of 52 spring water sources. With these constructions and rehabilitation works in FY 2011-12 and the following year, we are confident that the target of 100% RWSS coverage will be achieved at least for the existing households.

4.4.2 Education

The Government stands committed in its conviction that improving education will enhance prospects to further socio-economic development. Accordingly, the sector has always received a high share of the total allocation. In the new FY too, it receives the highest individual sector share amounting to 17 % of the total outlay. One of the basic goals is to achieve universal primary education. The MDG has targeted 100% achievement in this area by the year 2015. In terms of gross primary enrolment, we have a 100% ratio, while our net enrolment ratio, stands at 93.1%.

Among many programmes, the MoE has embarked upon a programme to improve the quality of education in line with the project *Accelerating Bhutan's Socio-economic Development* (ABSD). Some of the areas of improvement include the development of curriculum, competency-based testing, in-service education of teachers, development of education qualification framework for all awards/ programmes, school assessment and performance systems training to DEOs and ADEOs, and training of School Principals. For these initiatives, a budget provision of Nu. 11.700 m is provided in FY 2011-12. Further, the Curriculum Division in the Ministry has been upgraded to the

Department of Curriculum Development for which Nu. 39.391 m is budgeted.

Further, in order to ensure the quality of education, it was felt that the assessment of the standards of education should be carried by a body independent of the Ministry of Education. Therefore, the Council for School Examination and Assessment, the erstwhile Board of Examinations will be delinked from the Ministry of Education, and a budget of Nu. 66.670 m is provided in the FY 2011-12.

The Royal Government provides numerous scholarships for Bhutanese students to pursue higher education outside Bhutan. This is a major programme of the Ministry and in FY 2011-12, a total of Nu. 284.134 m has been allocated.

The bulk of the capital budget is for construction of new schools and up-gradation of existing infrastructures in the Dzongkhags and Gewogs as listed in *Table 4.7b*.

The education sector budget also includes a provision of Nu. 82.429 m for the **Royal Education Council** to carry out the on-going projects for improving the quality of education. A budget of Nu. 43.950 m has been kept for the Royal Institute of Management for the construction of conference block, IT library, renovation of auditorium and procurement of teaching aid. Nu. 21.531 m is kept for Dzongkha Development Commission for activities geared towards Zhungkha education

The education sector's budget also includes Nu 1,333.485 m for the **Royal University** of Bhutan (RUB). The RUB has been made autonomous and the system of its operational expenses will be based on a per student fee-system.

On the whole, a total budget of Nu. 6,957.711 m including Nu. 3,917.094 m for recurrent expenditure is allocated for the education sector for FY 2011-12.

The list of major activities of the Education sector is presented in *Table 4.7b* below.

Table 4.7 (b) Major capital works in Education Sector

Nu. in millions

Sl. No.	Activity	Amount	Funding
1	Constrectn of Pasakha LSS, Chhukha	20.000	GoI
2	Constrectn of Lhamoidzingkha MSS, Dagana	20.000	GoI
3	Constrectn of Pangserpo PS, Dagana	5.000	GoI
4	Constrectn of Jyenkakha LSS, Ha	20.000	GoI
5	Constrectn of Minjey MSS, Lhuentse	29.000	GoI
6	Constrectn of Yelchen MSS, Pema Gatshel	9.000	GoI
7	Constrectn of Dashiding MSS, Punakha	9.000	GoI
8	Constrectn of Sarpang LSS, Sarpang	26.250	GoI
9	Constrectn of Phuentshothang HSS, S/Jongkhar	20.000	GoI
10	Constrectn of Thimshing MSS, Tashigang	15.000	GoI
11	Constrectn of Udzorong MSS, Tashigang	9.000	GoI
12	Constrectn of Genyekha HSS, Thimphu	20.000	GoI
13	Constrectn of Kuenzangling MSS, Tashi Yangtse	20.000	GoI
14	Under-graduate scholarships (existing/ projected)	113.802	GoI
15	Constrectn of Thangrong PS, Mongar	5.000	ADB (Grant)
16	Equipmnt, trainng and workshops for UPSIDE project	14.035	ADB (Grant)
17	Undergraduate scholarships (Existing & projected)	170.332	RGoB
18	Constrectn of Principal & Staff Quarter at NIVI, Khaling	8.710	RGoB
19	Constrectn of Academic Block at NIVI, Khaling	8.000	RGoB
20	Computers and printers for schools	18.000	RGoB
21	Digital duplicating machines for schools	11.000	RGoB
22	Training of teachers in educating for GNH by ToTs	11.201	UNICEF

Nu. in millions

Sl. No.	Activity	Amount	Funding
23	Capital works in HSS of 20 Dzongkhags	143.076	RGoB/ External
24	Capital works in MSS of 20 Dzongkhags	150.089	RGoB/ External
25	Capital works in LSS in 20 Dzongkhags	434.621	RGoB/ External
26	Capital works in Primary Schools of 20 Dzongkhags	321.284	RGoB/ External
27	Const. of IT, library & conference block, RIM	36.000	GoI
28	In-country training for 20 teachers from 15 Pilot schools, REC	14.000	RGoB
29	Network/database Management software, REC	7.736	RGoB
30	Professional service for in-country teachers assessment, REC.	7.700	RGoB
31	Training for 22 Principals and 3 DEO's in Singapore on GNH seed/ Beacon School, REC	6.400	RGoB
32	Training of master trainers for GNH seed/ beacon school, REC	6.420	RGoB
33	Training-HRD Development, Royal Education Council (REC)	11.199	RGoB

4.4.3 Renewable Natural Resources (RNR) sector

The total budget for the sector in FY 2011-12 is Nu. 5,362.130 m, and is 13 % of the total outlay. The main focus of this sector is in the rural areas where poverty is most prevalent and where more than 69% of our population dwell. The most important intervention for the alleviation of poverty of the rural population as envisaged by the Government and also as requested by the people is farm roads. Other important interventions envisaged are establishment of RNR centres, irrigation and promotion of co-operatives and association of farmers.

Farm Roads

The Government continues to place high importance, as pledged, to provide motor vehicles roads to our villages. During the third year of the 10th Plan,

a total of over 1,350 km of farm roads have been constructed. To continue the constructions, a budget of Nu. 2,018.018 m has been provisioned in the new FY for 423 farm roads altogether. These include 237 new roads, 111 spillovers and 130 roads improvement and maintenance. The funding for farm road constructions are mobilised mostly from the GoI under Small Development Projects (SDP), DRDP, IFAD and ADB under Japan Fund for Poverty Reduction (JFPR). I would like to inform the House that the budget has been considered for all the farm roads that had been proposed in the FY 2011-12 and no provision has been kept in the form of reserve unlike in the past.

More specifically to roads connecting Gewog centres, 150 Gewogs centres are connected with motorable roads so far, which is about 73 % coverage. the budget of Nu. 952.490 m will connect 45 more Gewogs including spillover works. Of this, due to capacity constraints of the local governments and the roads being in very difficult terrain, the Departments of Roads will take up the construction of four Gewog roads. They are Dolungang – Maogang - Pangkhey Road (Dovan Gewog, Sarpang), Gelongkhar - Serthi (Serthi Gewog, S/Jongkhar), Tingkarbi - Broksa - Silambi Road (Silambi Gewog, Mongar) and Taraytar – Kuseytar – Relukha road (Denchhukha Gewog, Samtse). Five more Gewogs will be connected soon by the various district roads which are undertaken by the Department of Roads.

Seo, Laya, Lingzhi, Naro, Merag and Sagteng Gewogs will be partially connected by farm roads during the 10th plan. Funds have been provided and constructions are on-going. Since it is not feasible to construct a motorable road to Lunana, the Government has decided to improve the 85 kms of mule track, the execution of which has already commenced.

In response to the concern raised on the maintenance and sustainability of farm roads, the Government has decided to provide a pay loader to every Dzongkhag. A task force comprising of members from relevant agencies

has also formulated the framework for farm roads including planning, implementation and maintenance to take measures not only to achieve the plan targets of connectivity but also to sustain it.

RNR Centres

RNR centres are at the hub of rural development activities and as such it is one of the priorities of the Government. A sum of Nu. 179.650 m has been included for the construction of RNR centres. With this, the construction of 54 centres including 24 spillovers from the previous year and maintenance of 13 will be undertaken. Presently, 139 Gewogs have RNR centres and 4 more viz. Gesarling in Dagana, Khar in Pema Gatshel, Ramjer in Tashi Yangtse and Sampheling in Chhukha will have been completed by end of FY 2010-11. With this, 96 % of Gewogs will have RNR centres. The remaining targets namely Lajab and Nichula Gewogs in Dagana, Samrang Gewog in S/Jongkhar and Daga Gewog in W/Phodang Dzongkhag will be taken up, with budgets in the following year.

Promotion of Co-operatives and Farmers Group

Recognising the importance that Agricultural Co-operative and Farmers Groups can have in transforming subsistence agriculture production and gaining economic efficiencies in production and marketing of commodities, a sum of Nu. 46.979 m has been earmarked in the new budget for the Department of Agriculture Marketing and Cooperatives. The agency is responsible for the promotion of co-operatives and farmer's associations. As part of the ABSD, 7 co-operatives and 30 farmers' groups have been registered with the Department of Agriculture Marketing and Co-operatives. To support this initiative, a sum of Nu. 7.750 m has been earmarked for their capacity development and initial grants. Such groups will also be able to get loans at comparatively low rates. A sum of Nu. 10.521 m has also been budgeted for strengthening the marketing capacity, storage equipment, construction of

market sheds, etc. of the co-operatives and groups

Irrigation and other support to farmers

A sum of Nu. 50.290 m has been budgeted for the construction of 74 irrigation channels and Nu. 49.996 m for renovation and maintenance. Irrigation facilities are a must for sustaining agricultural activities and improving national food self-sufficiency. Under the ABSD, an amount of Nu. 21.225 m has been provided for farm mechanisation in the rice-producing areas of Sarpang, Samtse, S/Jongkhar, Punakha and W/Phodang. An amount of Nu. 8.40 m has also been kept for the construction of crop storage facilities to enable farmers avail better prices for their products.

Some of the major activities under the RNR sector for which budget is included are presented in **Table 4.8** below:

Table 4.8: Major Capital Works under RNR sector

<i>Nu. in millions</i>			
Sl. No.	Activities	Amount	Funding
1	Constrctn of Farm Roads in Gewogs & Dzongkhags	1,990.197	SDP/ RGoB
2	Constrctn of Irrigation Channels	46.290	SDP
3	Design & estimates of Farm Roads (Outsourcing)	15.000	SDP
4	Design of Irrigation Channels (Outsourcing)	6.000	SDP
5	Bio-security Lab building, NCAH	10.000	GoI
6	Constrctn of Brown Swiss Farm Office in Bumthang	5.060	GoI
7	Constrctn of Animal Quarantine Centre at Nganglam	7.200	GoI
8	Constrctn of Approach Road at NFFDP	8.700	GoI
9	National Veterinary Hospital, Chhubachhu	20.000	GoI
10	Micro-initiative Fund/ Business Opportunity Fund	9.000	IFAD

Sl. No.	Activities	Amount	Funding
11	Constrctn of Chakchawazam - Ngangla farm road (Tong Gewog)	5.000	Helvetas
12	Purchase of Laboratory Equipment	5.520	FAO
13	Constrctn of Park Office in WCP	7.340	WWF
14	Constrctn of two Farm Roads through the Project “ <i>Farm roads to support poor farmer’s livelihood</i> ”	53.695	ADB
15	Constrctn of Household-level Potato & maize Store	8.400	RGoB / KR II
16	Constrctn of building at Bhutan Takin Reserve/ Zoo	9.530	RGoB
17	Constrctn of RNR Centres in Dzongkhags & Gewogs	179.650	SDP/ RGoB
18	Rice Productivity in Sarpang, Samtse, Punakha W/Phodang & S/Jongkhar (ABSD)	21.225	RGoB
19	Shifting of NMC from Semtokha to Yusipang	5.900	RGoB
20	Sustainable Forest Management Charter (ABSD)	12.000	RGoB

4.4.5. Vocational training and employment

A key issue in providing employment is that the skills of those seeking employment do not match the skills required by the labour market. Therefore, the focus of this sector during the 10th FYP is skills development of job seekers who could be employed readily. In order to train youths in the skills and to address unemployment, we have so far 6 Vocational Training Institutes (VTI) and two institutes of Zorig Chusum. A budget of Nu. 111.747 m has been kept in the new fiscal year for the establishment of another VTI, which will be located in Jigmeling, Sarpang. For the development of occupational skills standards, skills development programme, pre-employment engagement

programme, Apprenticeship Training Programme, and up-grading the qualification of instructors, a sum of Nu. 49.860 m has been allocated.

The budget also includes the construction of staff quarters and trainees' hostels at Samthang Automobile Institute (Nu. 16.098 m), construction of quarter for warden/matron, Tashi Yangtse Zorig Chusum (Nu. 3.005 m), workshop/classroom at Tashi Yangtse Zorig Chusum (Nu. 9.283 m), river protection works in Khuruthang Institute of Electrical Engineering (Nu. 16.910 m) and training shed at Chhumei Institute of Civil Engineering (Nu. 6.500 m).

A budget provision of Nu. 4.800 m has also been kept for occupational health and safety program and Nu. 1.500 m for labour relations.

Further, the Government has initiated a range of activities and programmes under the *Youth Entrepreneurship Scheme* and *Credit Guarantee Scheme* with the participation of the financial institutions. Unemployed youth aspiring to start up a business can get training and secure loans without collateral requirements under the scheme. The terms and conditions of the schemes have also been revised to make it more favourable to youth entrepreneurs, while the loan size has also been enhanced. These initiatives are expected to contribute to employment generation besides contributing to the economic growth, and a budget of Nu. 9.688 m provisioned to support the entrepreneurship programs in FY 2011-12.

Further, a sum of Nu. 13.29 m has been provided to enhance public-private partnership in Vocational Education and Training (VET), training-needs assessment of crafts sector, skills training for hydro-power sector, tourism and hospitality training and GNM training for the health sector. These have ensued from the recommendations of the ABSD.

The major activities budgeted under this sector in the FY are as in **Table 4.9**:

Table 4.9 Capital works in Vocational Training & Employment Sector

Nu. in millions

Sl. No.	Activity	Amount	Funding
1	Estblshmnt of new VTI at Jigmeling, Sarpang	111.747	GoI
2	Constrctn of staff quarter at Samthang Instt. of Automobile	7.548	RGoB
3	Constrctn of boys & girls hostel at Samthang Instt. of Automobile	8.550	RGoB
4	Constrctn of workshop/classroom at Instt. of Zorig Chusum, Tashi Yangtse	9.283	RGoB
5	River Bank Protection at Khuruthang Instt. of Electrcal Engrnrg.	16.910	Disaster Fund
6	Constrctn of training shed at Chhumey Instt. of Civil Engrnrg	6.500	RGoB
7	Skills training for hydro power sector	5.000	RGoB
8	GNM training for health sector	5.000	RGoB
9	Support for Private Sector HRD	9.500	SDS
10	Special training for school leavers	8.250	GoI
11	Institutional Capacity Building	24.400	DANIDA
12	Youth pre-employment engagement programme	5.500	RGoB
13	Apprenticeship training programme	9.115	GoI/UNDP

4.4.6 Roads

In view of the importance of road infrastructure to sustaining economic growth and development, in FY 2011-12, an allocation of Nu. 4,488.536 m is made for this sector representing 11% of total outlay. Out of this total, the capital budget of Nu. 4,217.687 m is for the constructions and improvement of national highways and bridges.

Within this, there are provisions for the construction of Manitar - Raidak Road (Nu. 84.738 m) and Raidak – Lhamoidzingkha road (Nu. 216.280 m

– the provision includes the cost of two bridges) financed by ADB/RGoB forming a part of the South East-West Highway. These roads are scheduled to be completed by 2013.

Under the GoI financing, major ones include the constructions of Gyalpoizhing - Nganglam road (Nu. 333.931 m), Gomphu - Panbang road (Nu. 200 m) and Hilay checkpost to Sarpang town road (Nu. 66.6 m).

Besides, there also exist provisions for two major bypass roads viz. Tingtibi-Wangdigang (Nu. 60 m) and Nangar-Ura (Nu. 81 m) roads which are financed by the RGoB.

Of the total allocation for roads sector, Nu. 2,854.349 m is for the following major capital works including resurfacing and other improvement works. The list includes 18 bridges to be constructed within the financial year amounting to Nu. 518.201 m (RGoB – Nu. 70 m, WB/RGoB – Nu. 4 m & GoI Nu. 444.201 m). Road works carried out by Dantak such as the Tamchhu-Chhukha bypass road, P/ling - Thimphu road widening work, S/Jongkhar -Tashigang road widening are not included in the budget.

The road sector budget also includes provision of Nu. 51.087 m for mule track constructions and improvement maintained with Dzongkhags and Gewogs.

Table 4.10 Construction of Roads and Bridges

			<i>Nu. in millions</i>
Sl. No.	Activity	Amount	Funding
1	Constrctn of Tingtibi - Wangduegang by pass road	60.000	RGoB
2	Constrctn of Manitar - Raidak Road on South East West National Highway	84.738	ADB/ RGoB
3	Constrctn of Raidak - Lhamoidzingkha Road including two bridges on South East-West National Highway	216.280	ADB/ RGoB
4	Constrctn of Nangar - Ura Bypass Road	81.000	RGoB
5	Constrctn of Gyalpoizhing - Nganglam Road	333.931	GoI
6	Constrctn of Gomphu - Panbang Road	200.000	GoI
7	Realignment of Hiley checkpost to Sarpang Bazar	66.600	GoI
8	Constrctn of Samtse - Phuentsholing Highway	100.000	RGoB
9	Constrctn of Gesarling - Lhamoidzingkha Road	100.000	Netherlands/ RGoB
10	Constrctn of Panbang - Nganglam Road	275.635	ADB/ RGoB
11	Constrctn of Damji Gasa Road	30.000	RGoB
12	Constrctn of Samdubchheoling - Samrang Road on South East West National Highway	130.963	ADB/ RGoB
13	Constrctn of Tsebar – Mikuri - Durungri Road on South East West National Highway	170.461	ADB/ RGoB
14	Constrctn of Khothakpa - Tsebar Road	83.280	WB/RGoB
15	Constrctn of Halalay-Dorokha Road	35.000	RGoB
16	Construction of Kharungla-Kangpara Road	50.000	RGoB
17	Constrctn of Chamkharchhu bridge on Nangar-Ura Bypass road	8.000	RGoB
	Constrctn of bridges on Gyalpoizhing – Nganglam Highway:		
18	Sangpori bridge	15.000	GoI
19	Zimzorong bridge	25.000	GoI
20	Khakhari bridge	7.650	GoI
21	Shumari bridge	7.650	GoI
22	Sokporong bridge	61.454	GoI
23	Matsheri bridge	16.760	GoI
24	Bredaza bridge	8.380	GoI
25	Desumvey bridge	8.380	GoI

			<i>Nu. in millions</i>
Sl. No.	Activity	Amount	Funding
Constrctn of bridges on Gomphu – Panbang Highway			
26	Nishoka bridge (Span 151 mtr)	100.000	GoI
27	Mangdeychhu bridge	80.000	GoI
28	Rindeygangchhu bridge	40.000	GoI
29	Pantang bridge	50.000	GoI
30	Constrctn of Manmung-Digala Road	60.000	GoI
31	Constrctn of Amochhu bridge on Samtse – P/ling Highway	60.000	RGoB
32	Constrctn of multi-span bridges over Maukhola	2.000	RGoB
33	Constrctn of RCC bridge on Jangchhubchheoling-Tashidingkha Dzongkhag Road	4.000	WB/RGoB
34	Constrctn of Rurichhu and Mechikhola bridges on Gelephug-W/Phodang Highway	20.000	GoI
35	Improvement works on roads	74.760	RGoB/GoI
36	Resurfacing of roads	80.000	RGoB
37	Restoration Works on monsoon-damaged roads	100.000	RGoB

4.4.7 Urban development, housing and public amenities

In total for this sector, the budget provision is Nu. 2,444.119 m which represents 6% of the total outlay. Some of the main items in the budget are as follows:

Urban Development

The ever increasing urban population exerts additional pressure on the amenities and services which calls for large investments in expanding urban infrastructures. This is especially so in the case of Thimphu, our capital city, with unprecedented construction boom. Thus, budget for two separate projects in Thimphu are included. The major capital works include infrastructure developments in Chang Bangdu, Lungtenphu, Babesa, Semtokha, Langjophakha and Dechhenchheoling with a total allocation of Nu. 886.834 m. These are under ADB and WB funding along with RGoB contribution for land compensation amounting to Nu. 58.842 m. In this regard, I am pleased to report that this includes the construction of a 6,500 cubic metres per day capacity water treatment plant at Chamgang for South Thimphu for an amount of Nu. 138.299 m. Thimphu city is under tremendous pressure to meet the increasing demand for safe drinking water.

Further, funds from the GoI (SDP) is arranged to rehabilitate and restore existing water channels from Ngabi Rongchhu and supply water to those areas in South Thimphu not covered by the ADB project. Another fund is arranged from the GoI (SDP) for tapping ground water to address the immediate problem of acute water shortage in Chang Bangdu and Chang Zamtog. This is scheduled to be completed by November 2011 and will cover about 1,000 households.

Budget allocations have also been made for urban development in Dagana

(Nu. 60.560 m under ADB/ RGoB financing) and Denchi and Nganglam (Nu. 10 m under RGoB financing). There is also a provision kept for awareness programmes on solid waste management (Nu. 8.8 m).

Housing

The National Housing Development Corporation (NHDC) is being corporatized from July 2011 to manage the Government residential houses across the country. With this, the NHDC will be allowed to retain rental income from the residential houses. It will meet its operations and maintenance costs from the rental income. However, a subsidy of Nu. 25 m has been provided in the budget of FY2011-12 as the initial working capital including Nu. 5 m for the construction of a Children’s Park at Changjiji Housing complex. The NHDC is expected to embark on construction of residential houses in different parts of the country. In order to enable it to take up constructions, the Government is also looking at easier financing modalities to keep the rent at affordable levels.

Some of the major activities are as listed in **Table 4.11** below.

Table 4.11 Major Budget Items in Urban Development, Housing and Public Amenities Sector

		<i>Nu. in millions</i>	
Sl. No.	Activity	Amount	Funding
1	Consultancy services for Urban Infrastructural Development	9.940	ADB
2	Awareness Program on Solid Waste Management	8.800	ADB
3	Lungtenphu Urban Infrastructure Development (LAP-Package1)	47.836	ADB/RGoB
4	Lungtenphu Urban Infrstrctr Devlpmnt (LAP Package 2 (Pilot basis)	31.830	ADB/RGoB
5	Babesa Urban Infrastructure Development (LAP-Package1)	186.867	ADB/RGoB

Nu. in millions

Sl. No.	Activity	Amount	Funding
6	Changbangdu Urban Infrastructure Development (LAP-Package1)	32.400	ADB/RGoB
7	Const. of Water Treatment plant at Chamgang, and Main Transmission Lines for Urban Development Projects	138.299	ADB/RGoB
8	Semtokha Urban Infrastructure development (LAP)	156.300	ADB/RGoB
9	Land Compensation for(Babesa LAP 1)	48.842	RGoB
10	Development of Roads under P/ling Thomdey	9.980	ADB/RGoB
11	Urban Infrastructure Development of Dagana Town	60.560	ADB/RGoB
12	Dechhenchheoling & Langjophakha Urban Infrastructure Development.(LAP-Package 1)	163.960	W/Bank
13	Construction of Suspension Bridges in various Gewogs	24.000	SDP
14	North Thimphu Urban Infrastructure Development. (LAP)-Land Compensation	10.000	RGoB
15	Denchi, Nganglam and Sarpang Urban Infrstrctr Devlpmnt- Design of water treatment plant	2.000	RGoB
16	Development of all Urban Towns including Denchi and Nganglam	10.000	RGoB

4.4.8 Communications and transport

ICT

The ICT sector is instrumental for creating a knowledge-based society that we aspire to become, and it also has high potential for employment generation. Therefore, the Government has initiated various projects in this sector. Some of the projects are Chiphen Rigphel project, establishment of information highway through the installation of Optical Fibre line in place of Ground Wire for data transfer, establishment of IT Park at Wangchhutaba, ICT laboratories in schools and establishment/ installation of ICT network for SASEC countries. The construction of the IT Park in Wangchhutaba will be completed and become operational by November, 2011.

These are expected to generate about 700 jobs in the ICT sector. However, for the IT sector to be competitive, the Government may have to provide some **subsidy** to the sector given the high cost of Bhutanese internet services compared to those in the neighbouring countries. For this, under the ABSD initiative, a sum of Nu. 26.5 m has been estimated for three years to be provided to entities providing data centre services and business process services. In the new FY, Nu. 8.5 m has been reserved for the purpose.

A sum of Nu. 514.222 m has been included in the budget for the Chiphen Rigphel or Total Solutions project. It is one of the largest budgets in this sector. The project was initiated last year with an estimated cost of Nu. 2.5 billion. The project is to expand IT literacy in the country, and so far, it has covered 145 schools against the target of 168 schools. Through the project, the secondary and higher secondary schools were provided with 12 to 25 computers each depending on the size of the school.

Civil Aviation

Further, a budget provision of Nu. 113.205 m is kept for **development of the domestic airports**. The main construction works in Yonphula is already completed, and Badpalathang works are expected to be completed very soon. In the new FY, provisions are kept for other peripheral works associated with the operationalization of airports. The tendering process for Gelegphu airport construction is underway.

Telecommunications

A key factor facilitating our economic development is the expansion of telecommunication services. As of last month, mobile phone service has reached all the Gewog centres except for Lunana. This is a remarkable progress which has vastly eased the life of the rural population. With investments planned in the coming year for further expansion, even Lunana

will be covered by coming September. With the commitment and support of the two mobile operators in the country, the Government is confident of meeting the target of full telephone connectivity by December 2012. To expand the facilities further into more villages, a budget of Nu. 120 m has been kept in FY 2011-12.

Bus Service

A sum of Nu. 14.5 m has been included in the budget for the Thimphu City Bus Service. The bus service is entrusted to Bhutan Post and this is the annual subsidy for the operation. The fleet of buses are financed by the Government fully, and a sum of Nu. 8.75 m has already been provided for the purchase of seven new buses. In spite of the costs, the Government is committed to improving the service further in order to cater to the rapidly growing number of residents in the city and the increasing congestion of the city roads by cars. Further to improve the service, the Government is availing the services of the International Finance Corporation (IFC) in preparing a report for promoting efficient and environment-friendly public transport system in Thimphu based on a public-private partnership. The report will be ready by September 2011.

In the case of inter-Dzongkhag passenger transport, bus services are operated by private operators. In order to maintain fares at affordable levels, the bus purchases are exempted from taxes and duties. Further, on non-profitable routes, an interest subsidy is provided on loans of the operators on account of the bus purchases.

As a whole, a budget of Nu. 1,841.376 m has been allocated in FY 2011-12 for this sector, which is about 4 % of the total outlay. The major activities included in the budget are shown in **Table 4.12** below.

Table 4.12 Major Activities in the Communications and Transport Sector

		<i>Nu. in millions</i>	
Sl. No.	Activity	Amount	Funding
1	Constrctn and Development of Yonphula domestic airport-Phase II	5.000	RGoB
2	Constrctn of Airport at Badbalathang, Bumthang	32.805	RGoB
3	Constrctn of Bus Terminal at Tashigang	10.000	RGoB
4	Constrctn of Gelegphu domestic airport	50.000	RGoB
5	Constrctn of Bus Terminal at Bajo Town	12.000	RGoB
6	Subsidy to Bhutan Telecom for BPO and Data Centres	8.500	RGoB
7	SASEC Information Highway Project	143.965	ADB Grant
8	E-Governance Project	10.400	GoI
9	Implementation of Broadband Master Plan	225.150	GoI
10	Chiphel Rigphel Project	514.222	GoI
11	Constrctn of water supply and other facilities at IT Park, Wangchhutaba	37.26	WB Grant

4.4.9 Trade, industry and private sector development

This sector is one of the key drivers for economic growth and private sector participation. It encompasses the development of large industrial estates and hydro-power projects, which are undertaken as off-budget activities. The budget allocated for the government organisations in the sector is mainly for facilitating the provision of efficient public services and creating an enabling environment for the private sector.

Priority has been accorded for the development of micro, small and medium enterprise (MSME) policy and programs with an allocation of Nu. 63.831 m. This includes the establishment of a cost-sharing facility which will provide financial support to potential project proponents.

Further, to promote the **indigenous crafts** and also create alternative employment opportunities, an agency for the promotion of indigenous crafts (APIC) has been established as per the recommendations of the ABSD. For

this, a budget of Nu. 15 m is provided of which Nu. 5 m is for operation and maintenance and Nu. 10 m is for establishment of raw material bank and craft bazaar in Thimphu, local fairs and exhibitions and development of craft sector.

In order to provide the necessary infrastructure for private sector development, the Government has established **industrial estates**. More such estates will be established through public-private partnerships. In the mean time, to design the master plan for the Bongdeyma industrial estate in Mongar, a sum of Nu. 7.5 m has been kept. In support of the existing industrial estate in Pasakha, a budget of Nu. 27 m has been provided under GoI funding for construction of a Solid Waste Disposal site.

For the relocation of the **fuel depot** from DechhENCHHEOLING to Thinchupangkha, Paro, a budget of Nu. 30 m has been provided. A budget of Nu. 5 m has been kept for the establishment of a **new regional Trade and Industry office** at Samtse to facilitate trade and promote business opportunities.

The major activities included in the FY 2011-12 budget are highlighted in **Table 4.13** below:

Table 4.13 Major Capital works in the Trade and Industry Sector

Nu. in millions

Sl. No.	Activity	Amount	Funding
1	Relocation of Fuel Depot from DechhENCHHEOLING to Thinchupangkha, Paro	30.000	RGoB
2	Construction of Regional Office at Samtse	5.000	RGoB
3	Small Business Promotion	4.000	RGoB
4	Agency for Promotion of Indigenous Crafts	10.000	RGoB
5	Development of MSME Policy and Support of Cost Sharing Facilities	33.746	ADB Grant
6	MSME Sector Development Program	30.085	ADB Grant

Nu. in millions

Sl. No.	Activity	Amount	Funding
7	Construction of Gabion Spurs along Singhe River	7.500	RGoB
8	Construction of Solid Waste Disposal Site at PIE	27.000	GoI/SDP
9	Bongdeyma Industrial Estate Master Plan Designing	7.500	RGoB
10	Geological Study of Limestone Deposits in Gelegphu area	10.304	Kuwait Fund Grant
11	Tools and Instruments for DGM & various Dzongkhags	6.891	RGoB

4.4.10 Tourism sector

The tourism sector is one of the largest service industries generating significant employment and foreign exchange. Given the high potential, the ABSD has identified it as a major thrust area. It has projected tourist arrivals of about 100,000 per annum by the end of the 10th FYP. As such, the focus is on diversifying tourism from cultural to nature-based products, such as opening up of new areas including Merag Sagteng in the East. For the ABSD activities, a sum of Nu. 65.44 m is provided for development of tourism infrastructure such as roadside amenities, trekking routes, bird-watching campsites, cafeteria, etc.; promotions of unique festivals in various Dzongkhags; marketing and promotional programmes such as road shows, printing of brochures and magazines, development and maintenance of *Tashal* information system, etc.

To improve the quality of service in the hospitality industry, a budget of Nu. 60.581 m is provided under ADA and RGoB funding for the construction of a Training Hotel attached to the HTMTI. Further, Nu. 6 m has been earmarked for the promotion of tourism in the Dzongkhags and communities. Budget has also been provided for the development of new products such as *takin* and nomad festivals, butterfly tourism, Autumn Cherry Park in selected places,

among others. A budget of Nu. 3.591 m has also been kept for development of wellness tourism and for MICE facilities. To promote Bhutan as an exotic destination for tourism, budget of Nu. 5 m has been kept for participation in travel fairs and road shows. The tourism related activities included in the FY are highlighted in *Table 4.14*.

Table 4.14 Capital works in Tourism Sector

Nu. in millions

Sl. No	Activity	Amount	Funding
1	Survey & Devlpmnt of Butterfly Tours in Bumdeling, T/Yangtse	1.150	RGoB
2	Devlpmnt of Hot Spring at Dunmang, Zhemgang	0.750	RGoB
3	Devlpmnt of Trek Routes from Tashigang – S/Jongkhar	2.500	RGoB
4	Devlpmnt of Autumn Cherry Park at Korila, Mongar and Orchid/ Flowers/ Flora tours in the east	2.718	RGoB
5	Devlpmnt of Wellness Tourism and MICE	3.591	RGoB
6	Development of Winter Routes for Cultural & Nature Hybrids	1.050	RGoB
7	Constrctn of Restrooms at Tango and Tachhukha, Paro	7.000	RGoB
8	Constrctn of Cafeteria at Sengor	1.300	RGoB
9	Devlpmnt of Bird Watching Campsites	1.300	RGoB
10	Nomad Festival at Chheokhor Gewog, Bumthang	1.080	RGoB
11	Takin Festival/ Ha Summer festival/ Mounth biking trails	4.554	RGoB
12	Devlpmnt of Tourism Infrstrctr- Constrctn/ Renovation/ Maintnnc of Bridges, Trek Routes, Campsites	2.500	RGoB
13	Tourism Devlpmnt & Research/ Product Devlpmnt strategy	3.800	RGoB

Sl. No	Activity	Amount	Funding
14	Hospitality & Tourism Related Trainings/ Workshops	2.000	RGoB
15	Devlpmnt of Promotional Film(s)/ Bhutan Magazine / Souvenirs	2.400	RGoB
16	Travel Fairs/ Road Shows	5.000	RGoB
17	Website Related Activities/ Maintnnc of Tashel system	1.650	RGoB
18	National Consltncy on Co-marketing and Marktng strategy Devlpmnt	3.000	RGoB
19	Joint Marketing	3.000	RGoB
20	Middle Management Hotel Program	1.828	Helvetas
21	Constrctn of HTMTI Training Hotel	40.000	RGoB
22	Constrctn of HTMTI Training Hote	111.611	ADA
23	TA- Suprvsn of the Institute Banquet Hall & Training Hotel	9.240	ADA

4.4.11 Energy

Rural Electrification (RE)

A major target of the Tenth Plan is to achieve electricity for all by 2013. To achieve this high priority programme a budget of Nu. 1,591.359 m has been kept in this FY including RGoB contribution of Nu. 215.640 m. This will cover the electrification of 4,502 households spread across 12 Dzongkhags. So far, 61,204 rural households or 73 % against the target total of 83,569 have been connected to electricity through on-grid extension. With the new budget, the coverage will rise to a minimum of 80 %. The balance 20% will be carried out in the last FY for which funds are already secured and tendering process will be started in October 2011 itself so as to fully achieve the target.

Such rapid progress has been achieved with continued support from our development partners and timely execution by the BPC. I would like to report that the BPC is stepping up efforts to complete the rest of the target by December 2012, in line with the decision of the Government. In spite of the average costs going up, given the Government's commitment, electricity is being reached to the most remote parts of our country. For example, for Laya Gewog, we have budgeted as sum of Nu. 9.05 m with financing from the Government of Austria and supplemented by RGoB for the transportation cost.

For the communities and institutions in the remote areas where there is no likelihood of reaching on-grid electricity, use of solar energy is promoted. As such, a budget of Nu. 1 m is provided for solar electrification in 10 Dzongkhags.

Electricity Production

As our economy hinges on hydro-power development, our Government has committed to develop 10,000 MW of additional power generation capacity by the year 2020. Towards this, the construction works on the 1,200 MW Punatsangchhu-I and 126 MW Dagachhu projects are in full progress and are expected to complete on schedule. The pre-construction activities for Punatsangchhu-II (990 MW) and Mangdechhu (720 MW) projects have started. For the others in the pipeline, Detailed Project Reports (DPR) are required to be carried, and in the new FY, a sum of Nu. 472.16 m has been kept. They are for Amochhu (620 MW), Bunakha (180 MW), Chamkharchhu (670 MW), Kholongchhu (486 MW) and Kuri-Gongri (1,800 MW), the works on which are ongoing.

A sum of Nu. 30.214 m has also been budgeted for the institutional capacity development of the Department of Energy under NORAD funding in order to meet the objectives of accelerated hydro-power development initiative.

A budget of Nu. 20 m under UNDP funding has been included for installing GLOF Early Warning System in Punakha-W/Phodang valleys in view of the risk of flash floods. Similarly, Nu. 10.25 m has been budgeted under GoI financing for the procurement of flood warning system equipment and setting up stations in selected locations. These are towards taking necessary precautions against major disasters.

For the sector as a whole, a budget of Nu. 875.102 m has been allocated. The major activities under this sector are listed in *Table 4.15* below.

Table 4.15 Major Activities and Budget in the Energy Sector

			<i>Nu. in millions</i>
Sl. No.	Activity	Amount	Funding
1	Construction of Annex Building & Parking Area for DoE	6.500	RGoB
2	DPR for Chamkharchhu-I (Digala) Hydropower Project (670 Mw)	48.645	GoI/RGoB
3	DPR for Kholongchhu Hydro-electric Project (486 Mw)	48.608	GoI/RGoB
4	DPR Up-gradation of (4,060 Mw) Sunkosh Hydroelectric Project	58.969	GoI/RGoB
5	DPR Preprtn of Kuri-Gongri (1,800 Mw) Hydroelectric Project	59.704	GoI/RGoB
6	DPR for (620 Mw) Amochhu Hydroelectric Project	79.513	GoI/RGoB
7	DPR Preprtn for 600 Mw Wangchhu Hydro-electric Project	114.531	GoI/RGoB
8	DPR Preprtn for 180 MW Bunakha Hydro-electric Project	62.139	GoI/RGoB
9	Suprvsn TA for Constrctn of 126 MW Dagachhu HEP	69.879	GoA
10	Diesel Power Generation Subsidy for Panbang Dungkhag	4.000	RGoB
11	Instttl Strengthng of Energy Sector	20.214	NORAD

			<i>Nu. in millions</i>
Sl. No.	Activity	Amount	Funding
12	Insttinn support (support to the Accelrtd Hydro Power Development Programme)	10.000	NORAD
13	Preprtn of Natnl Transmssn Grid Master Plan and its Intgrtn with Indian Grid	5.429	GoI
14	Rural Electrfectn under ADB Phase IV Project	86.353	RGoB
15	Rural Electrfectn under JICA Phase I Project	50.000	RGoB
16	Rural Electrfectn under Austrian Govt Phase VI Project	12.320	ACB
17	Rural Electrfectn under Accelerated RE Project (ADB-V)	4.287	RGoB
18	Rural Electrfectn under ARE Project (- Laya) Project	9.053	Austrian/ RGoB
19	Rural Electrfectn under JICA Phase II	75.000	RGoB
20	Instlltn of GLOF Early Warning System in Punakha-W/Phodang valleys	20.600	UNDP
21	Procurement of Equipment for FWS	7.750	GoI

4.4.12 Cultural services

The conservation and promotion of religious and cultural traditions, heritage and institutions is a high priority for the Royal Government and an important pillar of GNH. Dzongs and Lhakhangs are important components of our cultural heritage. In FY 2011-12, budget provisions are included for the construction of Dzong in Pema Gatshel (Nu. 72 m), and reconstructions of Dagana Dzong (Nu. 32.880 m), Wangdi Phodang Dzong (Nu.65.3 m), Paro Dzong (Nu. 50 m) and Lhuentse Dzong (Nu. 43.375 m) under GoI funding. A budget of Nu. 10 m has been kept for the construction of a Hindu temple in Thimphu. In addition, there are numerous works related to construction and renovation of Lhakhangs which are reflected in the respective Dzongkhag's budget.

Further, there are several activities and procurements for expansion of the

services under Datshang Lhantshog. A budget provision of Nu. 34.700 m has been kept for procurement of Kusungthugtens, general tools for Zhung Datshang, Rabdeys, Shedas and Lobdas. The constructions under this services also include the expansion of Tango Buddhist college (Nu. 15 m), Nunnery centre at Kilikhar, Mongar (Nu. 10 m), Zhirim Lobda at Gyalpoizhing, Mongar and Phochhu Dumra, Punakha (Nu. 15 m), Dining hall in Punakha Dzong (Nu. 7.5 m) and Hostels for Phuentsholing Sheda /Sombeykha Lobda, Ha (Nu. 4.400 m).

The total budget earmarked for Cultural Services is Nu. 1,396.690 m. The major works under cultural services are listed in **Table 4.16** below:

Table 4.16 Major Capital works of the Cultural Sector

<i>Nu. in millions</i>			
Sl. No.	Activity	Amount	Funding
1	Construction of Pema Gatshel Dzong	73.000	GoI
2	Renvtn of Wangdi Phodang Dzong (Spillover)	65.300	GoI
3	Renvtn of Paro Rinpung Dzong (Spillover)	50.000	GoI
4	Renvtn of Dzong & constrctn of Dashag, Lhuentse (Spillover)	43.375	GoI
5	Renvtn of Daga Dzong & constrctn. of Dashag for the Dzong, Dagana (Spillover)	32.880	GoI
6	Constrctn of National Consvrtn Labrtry. Thimphu (Spillover)	25.950	GoI
7	Constrctn of Hindu Temple	10.000	RGoB
8	Constrctn of boys hostel, RAPA (Spillover)	5.000	RGoB
9	Consvrtn works of Tamzhing Lhakhang (Spillover)	3.000	RGoB
10	Devlpmnt of Datshang Master Plan/ Monastic information system	5.500	RGoB
11	Expansion of Tango Buddhist College, Thimphu	15.000	GoI
12	Constrctn. of Nunnery Centre at Kilikhar, Mongar	10.000	GoI
13	Constrctn. of Zhirim Lobda at Gyalpoizhing, Mongar and Phochhu Dumra, Punakha	15.000	GoI
14	Constrctn of hostel for P/ling Sheda, Chhukha & Sombeykha Lobda, Ha	4.400	RGoB

Nu. in millions

Sl. No.	Activity	Amount	Funding
15	Constrctn of dining hall for Punakha Dzong, Punakha	7.500	RGoB
16	Procurement of Kusungthugten items	5.000	RGoB
17	General Procurements for Zhung Datshang	7.000	RGoB
18	Procurements for Rabdeys & Dongyul Lhakhangs	7.000	RGoB
19	Procurements for Shedas and Lobdas	8.200	RGoB

4.4.13 Law and order

The sector comprises of the law and order agencies such as the Judiciary and the Royal Bhutan Police. The growth of crime in the country are challenges the law enforcement agencies are facing today and therefore these agencies have to be strengthened for which substantial allocations are made year after year. In FY 2011-12, a budget provision of Nu. 3,587.444 m has been kept for this sector which is 9 % of total outlay.

Police

Of the above, Nu. 1,357.729 m is for the RBP which includes their capital budget of Nu. 280.396 m. The establishment of a Special Police Reserve Force has been initiated. For this, Nu. 10 m has been provided for acquiring arms & ammunitions, equipment items, and another Nu. 10 m for renovation of old quarters at Lhamoidzingkha taken over from the RBA. The other capital budget of RBP is for construction of quarters to improve the living conditions of the force, the details of which are given in **Table 4.17** below.

Table 4.17 Major Capital Works of the Royal Bhutan Police*Nu. in millions*

Sl. No.	Activity	Amount	Funding
1	Procurement of 17 fire engines	56.462	GoI
2	Estblshmnt of Special Reserve Police Force (SRPF) at Lhamoidzingkha.	20.000	RGoB
3	In-country training, training in India and abroad	8.300	RGoB
4	Constrctn of 120 units family quarters at HQ, Thimphu (spill-over)	10.030	RGoB
5	Constrctn of officer's quarter at HQ, Thimphu	22.359	RGoB
6	Constrctn of 10 units semi permanent family qrtrs at Gasa (spillover)	10.123	RGoB
7	Constrctn of 8 units officer quarter at Phuntsholing (spillover)	11.820	RGoB
8	Constrctn of 18 units family quarter at Tsimasham (spillover)	11.547	RGoB
9	Constrctn of 18 units family quarter at Panbang (spillover)	12.765	RGoB
10	Constrctn of retaining wall at Tongsa PS (cyclone affected) (spillover)	5.296	RGoB
11	Re-constrctn of semi-permanent family qtr. (12 units) at Pema Gatshel (damages caused by earthquake) (spillover)	3.058	RGoB
12	Constrctn of family quarter (10 units) at Dugti, Tashigang (damages caused by earthquake) (spillover)	4.153	RGoB
13	Constrctn of family quarter, 10 units, at Jangphu, Tashigang (damages caused by earthquake) (spillover)	3.358	RGoB
14	Constrctn of 18 units family quarters at Nungzor jail, Tashigang (damages caused by earthquake) (spillover)	11.758	RGoB
15	Site development works at Dolungang jail (spillover)	10.000	RGoB
16	Constrctn of 18 units family quarter at S/Jongkhar (spillover)	9.468	RGoB
17	Constrctn of 4 units officer quarters at Chamgang central jail (spillover)	10.000	RGoB
18	Constrctn of 72 units family quarters at Chamgang central jail (spillover)	24.000	RGoB

Fire fighting is one of the functions of the RBP. In the wake of increasing number of fire disasters, the need for more fire engines have been felt. Accordingly, a sum of Nu. 56.462 m has been provided in the budget for the purchase of seventeen fire engines. Against the total cost of Nu. 62.736 m, a sum of Nu. 6.274 m has been provided already in the FY 2010-11 budget to make advance payments to the suppliers.

Judiciary

The budget for the Judiciary is presented separately in the later chapter.

4.4.14 General public service

This sector includes the functions of agencies like the local government administrations, finance, audit and foreign services, National Land Commission Secretariat (NLC), GNH Commission, and National Environment Commission, etc.

Local Governance

In the area of local governance, budget provisions have been made for the construction of new Gewog offices & relocations, and biennial conferences of DT/GT and Dzongdags. Other important programme is the establishment of one-stop shop services.

A proper Gewog office is crucial for undertaking the Gewog's functions. As such, the construction of Gewogs offices is another priority of the Government. Presently, 185 Gewogs have offices, and in the FY 2011-12, Nu. 30.966 m is budgeted for construction of 10 more and reconstruction of 8. By the end of FY 2011-12, all Gewogs will have proper offices except two, viz. Nichula in Dagana and Samrang in Samdrup Jongkhar. The construction of the Nichula Geowg office is proposed to be taken up in the subsequent FY as part of

the RNR hub. In the case of Samrang Gewog, given the low population and minimum activities, the requirement of Gewog office in Samrang was not proposed. Samrang has 21 households with a population of 143, it is currently functioning from Pemathang Gewog, under a Mangmi. Depending on the settlement developments, and after a Gup is elected, it could be taken up in the subsequent FY.

To strengthen the local governments' capacity in innovation, decision-making, and implementation of community projects, the Constituency Development Grant (CDG) of Nu. 2 m per constituency was initiated. Since its start in FY 2009-10, activities under CDG have helped in socio economic development of the local government by supplementing the budgetary grants. So far, a budget provision of Nu. 171.650 m has been made for 460 different activities proposed under 171 Gewogs. While some of the activities were completed, others are under progress. The total expenditure reported so far since its start is Nu. 105.69 m. In FY 2011-12, budget of Nu. 94 m has been kept under General Reserve to be transferred to Gewogs' budget.

The Local Government budget also includes provisions for natural disaster-related activities. It covers reconstruction works amounting to Nu. 104.372 m in the Dzongkhags of Lhuentse, Mongar, Pema Gatshel, Tashigang and Zhamgang. The activities comprise of the repairs of Lhakhangs, schools, BHUs, Gups's offices, replacement of bailey bridge and other facilities. In addition, a sum of Nu. 100 m is kept in reserve for use in the event of natural calamities and eventual restoration works.

Public Service Delivery system

A notable budget in this sector is that of the Government to Citizen (G2C) project which has been initiated to improve the public service delivery system. The project is in the process of simplifying over 110 services spread across

10 ministries, 12 agencies and 20 Dzongkhags. The main activity under the project is to introduce on-line systems so that people can avail the services from own localities. In this project, a sum of Nu. 247.17 m is for construction and renovation of community centres where the citizens can avail of the public service through IT. As of today, 33 community centres have been made ready and by end of this month, it is expected to complete another 70, making a total of 103. In the new FY, 102 more is expected to be completed. As regards the actual development of the on-line system, a sum of Nu. 50.101 m is provided in the new FY. So far, among others, nine services in the Surface Transport department, and four services in the Forestry department, have been made operational. Further, a sum of Nu. 31.598 m is allocated for the provision of computer equipment to the community centres and for training of the end-users. Thus, in total, the allocation is a large amount of Nu.328.869 m. We are confident that with so much resources granted by many donors, and with our efforts, the objective of efficient delivery of public services will be attained.

Other notable budget provisions under this sector are LGSP Joint support program in MHCA (Nu. 46.200 m), construction of goldsmith workshop, DNP (Nu. 10 m), construction of labour sheds at Chang Gidaphu, DNP (Nu. 20 m) and contribution to SAARC Development Fund, MoF (Nu. 140 m).

Land Resurvey

A sum of Nu. 435.548 m has been budgeted for National Land Commission as a whole. Of this, a sum of Nu. 107.054 m is for the national land cadastral resurvey works which are on-going. So far, resurveying in 10 Dzongkhags (Lhuentse, Mongar, Tashigang, T/Yangtse and P/Gatshel, Paro, Punakha, W/Phodang, Bumthang and Tongsa) have been completed, and survey in another 4 Dzongkhags (Ha, Thimphu, Chhukha and Gasa) are in progress. The project is scheduled to complete by 2013. The total cost estimate of this

project is Nu. 1,342.740 m, of which Nu. 635.958 m has been provided so far (i.e. up to FY 2010-11). Another important budget is for the rehabilitation of 44 households in Pema Gatshel and 88 households in Ha for which Nu. 20 m has been budgeted.

Other significant budget items that fall under this category are the programmes under GNHC. They are the enhancement of capacity in the local government administration, (Nu.3.050 m), and the continuation of the “*Accelerating Bhutan’s Socio-economic Development Project*”. The ABSD project is due to complete in August 2011, for which a budget of Nu. 16.663 m has been kept. Also, Nu. 26.100 m has been earmarked for various training programs and institutional capacity building of GNHC Secretariat.

A sum of Nu. 3.250 m has been provided for to strengthen local authorities on environment management, to create public awareness, and to monitor air quality, and a sum of Nu. 14.950 m has provided for the NEC’s human resource development.

The major capital budgets included under this sector are presented in Table 4.18:

Table 4.18 Major activities in the General Public Services

			<i>Nu. in millions</i>
Sl. No	Activities	Amount	Funding
1	Biennial DT/GT and Dzongdag Conference, MHCA	6.000	RGoB
2	Local Governance Support Programme & Joint Support Programme, MHCA	46.200	UNEP
3	Support to One-stop Shop Services, MHCA	38.247	SDC
4	On-line system Devlpmnt (G-C Project)	50.100	GoI
5	Constrctn of Gewog Offices	30.966	RGoB/SDP/GoI
6	Contribution for SAARC Devlpmnt Fund Secretariat, MoF	140.000	RGoB
7	Provision for various Constrctns, MoF	35.000	RGoB

<i>Nu. in millions</i>			
Sl. No	Activities	Amount	Funding
8	Reconstrctn of Tandin Ney	3.000	RGoB
9	Procrmnt of Store Items, MoF	11.000	RGoB
10	Constrctn of Conference Hall cum Go-Down, RRCO, Samtse	5.000	RGoB
11	Constrctn of Combined Office at Border Check post, DRC, S/Jongkhar	3.000	RGoB
12	Renvtn of Ministerial Enclave/ Protection works	8.215	RGoB
13	Constrctn of Goldsmith Workshop at Chhubachhu	10.000	RGoB
14	Constrctn of Labourer's Shed at Chang Gidaphu	20.000	RGoB
15	Constrctn of building for office of Attorney General (Spillover)	15.000	GoI
16	Human Resource Devlpmnt/ Management Plan, NEC	10.180	UNEP/ UDNP/ DANIDA
17	Human Resource Devlpmnt/ Profssnl services, NEC	4.770	JEF/ JSF
18	Accelrtn of Bhutan's Socio-economic Devlpmnt Project, GNHC Secrrt.	16.663	RGOB
19	PlaMS integration with MYRB & PEMS, regional workshop for BMIS data & printing of Dzongkhag socio-economic profiles	4.600	UNICEF
20	Training of GT members on planning & prioritization of selected Dzongkhags (Sarpang, Zhemgang & Samtse), GNHC	3.050	HELVETAS
21	HRD for GNHC	3.000	Netherlands
22	Instttnl Strengthnng of GNH Secretariat for on-going masters course	6.500	DANIDA
23	Survey & Data Analysis component of REAP (Phase II)	13.000	SDS

General Reserves

Under General Reserve, Nu. 1,632.784 m is kept during the financial year. Allocations are contingent upon the occurrence of events, and are thus to be

provided later to agencies based on the actual requirements. The budget kept are for new appointments, rural life insurance schemes, retirement benefits, acquisition of land, foreign travel and government hospitality amongst others. This includes a sum of Nu. 100 m set aside for purchase of vehicles mostly for replacements and newly established agencies. The details are as indicated in **Table 4.19** below.

Table 4.19 : Contingency reserve under General Public Services

<i>Nu in millions</i>			
Sl. No.	Activity	Amount	Remarks
1	New Appointments/ Establishments	142.334	To be provided on actual appointments made over and above the provisions existing in the agencies' respective budgets.
2	General	100.000	For RLIS, Transfer grants, Kidug, etc.
3	Government Hospitality	30.000	Reimbursement based on actual expenditure.
4	Retirement Benefits	100.000	Provision of voluntary resignations.
5	Third Country Travel	30.000	
6	<i>Ad hoc</i> & Spillover works	250.000	To be provided to budgetary agencies based on actual requirement.
7	Monsoon damages	100.000	
8	Acquisition of land	300.000	To be provided to budgetary agencies once the acquisition formalities are completed.
9	Constitutional Development Grant	94.000	Nu. 2 m each for 47 constituencies to be transferred to the Gewogs budgets.
10	HM Relief Fund	20.000	
11	Reconstruction works related to disaster	100.000	
12	LG Elections	66.450	To be provided to the ECB based on the actual need.
13	Vehicles	100.000	
14	National Events	200.000	

Royal Privy Council Services

The Royal Privy Council's budget hitherto formed part of the budget for the Royal Secretariat. From the new FY onwards, its budget has been segregated and reflected separately. Similarly, the offices of HM the King's Representatives in Central, Eastern and South-Western regions operating from Bumthang, Mongar and Phuentsholing, have also been separated and included under the respective Dzongkhags' budgets.

4.5 Budget for Legislative, Judiciary and Constitutional bodies

The Constitution, under Article 14 Section 13, mandates the state to make adequate financial provisions for the independent administration of constitutional bodies. In doing so, the Government is also bound by its responsibility for the overall financial affairs of the country, and has to be mindful of the available resources and the various Constitutional obligations relating to public finance. In light of these limitations, the understanding of the bodies are sought while discussing and determining their budget. Accordingly, the proposals made by these bodies for the FY 2011-12 and the Government's recommendations are submitted as in **Annexure I**. The salient features of their budgets are outlined below:

4.5.1 National Assembly (NA)

The current budget for the National Assembly includes travel abroad for conferences and workshops, meetings with local governments (Nu. 3.579 m), Parliamentarians Exchange Programme (Nu. 0.85 m) and in-house printing and communications (Nu. 2.570 m) amongst others. Against the budget of Nu. 5.966 m proposed for foreign travel, Nu. 4.685 m has been recommended based on the number of incumbents. This represents 130 % increase over the previous budget. In addition, Nu. 0.650 m has been included for travel

outside in respect of the PAC members.

In the capital budget, generally all the proposals have been considered including provision of a bus (Nu. 2.8 m) for group travel of Parliamentarians and some provision for the parliamentarians' attachment courses (Nu. 2.00 m). The summary is shown below.

National Assembly (Nu. in millions)		
	Proposed	Recommended
Current	100.519	91.866
Capital	19.610	8.425
Total	120.129	100.291

4.5.2 National Council (NC)

The budget for NC is primarily for normal operations including capital budget for institutional strengthening, office furniture and equipment. The NC had proposed foreign travel budget of Nu. 5.378 m against which Nu. 3.253 m has been recommended. The recommended amount represents about 20% increase from the last budget. The summary is shown below.

National Council (Nu. in millions)		
	Proposed	Recommended
Current	60.692	58.735
Capital	5.093	5.023
Total	65.785	63.758

4.5.3 Anti-Corruption Commission

The major components of the capital budget are the construction of office building (GoI Nu. 18 m), construction of sub-station for the power supply (RGoB Nu. 4.5 m) and HRD support for good governance (SDC Nu. 15.390 m). The recommended capital budget is higher than the proposed amount due to the spill-over construction works. The slightly higher amount under the

current expenditure budget is due to the incorporation of the provisions for new appointments which they had not included. Their budget is as presented below:

Anti Corruption Commission (Nu. in millions)		
	Proposed	Recommended
Current	30.245	30.975
Capital	25.740	40.740
Total	55.985	71.715

4.5.4 Election Commission (EC)

For conducting both the by-elections and the remaining local government elections, the EC had proposed a budget of Nu. 66.45 m. Since the use of the budget is contingent upon those elections being held, the provisions have been kept under General Reserves to be made available as and when required. The difference in the current expenditure proposals is due to this arrangement. Further, the portion of the budget related to Dzongkhag Election Offices proposed by the EC has been deducted since it was already included in the respective Dzongkhag budgets.

A budget of Nu. 20 m has been kept for the construction of office building in Thimphu under GoI funding. The EC had proposed Nu. 3 m for the designing of office buildings to be constructed in each of the twenty Dzongkhags, Nu. 20 m for procurement of bio-metric equipment for voter registration, and Nu. 7 m for procurement of vehicles for each of the twenty Dzongkhag Election Officers. The first two have not been recommended as they were not considered by the National Assembly in the last budget also. The vehicles have not been recommended as other Sector Officers in the Dzongkhags are also not provided with dedicated vehicles. Their budget summary is as in the table below:

Election Commission (Nu. in millions)		
	As proposed	Recommended
Current	127.958	41.134
Capital	66.214	35.760
Total	194.172	76.894

4.5.5 Judiciary

The budget estimates for FY 2011-12 under Judiciary includes the constructions of Supreme Court building, of the Dzongkhag Courts and Dungkhag Court buildings and the construction of residences for the Dangpons. The budget provision in HRD includes that for peer exchange programmes.

Of the Nu. 39 m proposed for construction of three Dangpons' offices, a budget of Nu. 27 m has been included, viz. in Pema Gatshel and in Lhuentse. Similarly, from the proposed five Dangpons' residence construction for Nu. 24.741 m, three constructions (Dorokha, Thimshing and Panbang) have been included with a budget of Nu. 15.563 m. In addition, a budget of Nu. 10.2 m has been kept for completing the constructions of Dangpon's residence at Tashigang, Samdub Chheoling, Jomotsangkha and Nganglam.

As per the provisions of the Judicial Services Act, Bhutan National Legal Institute has been established for imparting training to in-service judicial personnel. For conducting pre-service legal education, the work on establishment of the Royal Institute of Law has been initiated. For these two institutions, a budget of Nu. 6.59 m has been kept. Further, Nu. 5 m has been kept for hosting the next SAARC Law conference in Bhutan. It may also be of interest to the Honourable Members that a provision of Nu.0.200 m has also been kept to provide legal aid to indigent accused. The summary is given in the table below.

Judiciary (*Nu. in millions*)

	As proposed	Recommended
Current	227.557	187.754
Capital	341.781	235.076
Total	569.338	422.830

4.5.6 Royal Audit Authority (RAA)

The major component of the capital budget is for construction of Regional Training Centre at Tsirang and procurement of computers and office equipment. The training centre is intended to cater to the needs of the RAA as well as to the needs of other organisations and the financial institutions. From the estimated cost of Nu. 152 m, the GoI has committed Nu. 43 m, of which Nu. 30.83 m is proposed in the new budget. The summary is as shown below.

Royal Audit Authority (*Nu. in millions*)

	Proposed	Recommended
Current	101.713	104.552
Capital	42.094	34.294
Total	143.807	138.846

4.5.7 Royal Civil Service Commission

The capital budget for HRD includes the Netherlands funding of Nu. 60 m, post-graduate scholarship under GoI funding of Nu. 25 m, and Nehru-Wangchuck fellowship of Nu. 10 m. The RCSC is spearheading the establishment of the Royal Institute of Strategic Studies for which a budget of Nu. 6 m has been kept. The proposal of Nu. 20 m for management development programme has been kept in abeyance to be included as and when source of funds is identified. The summary is as given below.

RCSC (Nu. in millions)

	Proposed	Recommended
Current	32.014	32.404
Capital	134.720	107.250
Total	166.734	139.654

CHAPTER V: TAX MEASURES

Let me now turn to a subject which is fresh on our minds, and that is the revenue enhancement measures presented here in the last summer session. I need not detail the sequence of events that took place thereafter.

In this session, the Government takes the opportunity to propose some revision in the tax rates of certain items. However, this is very limited in scope as compared to the last proposal. As the Honourable Members will see from the list of items proposed, they are mainly proposed from the social and environmental perspectives. It will nevertheless bring about some additional revenue as well. They are the following:

- 1) Alcohol;
- 2) Vehicles;
- 3) Spare parts of vehicles and machineries;
- 4) Packaged fruit juices; and
- 5) Precious metals.

1. Alcohol

The Health Ministry has shown that over hundreds of our people die of alcohol-related diseases every year. Alcohol abuse is one of the main reasons for increased incidence of lifestyle diseases in our country. Treatment is highly expensive at Nu. 122,000 per patient as mentioned by the Honourable Minister for Health, and has a huge bearing on the national exchequer. While there exist currently taxes on alcohol and alcohol products, they are not sufficiently high to discourage consumption. Therefore, the Parliament may like to consider an increase in the taxes on alcohol products.

Excise Duty rates on locally manufactured alcohol are presently levied at

rates ranging from 20% to 60% depending on the brand. While increasing these rates, we also propose to categorise the brands to three groups namely, i) Superior Brand; ii) Medium Brand; and iii) Other Types of Alcohol, so that no separate duty has to be fixed whenever a new brand is introduced. It is proposed to levy the revised duty, - @ 30% for superior brand, @ 60% on medium brand and @ 75% on all other types of alcohol. Sales Tax is applicable on imported liquor, on imported beer and on domestic beer at the rate of 50 %. It is proposed to be raised to 100%. With the Customs Duty of 100%, the total taxes for domestic-produced beer will become 100% and for imported beer 200%. The following **table** indicates the existing rates and the proposed rates:

	EXISTING				PROPOSED REVISION			
	ST Rate (%)	CD Rate (%)	ED Rate (%)	Total Rate (%)	ST Rate (%)	CD Rate (%)	ED Rate (%)	Total Rate (%)
ALCOHOL								
(A) Spirits/ wine								
Domestic			20-60	20-60			30-75	30-75
Imported	50	100		150	100	100		200
(B) Beer								
Domestic	50			50	100			100
Imported	50	100		150	100	100		200

It is also proposed to introduce a Brand Registration fee of Nu. 20,000 per brand per dealership license to be renewed annually.

Further, it is proposed to revise the Import Permit Fee to Nu. 30 per case, with each case containing not more than 12 litres. At present, it is at only a nominal amount of Nu. 150 per permit, irrespective of the quantity.

2. Vehicles

The number of vehicles has been growing rapidly over the years. Annually, over the last five years, it has grown at an average of 5,000 vehicles per annum. The number of vehicles per person is one of the highest in Bhutan as compared to the region. Vehicles are a major cause of air pollution, besides

the fact that it depletes valuable foreign exchange reserves. Therefore, a proposal to introduce a revision of tax on vehicles is hereby submitted as in the table below:

VEHICLES	EXISTING			PROPOSED		
	ST Rate (%)	CD Rate (%)	Total Rate (%)	ST Rate (%)	CD Rate (%)	Total Rate (%)
Light motor vehicles of engine capacity of: Up to 1,500 cc	15	20	35	20	20	40
1,501 cc to 2,500 cc	15	20	35	20	25	45
2,501 cc and above	15	20	35	20	30	50
Electric vehicles	15	20	35	00	00	00
Hybrid vehicles	15	20	35	00	00	00
Motor Cycles with engine capacity						
Up to 250cc	10	20	30	10	20	30
Above 250cc	10	20	30	20	20	40
Bicycle	5	10	15	0	0	0
Bicycle Tyres & Tubes	5	10	15	0	0	0
Vehicles used for travelling on snow; golf cars, etc.	15	20	35	20	30	50

In line with our environmental conservation policies, it is proposed that no tax be levied for electric cars, hybrid cars, bicycles and bicycle parts. Furthermore, the taxes on bicycle tyres and tubes are proposed to be brought down to zero from the existing rate of CD rates of 10% and ST 5%.

3. Spare parts of vehicles and machineries

Taxes on spare parts is being proposed as there are revenue leakages through wilful mis-declaration stating that the parts are for a particular machinery when they are in fact also used for common items such as vehicles. It is also suspected that the parts on which there are no taxes are being diverted outside. It is therefore proposed to levy a 10% CD and 5% ST on all spare parts of all types of machineries and vehicles.

4. Packaged Fruit Juices

Some of the packaged so called fruit juices are not only detrimental to health but also environmentally unfriendly when packed in small non-biodegradable packages. It is therefore proposed to increase the Sales Tax on fruit juices packaged in containers of 250 ml and below from 15% to 30%. The CD, which is already at a reasonable rate of 50%, is proposed to be left unchanged.

5. Precious Metals (Gold and Silver in forms of bars, ingots, biscuits, powder)

Currently gold and silver are taxed on *ad valorem* basis and it works out to be quite high. Local artisans cannot afford to buy the metals for their production and as a result people resort to import of such items from abroad, especially statues. Therefore, to make it possible for domestic production and to protect our traditional arts and craft, the rate is proposed to be reduced by changing it to specific rates as follows:

Gold: CD of Nu. 500 per 10 grams; and ST of Nu. 500 per 10 grams from the current 30% and 10% respectively;

Silver: CD of Nu. 2,000 per kg of silver from the existing 30% ad valorem and ST of Nu. 1,000 per kg on silver, from the existing 10%.

For articles made **of gold and silver**, no change is proposed in the CD rate from the existing rate of 30%. However, in the case of ST for coins (other than gold coins), it is proposed to be raised to 10 % from 0% at present.

For the consideration of the House, a Bill along with the revised tax schedules has been prepared. I hope that the House will support the initiatives in the interest of the social and environmental aspects of country. Our country is known for its exemplary environmental stewardship and before the situation becomes difficult to manage, it would be prudent to act now and limit the imports and consumption of products which are damaging to our environment. Similarly, with respect to social concerns, the Honourable Members agree that alcohol is one of the most damaging consumption items in our society. It would indeed be our responsibility to discourage intakes of alcohol. In the land of GNH, it would be unconscionable to ignore how alcohol is damaging our society.

With this, I hereby submit the **Tax Revision Bill 2011** as a Money Bill to Parliament.

CHAPTER VI: ECONOMIC OUTLOOK IN THE MEDIUM TERM

Having presented the budget for the new fiscal year, it is appropriate to consider its impact and present a macro-economic outlook for the future. Therefore, I present here the projections of economic aggregates for FY 2011-12 and for the subsequent two fiscal periods, i.e. FY 2012-13 and FY 2013-14. The projections are as in *Table 6.1*.

Table 6.1: Fiscal Projections

Budget Policy and Fiscal Framework Statement					
	2009/10	2010/11	2011/12	2012/13	2013/14
	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Projection</i>	<i>Projection</i>
	<i>(Nu in millions)</i>				
Total Resources	30,990.676	30,549.658	32,546.035	24,844.710	26,261.740
<i>(Domestic Revenue + Grants)</i>					
Domestic Revenue	15,638.434	16,962.551	18,606.980	18,825.050	19,249.910
Tax Revenue	9,655.781	11,097.886	12,857.021	12,955.143	13,112.220
Non-tax Revenue	5,982.653	5,864.665	5,749.959	5,869.907	6,137.690
Grants	11,118.877	13,313.995	13,859.122	5871.32	7,011.830
Project-tied Grants	9,149.551	11,430.201	11,958.382	4269.62	5,472.930
India	5,906.388	7,861.469	8,894.098	1408.63	4,050.000
Others	3,243.163	3,568.732	3,064.284	2,860.990	1,422.930
Programme Grants	1,969.326	1,883.794	1,900.740	1,601.700	1,538.900
India	1,400.000	1,400.000	1,400.000	1,400.000	1,400.000
Others	569.326	483.794	500.740	201.700	138.900
Other Receipts	4,233.365	273.112	79.933	0.000	0.000
Outlay	29,888.990	34,196.615	37,923.257	28,635.90	31,616.570
<i>(Total Exp. + Net Lending)</i>					
Total Expenditure	25,831.827	35,073.084	38,020.166	29,727.33	33,504.940
Current Expenditure	12,902.684	15,772.269	17,185.309	18,945.830	18,657.040
<i>o/w interest on Tala loans</i>	<i>1,395.200</i>	<i>1,395.200</i>	<i>1,395.200</i>	<i>1,395.200</i>	<i>1,395.200</i>
Capital Expenditure	12,929.143	19,300.815	20,834.857	10,781.5	14,847.900
Net Lending	-400.374	-876.469	-96.909	-1,091.440	-1,888.370
Advance/Suspense (net)	334.728	0.000	0.000	0.000	0.000

Budget Policy and Fiscal Framework Statement					
	2009/10	2010/11	2011/12	2012/13	2013/14
	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Projection</i>	<i>Projection</i>
	<i>(Nu in millions)</i>				
Other Payments	4,122.809	0.000	0.000	0.000	0.000
Fiscal Balance	1,101.686	-3,646.957	-5,377.222	-3,939.520	-5,354.830
Financing	-1,101.686	3,646.957	5,377.222	3,939.520	5,354.830
Borrowing	2,817.511	3,106.369	2,403.196	2,622.460	733.030
Internal	497.513	0.000	0.000	0.000	0.000
External	2,319.998	3,106.369	2,403.196	2,622.460	733.030
Repayment	2,735.525	2,348.059	2,353.410	2,535.903	2,768.993
Internal	672.815	175.303	175.303	175.303	175.303
External	2,062.710	2,172.756	2,178.107	2,360.600	2,593.690
Resource Gap	1,183.672	-2,888.647	-5,327.436	-3,852.960	-7,390.793
	<i>(% of Nominal GDP)</i>				
Total Resources	46.61	40.36	38.56	25.75	23.67
Total Expenditure	38.85	46.34	45.04	31.00	30.20
Fiscal Balance	1.66	-4.82	-6.37	-4.11	-4.83
Resource Gap	1.78	-3.82	-6.31	-4.02	-6.66
	Memorandum Items:				
	<i>Actual</i>	<i>Revised*</i>	<i>Budget</i>	<i>Projection</i>	<i>Projection</i>
Total Outstanding Debt	36,788.480	42,912.340	55,721.730	67,712.930	79,472.320
<i>% of nominal GDP</i>	55.33	56.69	66.02	70.61	71.63
Internal Debt	1,051.820	876.510	701.210	525.910	350.610
External Debt	35,736.670	42,035.830	55,020.520	67,187.020	79,121.720
<i>% of total debt</i>	97.14	97.96	98.74	99.22	99.56
<i>% of GDP</i>	53.74	55.54	65.19	70.06	71.31
<i>% y-o-y change</i>	6.58	17.63	30.89	22.11	17.76
o/w hydropower debt	22,294.500	25,378.800	33,306.620	42,796.510	53,870.670
<i>% of external debt</i>	62.39	60.37	60.54	63.69	68.09
<i>% of GDP</i>	33.53	33.53	39.46	44.63	48.55
Total Debt Service *	4,478.710	4,208.460	4,255.190	4,547.850	5,790.620
<i>o/w external debt service</i>	3,735.790	3,975.310	4,031.680	4,333.980	5,586.390
Debt Service Ratio **	13.06	13.62	13.43	13.94	16.91
Nominal GDP	66,494.820	75,690.510	84,399.860	95,898.330	110,948.910
Real GDP Growth Rate	8.73	8.11	6.45	8.50	10.50

Note :

* As on March 31st, 2011; ** Total Debt Service = Interest Payment + Principle(repayment);

*** Debt Service Ratio = (External Debt service/ Exports of Goods and Services);

(-) Data not Available

6.1 Economic Growth

Bhutan continues to enjoy a stable macroeconomic environment. The economy is estimated to grow in real terms by 8.1 % in FY 2010-11 and by 6.5 % in FY 2011-12. The relatively slower growth projected in FY 2011-12 is influenced by the slower projected growth rate in the electricity and the construction sectors. The Kuri-Gongri and the Sunkosh HP projects were earlier projected to start from FY 2011-12, which are being rescheduled. Further, the Chamkharchhu, Kholongchhu, Amochhu and Bunakha HP projects are to start from the end of 2012 instead of 2011.

The GDP growth in FY 2012-13 and FY 2013-14 is projected at 8.5% and 10.5% respectively. These rates, as per the National Statistics Bureau, take into account the start of construction of key hydro-power projects sequenced over these years. This sector is projected to grow by an estimated 13.0 % and 19.0 % over FY 2012-13 and FY 2013-14. In addition, the tourism sector is also expected to play a major role in economic growth in the medium term if the present trend of increasing number of tourists and tourism receipts continues.

6.2 Inflation

The twelve-month inflation rate was 9.64 % as of the quarter ending March 31st 2011 according to the NSB. These were driven by food and fuel prices in India as our domestic prices depend on price movements in the economy of our largest bilateral trading partner, India. The rates in future will continue to be dictated by price movement there.

6.3 Employment

The Government places great emphasis on providing gainful employment to all Bhutanese. A drop in unemployment rate by 0.7 % point from 4.0 % at the beginning to 3.3 % halfway through the Government's tenure bears evidence to this commitment. This has been possible despite the growing number of job seekers entering the workforce. The focus and expectation now is to ensure that this momentum is maintained in order to achieve the target of 2.5 % unemployment rate by the end of 2013. With the efforts of the Government in providing the necessary skills to the youth through the up-scaling of the VTIs, introduction of several other development programmes, together with the numerous hydro-power projects, the employment situation should improve further.

6.4 Fiscal Projections

The Royal Government's commitment to a systematic and effective public expenditure management framework has realised important milestones. The application of the *Budget Policy and Fiscal Framework Statement (BPFES)* to set policy objectives; the *Multi-Year Rolling Budgets (MYRB)* for effective allocation of public resources; and, the *Public Expenditure Management System* for efficient use of public resources and real-time reporting have helped in the management of public finances on a sound basis. Based on these, fiscal aggregates have been projected.

The Royal Government is guided by prudent fiscal policies encapsulated in the *Constitution* and the *Public Finance Act of 2007*. Two key stipulations are to meet all current expenditure from internal resources and to maintain fiscal deficit at a sustainable level of GDP. Guided by such explicit mandates, the Ministry of Finance has projected the major fiscal parameters in the medium term as follows:

6.4.1 Domestic Revenue and External Grant Assistance

Based on actual figures in FY 2008-09 and FY 2009-10, and the revised figures for FY 2010-11, internal revenue has been growing on average by 9.8 % annually. The growth rate has surpassed the initial Tenth Five Year Plan projections, which assumed revenue to grow by just 6.0% on average during the first three years. For the projection period, revenue is expected to grow at much lower rates of 1.2 % and 2.3 % in FY 2012-13 and FY 2013-14 respectively. It is projected that domestic revenue will cover all recurrent expenditures during this period.

As in the past, grants projections are based on the commitments of our development partners. It is estimated that Nu. 8,828.64 m, including Nu. 3,312.98 m for *Small Development Projects*, will flow in from India in FY 2011-12. This is a 4.05 % increase in project-tied capital inflows over the past financial year. However, grant inflows will decrease significantly in FY 2012-13, the last year of the Tenth Five-Year Plan, as many of the activities have been included in the FY 2011-12 budget. And, contingent on renewal of commitments from development partners, a similar trend is projected for FY 2013-14.

6.4.2 Expenditure

By the end of FY 2010-11, the total Government expenditure over the past three fiscal years is expected to total Nu. 81,795.49 m. This is 55.27 % of the total expenditure scheduled in the Tenth Five Year Plan. Both current and capital expenditure have witnessed very high rates of growth, particularly in FY 2009-10 and FY 2010-11. By FY 2011-12, growth in these accounts is projected to stabilise to a sustainable range from 7.0 % to 9.0 %. In the medium term, current expenditure is projected to increase by 5.89 %. On the other hand, a sharp decrease in capital investment is expected as most planned projects and activities begin winding down towards the end of the plan period.

Capital expenditure is also projected based on the remaining activities of the Tenth Plan and assuming that the Government's target to implement these activities will be achieved.

6.4.3 Fiscal Balance

The revised figures for FY 2010-11 indicate a fiscal deficit of 4.82 % of GDP which is within the 5% ceiling normally pursued. The deficit for FY 2011-12 is estimated at 6.37% due to the concentration of activities in the FY, but in the subsequent fiscal years, it is projected at below 5%.

6.4.4 Debt Stock and Debt Service

The overall stock of debt is projected to grow in the budget year and in the medium term. The debt is mostly foreign debts accrued on account of hydro-power development. The total external debt outstanding for FY 2010-11 is Nu. 42,035.83 m, which is 56.7% of estimated GDP. This is projected to grow by an average of 22.9 % annually over the next three years. By the end of the Tenth Plan and the beginning of the Eleventh Plan, debt stock is projected at around 70.6 % of GDP, with more than 99 % of that debt owed to external creditors.

Debt service ratio is estimated to remain at around 14.8 % (of exports of goods and services) in the medium term.

The projections are as summarised below in *Table 6.2*.

Table 6.2: Debt & Debt Indicators

	2009/10	2010/11	2011/12	2012/13	2013/14
	<i>Actual</i>	<i>Revised*</i>	<i>Budget</i>	<i>Projection</i>	<i>Projection</i>
<i>(Amount in millions)</i>					
External Debt Outstanding	35,736.650	42,035.830	55,020.520	67,187.020	79,121.720
<i>% of nominal GDP</i>	55.33	56.69	66.02	70.61	71.63
Indian Rupee Convertible Currency <i>(In US\$)</i>	18,277.600	18,572.000	25,043.800	34,145.500	44,776.800
Hydro-power Debt	22,294.500	25,378.800	33,306.620	42,796.510	53,870.670
Debt Service Ratio (%)	13.06	13.62	13.43	13.94	16.91
<i>* Revised and projections are as on 31st March 2011.</i>					

The internal debt stock is projected to decrease to Nu. 701.209 m and gradually be liquidated by FY 2014-15. However, if the resource gap is filled through internal borrowing, the internal debt stock may increase accordingly.

6.5 Balance of Payments and Foreign Exchange Reserves

The projections of our external sector by the Royal Monetary Authority indicate a substantial widening in the current account deficit to Nu. 10.1 billion (12% of GDP) in FY 2011-12. This is due to high growth in imports connected with the construction of hydro-power plants. The deficit is projected to increase to Nu. 21.3 billion and Nu 25.7 billion respectively over the last two years of the medium term due to the same reason. As highlighted above, the overall balance is projected to remain in surplus but declining substantially in the coming years. The balance of payment accounts projections are illustrated in *Table 6.3*.

Table 6.3: Balance of Payments

	2009/10	2010/11	2011/12	2012/13	2013/14
	<i>Provisional</i>	<i>Projection</i>	<i>Projection</i>	<i>Projection</i>	<i>Projection</i>
	<i>(Nu in millions)</i>				
Current Account	-8,754.90	-6,000.80	-10,075.52	-21,283.18	-25,701.40
<i>% of nominal GDP</i>	-13.20	-7.93	-11.94	-22.19	-23.17
Trade Balance	-13,938.19	-11,006.62	-15,844.89	-20,064.28	-23,722.71
Exports, f.o.b.	2,5401.76	25,494.68	25,794.68	26,425.81	27,847.10
Imports, c.i.f.	-39,339.95	-36,501.54	-41,639.57	-46,490.09	-51,569.80
Capital & Financial Account	7,009.00	12,495.15	19,528.44	25,173.52	27,944.89
Capital Transfers	3,719.54	6,172.23	6,875.19	8,705.88	11,055.78
Foreign Direct Investment	534.57	580.05	580.05	580.00	580.00
Other Investment	2,754.90	5,742.87	12,073.20	15,887.64	16,309.11
Overall Balance	4,401.40	6,494.35	9,452.92	3,890.34	2,243.49
<i>% y-o-y change</i>	-22.71	47.60	45.60	-58.80	-42.30
<i>% of nominal GDP</i>	6.60	8.60	11.20	4.10	2.00
Total Reserves	868.10	1,018.28	1,162.95	1,190.06	1,233.52
<i>% y-o-y change</i>	12.90	18.90	14.20	2.30	3.70
Months of Total Imports	11.13	13.56	14.37	13.80	13.27

In terms of **FDI**, we remain optimistic that the inflows will gain momentum in the medium term. As reported last year, we have revised the FDI policy and also introduced a more expanded fiscal incentives scheme, which make investments in Bhutan more attractive. Complementing these policies, the Government initiated “road shows” in the region (Bangladesh, India, Singapore, Thailand as well as in select European countries like Austria and Norway) to promote Bhutan as an investment destination. These have resulted in visits of business delegations from abroad to assess investment opportunities. These include delegations from France, Canada, India and Bangladesh. A total of 32 enquiries were received out of which four FDIs were approved.

In terms of **foreign exchange reserves**, balances are projected to be sufficient to cover, on average, 13.8 months of imports over the medium term up to FY

2013-14. As in the past, the foreign exchange reserves is expected to be built up largely with the receipt of grants and loans estimated about US \$ 351.992 m in FY 2010-11, and US \$ 347.199 m in FY 2011-12, excluding the large hydro-power project loans and grants.

The International Monetary Fund (IMF), which monitors the member countries' economies from time to time, recently concluded one for our country. I am happy to inform the Honourable members that their assessment is close to our own.

CHAPTER VII: REPORT ON STATE-OWNED ENTERPRISES AND COMPANIES WITH GOVERNMENT SHAREHOLDINGS

State-owned Enterprises (SOEs) account for a large part of the domestic economy carrying on business activities of a varied nature in key strategic areas of the economy, ranging from manufacturing to trading, energy to telecommunications and aviation to infrastructure. SOEs are currently one of the largest providers of employment, with approximately 10,097 employees.

7.1 Government Portfolio in the SOEs and Other Companies

The total value of Government shareholdings in companies reached Nu. 44,803 million, of which Nu. 44,268.25 m consists of paid-up capital in DHI constituting 99 percent of the total Government shareholdings. The portfolio of SOEs consists of 22 companies, of which 13 are wholly owned, 4 are majority owned by the Government and in 5 companies the Government has less than 50% share-holdings namely in BNB: 13.61 %, BFAL: 25.73 %, RICB: 39.25 %, PCA: 44.74 % and BBPL: 47.74 %.

Presented below is the financial performance of SOEs for the last two years.

Financial Facts (Nu. in millions)			
	2010	2009	Change %
Gross turnover	35,129.45	28,811.93	22%
Profit Before Tax	15,966.24	12,900.44	24%
Net Profit	11,160.25	9,152.90	22%
Total Net Worth	64,646.58	59,931.77	8%
Total Asset	163,757.93	149,525.65	9.5%
Govt.'s share of Net worth in the Companies	60,661.02	56,397.73	8%
Avg. Return on Equity (<i>after tax</i>)	15%	13%	15%
Total Revenue to the Govt.	7,806.08	7,520.63	3.8%

The Government also owns shares through inter-corporate holdings (Indirect shareholding) in the SOEs giving it the majority stake (more than 51 % shareholdings) in most of the companies except in BFAL, BNB and RICB.

7.2 Financial Overview of State-Owned and Partially-owned Enterprises:

7.2.1 Assets & net worth

The total asset value of the companies with Government shareholdings on the whole expanded by 9.5 % from Nu. 149,525.00 m in 2009 to Nu. 163,757.93 m during 2010 accounted for mainly by growth in the asset value of RICB, STCB, BDFC and BPC. The inclusion of the assets of Construction Development Corporation (CDC) for the first time also contributed to the increase in total assets value in 2010. Overall, the net-worth of SOEs grew by 8 % from Nu. 59,931.77 m to Nu. 64,646.58 m. DGPC continues to be the largest SOE with total asset worth of Nu. 62,961.97 m (38 % of the combined assets of SOEs) and net worth of Nu. 37,442.65 m.

On the whole, the Royal Government's ownership in various corporations on net-worth basis grew by 8% up from Nu. 56,397.73 m to Nu. 60,661.02 m. The position is as summarised in *Table 7.1* below.

Table 7.1: Financial Positions of companies with Govt. shareholdings

Nu. in millions

Corporations	Govt. Holding	Assets			Reserves			Net Worth		
		2009	2010	% Change	2009	2010	% Change	2009	2010	% Change
AWP	100%	454.36	511.41	13%	233.71	266.94	14%	258.71	291.94	13%
BAI	100%	75.33	75.07		37.03	36.09	-3%	66.09	65.15	-15%
BBSC	100%	505.75	537.71	6%	366.76	397.12	8%	467.77	498.09	6%
B. Postal	100%	204.29	194.03	-5%	85.17	91.27	7%	108.77	114.86	6%
CDC	100%	-	525.81		-	429.76			429.76	
FCB	100%	320.49	357.01	11%	249.93	219.29	-12%	264.93	289.14	9%
WCC	100%	104.83	111.56	6%	-	-		97.37	98.82	1%
B. Telecom	100%	3,310.18	3,467.27	6%	1,422.68	1,632.68	15%	2,276.77	2,486.77	9%
BPC	100%	13,844.51	18,180.94	31%	2,343.67	4,435.68	89%	9,602.44	11,751.35	22%
DHI	100%	47,995.083	50,971.275	6%	163.654	985.99	502%	44,431.903	45,254.24	2%
Druk Air	100%	4,450.27	4,581.81	3%	-	-		1,947.16	2,072.45	6%
DGPC	100%	64,524.20	62,961.97	-2%	6,294.73	6,934.36	10%	36,803.02	37,442.65	2%
NRDC	100%	567.85	627.08	10%	415.07	465.18	12%	445.07	495.18	11%
BDFC	93.50%	2,964.75	4,242.53	43%	889.43	1,094.48	23%	1,089.43	1,294.48	19%
BoB	80%	26248.41	30185.77	15%	1643.42	1,879.99	14%	2,043.42	2,279.99	12%
Kuensel	51%	180.09	221.93	23%	101.20	100.82		151.20	150.82	
STCB	51%	385.29	578.68	50%	82.55	141.04	71%	122.55	201.04	64%
BBPL	47.74%	281.87	302.87	7%	79.47	96.27	21%	219.47	236.27	8%
PCA	44.74%	1,756.19	1,827.23	4%	759.74	798.48	5%	1,099.74	1,138.48	4%
RICB	39.25%	3,800.04	6,024.02	59%	559.83	734.42	31%	799.83	974.42	22%
BFAL	25.73%	1,440.48	1,605.32	11%	464.42	581.85	25%	614.42	731.85	19%
BNB	13.61%	24,106.47	26,637.92	11%	1,098.08	1,247.58	14%	1,453.60	1,603.10	10%

7.2.2 Earnings & Profitability

During the year, the combined turnover of companies with Government shareholding increased by 22 % from Nu. 28,811.93 m to Nu. 35,129.45 m and profit before tax increased by 24% from Nu. 12,900.44 m in 2009 to Nu. 15,966.23 m. Overall, companies with majority Government shareholdings achieved a 12 % returns on equity

BFAL, STCB, NRDC, AWP, Bhutan Telecom and Kuensel achieved strong growth in income and profit before tax. Due to rise in prices of its products, BFAL achieved a sharp increase (165 %) in pre-tax profit and posted a 51 % return on equity. Similarly, STCB also achieved strong growth in profitability posting 108 % increase in pre-tax profit over the previous year and 44 % return on equity. The AWP achieved a 28 % rate of return (RoE) with 72 % growth in pre-tax profit followed by PCA with 33 % RoE in 2010.

Meanwhile, despite the increase in turnover, DGPC, WCC, Druk Air, BNB and Bhutan Postal Corporation experienced a decline in profitability during the year. Pre-tax profit of DGPC declined by about 1 % from Nu. 6,556.004 m to Nu. 6,486.74 m, largely on account of increased operating cost of THP coupled with reduction in the domestic generation tariff (from Nu. 0.30 per KWh to Nu. 0.13 per KWh) for the royalty energy supplied to BPC. WCC, despite growth in turnover, saw a sharp reduction (86 %) in its pre-tax profit from Nu. 3.329 m to Nu. 0.47 m, caused by higher increase in operating cost. In the case of BNB, while its total income grew by 23 %, total expenditure increased disproportionately by Nu. 309.46 m (34 %) caused by sharp increase in provisions for doubtful debts and interest expenses.

BBS, due to the social nature of its operations, reported a net loss of Nu. 43,000 during the year.

Their performance for the year 2010 is as indicated in *Table 7.2* below.

Table 7.2: Turnovers and Returns:

Corporation	Gross Revenue <i>(in millions)</i>		<i>(Nu in millions)</i>		Change %	Profit/ Loss Before Tax <i>(Nu in millions)</i>		Change %	Return on Equity		Rate of Return on Capital Employed	
	2010	2009	2010	2009		2010	2009		2010	2009		
AWP	475.7	327.286	130.79	76.059	72%		28%	20%	16%	12%		
BAIL	80.33	70.107	8.20	7.124	15%		9%	7%	8%	6%		
BBPL	349.351	372.495	48.00	47.458	-6%		14%	15%	11%	12%		
NRDC	382.329	313.79	103.55	59.241	22%		15%	9%	12%	7%		
WCC	56.759	48.311	0.47	3.329	17%		0.29%	2%	0.25%	2%		
DGPC	11,811.464	10,889.85	6,486.74	6,556.00	8%		12%	12%	7%	7%		
BFAL	1,975.297	1,702.68	375.75	141.579	16%		33%	15%	15%	6%		
PCAL	1,984.957	1,740.05	548.49	533.86	14%		33%	34%	21%	21%		
BDFCL	416.635	361.392	177.84	150.051	15%		14%	14%	4%	5%		
BNBL	1,584.154	1,291.12	361.08	377.502	23%		16%	18%	1%	1%		
BoB	1,467.308	1,400.59	735.99	679.141	5%		22%	23%	2%	2%		
RICBL	332.228	290.125	300.19	261.272	15%		22%	23%	3%	5%		
B. Telecom	1,563.493	1,314.31	534.65	323.112	19%		14%	9%	10%	6%		
Druk Air	1,704.361	1,531.75	185.68	231.697	11%		6%	8%	3%	4%		
Bhutan Post	99.861	90.045	8.76	8.85	11%		5%	5%	3%	3%		
CDCL	274.437	-	5.46	-	-		1%	-	1%	-		
BBSL	216.044	188.869	-0.04	107.368	14%		-0.01%	23%	0%	21%		
Kuensel	149.292	116.397	22.68	14.284	28%		11%	7%	7%	6%		
BPCL	3,366.153	2,899.49	1,353.20	986.452	16%		8%	8%	5%	5%		
DHI	4468.69	2,287.68	4,423.41	2,243.23	95%		7%	4%	6%	3%		
FCBL	647.516	545.781	45.10	39.789	19%		13%	10%	9%	8%		
STCBL	1,723.092	1,029.81	110.25	53.04	67%		44%	25%	15%	8%		

7.2.3 Government's Revenue from its Equity in Companies

The Government earned a total revenue of Nu. 7,806 m in the form of dividends on its equity holdings in the companies and CIT. This amounted to approximately 50 % of the total domestic revenue of the Government. This was Nu. 285.97 m or 3.8 % more than the amount in 2009.

The largest earnings continued to be from the hydro-power sector. During the year, the revenue earned from DGPC alone was Nu. 5,847.114 m. The bulk of it was from the Tala plant amounting to Nu. 3,136.165 m.

7.2.4 Subsidy and Grants

The Government provided Nu. 321.33 m as subsidy and grants to SOEs. Druk Air continued to be the highest recipient of the grants with Nu. 132.678 m as interest subsidy on its bonds. BBS received Nu. 115.34 m as operating grants, and BDFC was given income tax holiday during the year.

7.2.5 Government Guarantees for SOE Borrowings

The Government provided sovereign guarantees to SOEs for borrowings from the financial institutions and agencies abroad. As of 31 December 2010, the total Government exposure on account of sovereign guarantees to SOEs stood at Nu. 2,911.22 m as shown in **Table 7.3**. The major portion of the guarantees pertained to the issue of Druk Air Bond amounting to Nu. 1,769.04 m, which was used for the purchase of new planes. The others were for Nu. 900 m for loans availed by the BDFC from the NPPF and BoB for credit expansion, rural credit and to meet the working capital requirement of the corporation.

Table 7.3: Sovereign Guarantees issued*Amount in millions*

Beneficiary	Purpose of Issue	Guaranteed Amount		Balance as of 31 Dec 2010	
		FOREX	Ngultrum	FOREX	Ngultrum
BFAL	Import of Furnace	NOK 59.500	424.235	NOK 30.378	233.914
BDFCL	Credit Expansion	-	900.00	-	900.00
Druk Air Corporation	Druk Air Bond	-	1,769.04	-	1,769.04
Dharma Industries	Working Capital		15.00		8.27
Total		NOK 59.500	3,108.275	NOK 30.378	2,911.22

7.2.6 Report on Financial Irregularities in the SOEs

As per Section 94 of the Public Finance Act 2007, the MoF is required to report on the financial irregularities in the SOEs. The Annual Audit Report 2010 of the Royal Audit Authority has included specific cases of financial irregularities in BAIL, BBPL, WCC, BT, STCB, BPC, NRDC, PCA, Tala Hydro-power plant, FCB, BoB, BDFCL, and RICB. Since the details are already covered in the Royal Audit Report 2010, it is not included here.

7.3 Druk Holding & Investments

7.3.1 Assets and Equity

Asset value of DHI grew by 6.20 % from Nu. 47,995.08 m to Nu. 50,971.27 m in 2009. This was due to the change in the accounting policy for dividend income from cash to accrual. Consequently, net worth expanded marginally by 1.85 % from Nu. 44,431.90 million to Nu. 45,254.24 m. Reserves and surpluses of the company have reached Nu. 985.989 m up from Nu. 163.65 m. The company's overall position is shown in **Table 7.4** below.

Table 7.4 Financial overview of DHI:*Nu in millions*

Particulars	2010	2009	Change %
Share Capital	44,268.25	44,268.25	
Reserve and Surplus	985.989	163.654	499.26 %
Debt	-	160	
Total Assets (Book Value)	50,971.27	47,995.08	6.20 %
Net Worth	45,254.24	44,431.90	1.83 %
Govt. Shareholding	100%	100%	
Gross Turnover	4,468.69	2,287.69	95.34 %
Expenditure	45.276	44.453	5.72 %
Profit Before Tax	4,423.42	2,243.23	97.11 %
Corporate Income Tax	1,327.04	672.979	97.11 %
Profit After Tax	3,096.38	1,570.25	97.11 %
Dividend	2,989.37	1,451.59	106 %
Return on Equity (<i>after tax</i>)	7 %	4 %	

Gross turnover during 2010 increased by more than 95% from Nu. 2,287.68 m to Nu. 4,468.69 m, largely because of the consolidation of dividend transfer of Nu. 2,067.703 m from THP during the year. As a result, pre-tax profit of the company increased from Nu. 2,243.23 m to Nu. 4,423.42 m. This substantial increase in profit has contributed to improvement in Return on Equity from 4 % in 2009 to more than 7 %. However, this is still comparatively low given the high equity base.

DHI's income constitutes mainly of dividends received from the shares and interest income from deposits. DGPC contributed approximately 75 % of the total revenue of DHI amounting to Nu. 3,848.97 m.

The operating cost of DHI increased by 1.85 % from Nu. 44.453 m to Nu. 45.276 m resulting due to increase in cost of employee remuneration and benefits.

The DHI remitted a sum of Nu. 2,989.368 m to the Government in 2010 as compared to Nu. 2,138.00 m in 2009. The increase of 39.8% was mainly

on account of the consolidation of remittances from THP. The DHI also contributed Nu. 1,327.03 m in the form of CIT.

7.3.2 Investments

The investments of DHI and its owned companies include Thimphu Tech Park (26%), Dagachhu Hydropower Project (59%), Dungsam Polymers (100%), Education City Project and Amochhu Land Reclamation Project.

DHI Infra Limited, a wholly-owned subsidiary of DHI was created to act as a developing and implementing arm for DHI infrastructure projects. Presently, DHI Infra is involved in the promotion and implementation of Education City Project, Amochhu Land Reclamation Project and Special Economic Zones.

CHAPTER VIII: REPORT ON THE NATIONAL PENSION AND PROVIDENT FUND AND THE ROYAL MONETARY AUTHORITY

8.1 National Pension and Provident Fund

In the financial year 2009-10, the National Pension and Provident Fund registered a growth of 18.6 % in its assets from Nu. 7,565.93 m to Nu. 8,973.220 m as compared to the previous year. On average, it grew by 16 % over the past 5 consecutive years through investments and increase in the contribution rates.

The total income increased to Nu. 587.73 m or by 14.6 % from the previous year. This was due to increase in income from investments, dividends, rental income and interest earned from members' education and housing loans.

The overall rate of return was 6.7 % per annum against the projected rate of 6.2 %. The Fund provided rate of return at an average of 6.25 % for the FY 2009-10.

During the FY 2009-10, the Fund invested a sum of Nu. 100 m in the Dagachhu Hydro-power project at an interest rate of 10% per annum. Nu. 184.86 m was also disbursed from the total of Nu. 500 m towards its equity investment in the same project. Also, Nu. 468.12 m was invested in RICB Bond at 6.7 % per annum for a 5-year period. Loan, amounting to Nu. 1,000.00 m, was also disbursed to Dungsum Cement Project at an interest rate of 10% per annum.

To maintain the safety of the Fund, apart from investment in housing and education loans to its members, the Fund is mandated to invest only in Government-owned institutions and projects, joint-sector corporations and public limited companies. The implementation of the large hydro-power projects is expected to open greater avenues for the Fund's investment.

The number of members increased by 2,937 or 7.44% from 39,456 to 42,393 during the year. The civil and public corporations pension pay-out expenditure during the year amounted to Nu. 40.33 m. The number of beneficiaries increased from 782 to 995 during the year. Similarly, the number of Armed Forces Pension beneficiaries increased by 15.3 % and the total pension pay-out was Nu. 35.24 m.

As regards the system, currently the monthly contribution rate of pension and provident fund is 11 % for the civil and corporate members and 12 % for the Armed Forces members, with equivalent contribution from the employer. Accordingly, members with contributory service of more than thirty years receive pension benefit @ 40% of the final basic salary. For those with thirty years or less contributory service, the pension benefit is calculated in proportion to the number of years of contributory service. Contributions made after thirty years is credited to the Provident Fund account of the member. The maximum pension payable is 40% of the maximum stage of Ex-1 civil servant's pay scale. Further, the pension payment is indexed to the annual consumer price change subject to a maximum of 5%. The employees also have the option to avail lumpsum benefits with less than twenty years' of contributory service. At the existing rate of contributions and pay out, the pension system is projected to be sustainable for at least the next thirty years. The rules and regulations are revised by the Board of the NPPF from time to time to maintain the sustainability of the pension system.

8.2 Royal Monetary Authority (RMA)

The RMA's operating income for the financial year 2009-10 suffered a marked decline to Nu. 642.899 m from Nu. 890.192 m in the previous year. Similarly, its operating surplus decreased from Nu. 505.460 m to Nu. 226.127 m. This was due to the sharp decline (27%) in its interest income (which constitutes over 98 % of its income) as a result of the global economic slowdown. The average interest rate on investment fell to 1.73% from the 2.51% in FY 2008-

09. At the same time, the value of the Ngultrum also appreciated against major foreign currencies.

With the passage of the new RMA Act last November, a new Board has been constituted. The Governor and the two Deputy Governors have also been appointed. The RMA is taking necessary action to maintain a sound and stable financial sector in the country. It has also issued the first Monetary Policy Statement (for 2011) as required under the Act. The enactment of the Financial Services bill during the current session of the Parliament would further strengthen the Authority.

CHAPTER IX: DEVELOPMENTS IN THE FINANCIAL SECTOR

9.1 Financial Institutions

The Bhutanese financial sector is well capitalised as reported last year. With their overall capital adequacy ratio of 17.09 % and core capital ratio at 15.02 %, the financial institutions are strengthened to withstand shocks of unexpected claims. The capital fund increased by 34 % from the previous year mainly on account of increase in core capital because of the paid-up capital of new banks. The quality of their loan portfolio has improved with the overall NPL ratio decreasing to 6.95 % as on December 2010 compared to 8.49 % in the previous year.

The entry of new financial institutions has spurred much needed competition in the Bhutanese financial system. However, with more players in the market, there are also risks associated with reckless lending fuelling the growth in credit. In this regard, the RMA remains vigilant over the financial institutions' management practices and financial disclosure to safeguard and maintain desirable asset quality and financial sector stability.

9.2 Rural Credit

Rural credit is a very important part of our efforts to accelerate development in the rural areas. The BDFC is the agency mandated to deliver rural credit and other related services. However, funds have been the major constraint for the corporation in further expanding its services. In order to overcome this, the corporation has received a Specialized Banking license in 2010 from the RMA so that it can mobilize funds through savings accounts. BDFC is now allowed to undertake and implement domestic banking operations. While BDFC was earlier allowed to undertake limited Group and Individual Rural

savings, the issuance of the banking license has allowed it to go country-wide. Consequently, the savings and deposit amount, mainly at the branch offices, increased from Nu. 266 m in the previous year to Nu. 496 m in December 2010.

To improve its efficiency and also to enable it to provide other services, 25 of the twenty eight (28) branches are currently connected on-line, and transactions are carried out on a real time basis. The technology will also enable BDFC to start internet and SMS banking hopefully within this year. Further, as reported last year, to expedite transactions through the mobile banking and to enhance efficiency and productivity, Portable Digital Appliances (PDA) are being piloted in the branches in the Western region. Based on the success, it will be replicated in other regions in a phased manner.

In an effort to expand the services, BDFC launched a Vegetable Vendor's Group loan scheme at the Centennial Farmers Market in Thimphu. Currently, a total of 140 vegetable vendors are benefitted. Further, a Micro Enterprise Group Loan scheme was introduced during the year, which benefitted 1,090 micro-enterprises.

To encourage farmers without collateral, group loans and also loans for co-operatives are promoted. To extend the outreach and take the services closer to the rural areas, branches in Dorokha, Lhamoidzingkha, Jomotsangkha and Gelegphug were established during the year. Further, feasibility studies are being undertaken to establish branches in Samdub Chheoling, Weringla, Sibusu, Yadi and Rangjung.

The Government has also decided to provide comprehensive financial services especially in the rural areas. Towards this, a Financial Inclusion Policy is being drafted. The policy will cover services such as savings, money transfers, payment and settlement system and insurances for the benefit of rural population.

CHAPTER X: REPORT ON TRUST FUNDS

10.1 Trust Funds

Trust funds are established to carry out specific activities towards the socio-economic development from the income generated from investment. At present, there are four trust funds, the status of which, are as follows:

10.1.1 Bhutan Trust Fund for Environmental Conservation (BT FEC)

Since establishment in 1991 with an initial balance of US \$ 21.673 m, the current balance is US \$ 40.945 m as of February 2011. In FY 2009-10, there was an interest earning of US \$ 0.626 m from investments. During the year, the fund supported expenditures for environmental conservation such as the establishment of Ugyen Wangchuck Institute, Tongsa Penlop Conservation Fellowship program and other national environmental activities, for which Nu. 34.380 m, equivalent to US \$ 0.764 m, was spent.

10.1.2 Bhutan Health Trust Fund (BH TF)

The Fund has grown to US \$ 25.700 m as of February 2011. It has earned thus far a total of US \$ 1.400 m by way of interest on deposits and equity investments. A sum of US \$ 220,000 is being used annually through the national budget mechanism system for purchase of drugs and vaccines. Ever since the fund became operational in the FY 2003-04, a sum of more than Nu. 5.552 m has been used for the purchase of essential drugs and vaccines.

10.1.3 Cultural Trust Fund (CTF)

The current fund balance is Nu. 45.858 m. In the past two reporting periods, there has been an average growth of 5.0 %, primarily due to the interest earnings from fixed deposits. The fund, established in 1999 with the initial

fund of Nu. 31.267 m, will be operational only when total size attains the equivalent of US \$ 5 million.

10.1.4 Universal Service Fund for ICT

During the year, Nu. 85.867 m was spent on Rural Communication Programme Phase-II for the expansion of rural connectivity. The balance decreased to Nu. 119.835 m from Nu. 177.395 m as the revenue of Nu. 28.307 m was lower than the expenditure of Nu. 85.867 m.

The summary is as given in *Table 10.1* below.

Table 10.1: Fund position of the Trust Funds

Amount in millions

Trust Fund	Initial Fund (Year)	As of Feb. 2011		
		Revenue	Expenditure	Fund Balance
Bhutan Trust Fund for Environment Conservation	US \$ 21.673 (1991)	US \$ 0.626	US \$ 0.764	US\$ 40.945
Health Trust Fund	US \$ 1.000 (1998)	US \$ 1.400	US \$ 0.022	US\$ 25.700
Cultural Trust Fund	Nu. 31.267 (1999)	Nu. 2.184	-	Nu. 45.858
Universal Trust Fund for ICT	Nu. 194.240 (2007)	Nu. 28.307	Nu. 85.867	Nu. 119.835

CHAPTER XI- CONCLUSION

In concluding, I would like to submit that despite the challenges of maintaining the overall fiscal balance at a sustainable level, budget proposals were accommodated as far as possible in full, especially those from the Dzongkhags and Gewogs. The increase in the budget size is due to the inclusion of numerous activities, with the aim to complete all the planned activities within the 10th Plan period.

The FY 2011-12 budget projects the deficit of over 6 % given the criticality of the year to meet the target of completing the priority activities by the end of 2012. It is felt that the projected deficit would be within manageable limits given our past experience.

The successful implementation of the budget will depend largely upon the flow of funds from external sources since a large part of the capital expenditure is based on expected external financing. Given our exemplary relations with our development partners, I am confident that aid flows will be as projected. We have always had a reputation of having good policies and of managing our development well. In the *Country Policy and Institutional Assessment* (CPIA) rating done by the World Bank, we were among the top performers within the IDA countries in 2009. I am happy to inform the Honourable Members that we have again performed very well, and in the South Asia region, we have once again received the highest score.

I would like to thank the Honourable Prime Minister and my colleagues in the Lhengye Zhungtshog for all the guidance received in preparing this budget. I wish to thank the Parliament also for the kind support rendered in the past three years' budget and I remain optimistic that this penultimate FY's budget would also receive the same blessing.

With the blessings of our guardian deities, the farsighted leadership of our King and support from the people, I pray that Bhutan will continue to enjoy peace, prosperity and happiness for all times to come. The happy occasion of the Royal Wedding of His Majesty the Druk Gyalpo, a few months into the financial year, will bring greater smiles on the faces of the Bhutanese people, and motivate them to work even harder to achieve the cherished goals enshrined in our development plans and programmes.

Honourable Speaker,

On this auspicious note, I commend to the House the **Appropriation for FY 2011-12** bill and the **Tax Revision 2011** bill.

Thank you.

ANNEXURES

ANNEXURE - I

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

NATION ASSEMBLY							
Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Estblshmnt Costs, Secretariat	18.649	4.290	22.939	18.131	0.350	18.481	
Estblshmnt Costs for Parlmntry Services	57.716	11.875	69.591	54.166	7.075	61.241	
Travel Outside for Parlmntrns	5.966		5.966	4.685		4.685	
Zhungkha Promotion		0.395	0.395		0.150	0.150	
Maintnnc of security system in Parliament house	0.395	1.750	2.145	0.225	0.150	0.375	
Maintnnc of fire alarm & hydrant system in Parliament house	0.200		0.200	0.200		0.200	
In-house printing of Acts	1.920	1.300	3.220	1.870	0.700	2.570	
Parlmntry exchange programmes	1.200		1.200	0.850		0.850	
Conslttv meetings with local governance	3.579		3.579	3.579		3.579	
PAC Secretariat costs	2.858		2.858	1.391		1.391	
Broadband connections for Parlmntrns	0.432		0.432	0.432		0.432	
National Assembly Session costs	4.693		4.693	3.955		3.955	
Committee Meetings	2.911		2.911	1.835		1.835	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Reserve for new appointments	0.000		0.000	0.547		0.547	
Sub - Total	100.519	19.610	120.129	91.866	8.425	100.291	

NATIONAL COUNCIL

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Estblshmnt Costs, Secretariat	14.335	2.302	16.637	12.868	2.252	15.120	
Instntnl Capacity Building	0.995	1.686	2.681	0.995	1.686	2.681	UNDP
Estblshmnt Costs for Parlmntry Services	39.434	1.105	40.539	39.017	1.085	40.102	
Travel Outside for Parlmntrns	5.378			3.253		3.253	
Printing of Acts, resolutions etc				2.000			
Membership fees to ACCA				0.020			
Committee meetings	0.55			0.300		0.400	
Imprvmnt of heating & cooling system						0.000	
Reserve for new appointments				0.282			
Sub - Total	60.692	5.093	59.857	58.735	5.023	63.758	

ANTI CORRUPTION COMMISSION

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Estblshmnt cost	25.266	0.600	25.866	25.996	0.600	26.596	Capital is furniture , office equip. & computer

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Instttnl Devlpmnt	4.979	15.390	20.369	4.979	15.390	20.369	SDC. Good Governance Support Programme
Constrctn of Office Building	0.000	9.750	9.750	0.000	24.750	24.750	GoI
Sub - Total	30.245	25.740	55.985	30.975	40.740	71.715	

ELECTION COMMISSION

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Estblshmnt cost	29.026	2.140	31.166	29.536	0.640	30.176	Capital budget is furniture , office equip. & computer
Printing of Rules and Regulations	0.805		0.805	0.805		0.805	
Research and Publications	0.533	0.500	1.033	0.533	0.500	1.033	
Election Officers meeting	0.800		0.800	0.800		0.800	
BRIDGE (Building Resources in Democracy, Governance & Elections) Training		3.500	3.500			0.000	
Civic Education Awareness & BRIDGE		4.120	4.120		4.120	4.120	
Constrctn of Office Building		20.000	20.000		20.000	20.000	GoI
Dzongkha Devlpmnt Services		2.430			0.500	0.500	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Voter, Civic Education and Training		20.000				0.000	
Const. of EC's offices in 4 Dzongkhags		3.000	3.000			0.000	
Local Governance Elections	60.000	0.000	60.000	42.000	12.000	54.000	Kept under General Reserve
Election Services	12.445			9.460	7.000	16.460	Bye election, election campaign fund, printing of electoral roll
Bye Election Services				12.450	0.000	12.450	Kept under General Reserve
Dzongkhag Election Services	24.349	10.520			3.000	3.000	Capital is for computers
Sub - Total	127.958	66.210	124.424	95.584	47.760	143.344	

ROYAL AUDIT AUTHORITY

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Estblshmnt Costs : Bumthang, Tsirang, S/ Jongkhar & P'ling	101.293	10.964	112.257	103.332	3.164	106.496	Capital is furniture, office equip. & computer for Regional Offices
Printing of Annual Reports	0.420		0.420	0.420		0.420	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Production of annual reports of all sectors				0.800		0.800	
Zhungkha Devlpmnt		0.300	0.300		0.300	0.300	
Constrctn of Trainng. Centre, Tsirang		30.830	30.830		30.830	30.830	GoI
Sub - Total	101.713	42.094	143.807	104.552	34.294	138.846	

ROYAL CIVIL SERVICE COMMISSION

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Estblshmnt Costs	26.226	1.300	27.526	25.734		25.734	Capital budget is for furniture
Civil Service Commission Meetings	0.420		0.420	0.320		0.320	
Civil Service Common Exams	3.058	2.000	5.058	2.807	1.500	4.307	
HRD and training services	0.548		0.548	0.498		0.498	
Draft Administrative & Translate revised BCSR	0.399	0.200	0.599	0.399	0.200	0.599	
Imprvmt of web based system	1.363	4.770	6.133	1.363	3.850	5.213	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Annual HR Conference		0.700	0.700	0.500		0.500	
Renovation of office structure		0.800	0.800		0.600	0.600	
Management Devlpmnt Program		20.000	20.000		0.000	0.000	
Royal Institute of Strategic Studies		10.000	10.000		6.000	6.000	
Sustainable HRD project		60.000	60.000		60.000	60.000	SDS
Post Graduate Scholarships (GoI)		25.000	25.000		25.000	25.000	GoI
Nehru-Wangchuck Scholarship		10.000	10.000		10.000	10.000	GoI
Zhungkha Promotion		0.150	0.150		0.100	0.100	
Reserve for new appointments				0.783		0.783	
Sub-total	32.014	134.920	166.934	32.404	107.250	139.654	

JUDICIARY

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Supreme Court Estblshmnt costs	27.473	0.900	28.373	30.339	0.091	30.430	
High Court Estblshmnt costs	21.125	0.950	22.075	15.915	0.046	15.961	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
20 Dzongkhag Court Estblshmnt costs	117.252	15.496	132.748	96.370	0.496	96.866	
15 Dungkhag Courts Estblshmnt costs	43.538	3.639	47.177	34.265	0.040	34.305	
Bhutan National Legal institute	4.568	9.552	14.120	3.255	1.300	4.555	
Royal Institute of Law Project (Taba)	1.435	1.832	3.267	1.335	0.700	2.035	
Judicial Services Council Meeting	0.225		0.225	0.151		0.151	
Dzongkhag Devlpmnt		0.300	0.300		0.300	0.300	
National Judicial Commission Meetings	0.200		0.200	0.200		0.200	
Legal Aid to indigent accused	0.200		0.200	0.200		0.200	
SAARC Law Conference	10.000		10.000	5.000		5.000	
ADR Roll Out Plan to be taken to the Piloted Dzongkhags		1.000	1.000		1.000	1.000	SDC
Air conditioner, Gelegphu Dungkhag		0.100	0.100				

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Black-topping of approach road to Dungkhag Court, Nganglam Dungkhag		1.200	1.200				
Black-topping of approach road to Dungkhag office, Jomotsangkha Dungkhag		1.500	1.500		1.500	1.500	
Capacity Devlpmnt for Democratic Governance and Rule of Law	0.391	1.880	2.271	0.391	1.880	2.271	UNDP
Constrctn of Retaining Wall & Drainage behind the office Building		1.583	1.583		0.400	0.400	
Constrctn of approach road to Dzongkhag Court, Bumthang		1.158	1.158				
Constrctn of Bumthang District Court (Spillover)		20.000	20.000		20.000	20.000	SDC
Constrctn of Dagana District Court		20.209	20.209				
Constrctn of Garage, S/ Jongkhar		0.150	0.150				
Constrctn of Lhuntse District Court		19.934	19.934		12.000	12.000	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Constrctn of P/ Gatsel District Court		15.000	15.000		15.000	15.000	DANIDA
Constrctn of Registry Section for Thimphu Dzongkhag Court		0.450	0.450		0.450	0.450	
Constrctn of Road to New Dzongkhag Court, Punakha		0.750	0.750				
Constrctn of Store & attached toilet at Dungkhag Court (Spillover)			0.000		0.200	0.200	
Constrctn of Supreme Court building		91.237	91.237		91.137	91.137	GoI
Constrctn of Thimphu Dzongkhag Court		15.000	15.000				
Constrctn of Thimshing & Sibsu Dungkhag Courts (Spillover)		12.000	12.000		12.000	12.000	GoI
Constrctn of Tongsa District Court (Spillover)		22.000	22.000		22.000	22.000	ADC

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Dangpon residence constrctn, Lhamoidzingkha Dungkhag		4.589	4.589				
Dangpon residence constrctn, Sibsu		4.589	4.589				
Dangpon residence constrctn, Thimshing Dungkhag		5.387	5.387		5.387	5.387	
Dangpon's resdnc constrctn, Dorokha		5.587	5.587		5.587	5.587	
Dangpon's resdnc Renvtn, Gelegphu Dungkha		0.333	0.333		0.333	0.333	
Dangpon's residence constrctn, Panbang Dungkhag		4.589	4.589		4.589	4.589	
Dangpon's residence constrctn, Jomotsangkha Dungkhag (Spillover)		2.100	2.100		2.100	2.100	
Dangpon's residence constrctn, Nganglam Dungkhag (Spillover)		2.100	2.100		2.100	2.100	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Dangpon's residence constrctn, Samdub Chheholing Dungkhag (Spillover)		2.100	2.100		2.100	2.100	
Dangpon's residence constrctn, Tashigang (Spillover)		3.900	3.900		3.900	3.900	
Dangpon's residence Renvtn, Pema Gatshel		0.300	0.300		0.300	0.300	
Dangpon's residence Renvtn, Sarpang		0.300	0.300		0.300	0.300	
Dangpon's residence Renvtn, Tsirang		0.300	0.300		0.300	0.300	
Fencing around Dangpon's residence, P/ling Dungkhag		0.200	0.200				
Instlltn of Gyeltshen with Jamthog on top of the office, Wamrong Dungkhag		0.100	0.100				
Legal Aid to indigent accused	0.050		0.050	0.050		0.050	
Meetings & Workshops with District/ Dungkhag Courts & Stakeholders	0.600		0.600	0.183		0.183	

Budget Statement for the Legislature, the Judiciary & the Constitutional Bodies for the FY 2011-12

Nu. in millions

Activities/sub-activity	Proposed			Recommended			Remarks
	Current	Capital	Total	Current	Capital	Total	
Printing of Constitutional/ Law Books.	0.500		0.500	0.100		0.100	
Renvtn of Garage, P/ling Dungkhag		0.150	0.150				
Renvtn of Supreme Court building		0.220	0.220		0.220	0.220	
Sewerage connctn, Gelegphu Dungkhag		0.400	0.400		0.400	0.400	
Higher Studies in ICT		1.000	1.000		1.000	1.000	ACB
Higher Studies in Law (LLM)		7.220	7.220		7.220	7.220	SDC
Peer Exchange in-coming		4.700	4.700		4.700	4.700	SDC/ACB
Peer Exchange out going		6.000	6.000		6.000	6.000	SDC/ACB
Training short-term (Ex-country)		4.000	4.000		4.000	4.000	SDC/ACB
Training short-term (In-country)		4.000	4.000		4.000	4.000	SDC/ACB
Vehicle for Dungkhag Courts		13.577	13.577				
Vehicle for Lhuentse Court		2.425	2.425				
Vehicle for Supreme Court (Replcmnt)		2.425	2.425				
Vehicle for Panbang Dungkhag		1.370	1.370				
Sub - Total	227.557	341.781	569.338	187.754	235.076	422.830	