



Royal Government of Bhutan

bhutan national human development
REPORT 2005
the challenge of youth employment

TABLE OF CONTENTS

FOREWORD	6
OVERVIEW	8
1 Gross National Happiness and Human Development	14
Sustainable and Equitable Socio-economic Development	14
Conservation of the Environment	16
Preservation and Promotion of Cultural Heritage	16
Good Governance	17
Policy Implications and Considerations	17
2 Trends in Economic Growth and Human Development	22
Growth Performance	23
Progress in Social Development	26
<i>Achievements in Education</i>	26
<i>Achievements in Health</i>	28
Ensuring Environmental Sustainability	29
Promoting Good Governance	30
3 The State of Human Development	34
Life Expectancy	34
<i>Lifestyle Diseases</i>	36
HALE: Health - Adjusted Life Expectancy	39
Education and Literacy	40
<i>School Enrollment at Primary, Secondary and Tertiary Levels</i>	42
<i>Adult Literacy</i>	42
Income	44
<i>Per-capita Income</i>	44
<i>Household Income</i>	45
Bhutan's Human Development Index	46
Trends in HDI	47
Bhutan's Human Poverty Index	48
Income Poverty	48
4 Addressing Key Human Development Challenges	52
Poverty	52
Rural-Urban Disparities	54
Employment	56
Policy Implications and Considerations	56

5 Youth Employment	60
Bhutan's Employment Patterns and Recent Trends	62
A Profile of the Youth Employment Situation in Bhutan	65
Female Youth Unemployment	66
Factors Affecting Youth Employment and Unemployment	66
<i>Youthful Demographic Profile</i>	66
<i>Expansion of School Enrollment</i>	67
<i>Capital-Intensive Economic Growth</i>	67
<i>Limited Employment Absorption Capacity in the Public Sector</i>	68
<i>Small and Underdeveloped Private Sector</i>	68
<i>Rural-Urban Migration</i>	69
<i>Skills and Expectations Mismatch</i>	70
The Potential Consequences of Youth Unemployment	70
 6 Employment for Youth in the Private Sector	 74
A Profile of the Private Sector in Bhutan	74
<i>Manufacturing</i>	76
<i>Construction</i>	77
<i>Services</i>	77
Promoting Sustainable Employment Growth in the Private Sector	78
<i>Policy Environment</i>	79
<i>Fiscal Policy Incentives</i>	80
<i>Financial Sector Reforms</i>	80
<i>Infrastructure Development</i>	81
<i>Industrial Sector Development</i>	81
<i>Promoting Tourism</i>	81
<i>Domestic Trade Policy Reforms</i>	82
<i>Promoting Foreign Direct Investment</i>	82
<i>Promoting Small-scale Business and Self-employment Ventures</i>	83
<i>Youth Entrepreneurship</i>	83
 7 Enhancing Youth Employability through Education and Vocational Training	 90
Education	91
<i>Improving the Quality of Education</i>	91
<i>Reducing the Numbers of Early School Leavers</i>	93
<i>Life Skills Development and Career Education</i>	94
Vocational Education and Training	96
<i>Strengthening the Institutional Framework for VET</i>	96
<i>Increasing Access to VET</i>	97
<i>Improving the Quality of VET</i>	98



bhutan national human development
REPORT 2005

	<i>Apprenticeship Training</i>	99
	<i>Village Skills Development</i>	100
8	Sustainable Livelihoods for Youth in the RNR Sector	104
	A Profile of the Renewable Natural Resources Sector	105
	<i>Agriculture Production</i>	105
	<i>Livestock Production</i>	107
	<i>Forest Production</i>	107
	Promoting Sustainable Livelihood for Youth in the RNR Sector	108
	<i>Raising Rural Livelihoods through Agricultural Productivity and Diversification</i>	108
	<i>High Value Niche Products</i>	111
	<i>Promoting RNR based Education and Vocational Training for Youth</i>	113
	<i>Improving the Quality of Life for Rural Farming Communities</i>	113
9	Future Prospects and Imperatives	116
	Employment Creation in Development, Macro-economic and Employment Policy	117
	Enhancing the Employability of Youth through Education and Vocational Training	118
	Employment in the Private Sector	120
	Promoting Sustainable Youth Livelihoods in the RNR Sector and Off-farm	
	Rural Enterprises	122
	Youth Employment Programmes	123
	Labour Market Information System and Research	123
	Conclusion	125
	List of Tables	
	Table 2.1: Measures of Macro-economic Performance	23
	Table 3.1: Life Expectancy and Related Health Indicators	36
	Table 3.2: Life Expectancy	39
	Table 3.3: Human Development Indicators for Bhutan 2003	46
	Table 3.4: Components of the Human Development Index for Bhutan 2003	46
	Table 3.5: Components of the Human Poverty Index for Bhutan 2003	48
	Table 4.1: Poverty Analysis Report 2004	53
	Table 4.2: Education Indicators	55
	Table 5.1: Trends in LFPR and Unemployment Rates	62
	Table 5.2: Unemployment Rates by Region and Sex	63
	Table 5.3: Youth LFPR and Unemployment Trends	65
	Table 6.1: Licensed Business Establishments in Bhutan	75
	Table 8.1: Agricultural Production	105

List of Figures

Figure 2.1: HD and GDP Index	22
Figure 2.2: GDP Aggregates	24
Figure 2.3 Government Finances 1990/91-2002/03	25
Figure 2.4: Expansion of Educational Infrastructure 1998-2003	27
Figure 3.1: Life Expectancy in Select Regions/Groups	37
Figure 3.2 Combined Gross Enrollment Ratios for South Asia and Selected Groups, 2002	42
Figure 3.3 Adult Literacy in South Asia and Selected Group/Regions	42
Figure 3.4: GDP Per Capita (in actual and PPP terms) in South Asia	45
Figure 3.5: HDI Values for South Asia and Selected Groups 2003	47
Figure 3.6: HDI Values for Bhutan 1984-2003	47
Figure 3.7: Income Poverty Levels in South Asia	49
Figure 6.1: International Tourism Arrivals and Revenue	78
Figure 8.1: Rural Household Income Distribution in Bhutan by Source	109

List of Boxes

Box 1.1: Gross National Happiness	15
Box 1.2: Dimensions of Human Development	19
Box 1.3: On Constructing an Index for GNH	20
Box 3.1: Millennium Development Goals (MDGs)	34
Box 3.2: Move for Health Campaign	37
Box 3.3 Bhutan's Tobacco-Free Initiatives	38
Box 3.4: The Link Between Education and Poverty	41
Box 3.5: Literacy Through Non-Formal Education	43
Box 3.6: Human Poverty - Going Beyond Income Poverty	49
Box 4.1: Pro-Poor Growth	57
Box 6.1: Ngawang Choden's Story	84
Box 6.2: The Credit Guarantee Scheme	85
Box 6.3: The Basic Entrepreneurship Course	87
Box 7.1: The School-Based Vocational Club Programme	95
Box 7.2: YDF's Carpentry Skills Training Programme	101
Box 8.1: A Small Scale Dairy Farming Success Story	111
Box 8.2: Cordyceps Sinensis	112

Technical Appendix 1

Computing the Human Development Index for Bhutan	126
--	-----

Technical Appendix 2

The Human Poverty Index for Developing Countries	129
--	-----

ABBREVIATIONS	130
---------------	-----

REFERENCES	132
------------	-----



FOREWORD

In Bhutan, we have long viewed development in terms far beyond the mere growth of income. In keeping with our core development philosophy of maximising Gross National Happiness (GNH), the Royal Government has steadfastly pursued a path of sustainable socio-economic development to improve the quality of people's lives and their well-being as a whole. Such a people-centred approach, we understand, is akin to the essence of the human development concept. As the introductory chapter of this report notes, a remarkable compatibility exists between the two development paradigms of Gross National Happiness and human development. We have no doubt that efforts directed at furthering human development in the country will simultaneously contribute enormously toward favourable prospects for maximising happiness for our people.

In 2000 Bhutan published its first National Human Development Report, *Gross National Happiness and Human Development -- Searching for Common Ground*. The report measured and reported on human development progress in the country for the first time and traced the rapid socioeconomic achievements attained since the inception of planned development in 1961. This is our second National Human Development Report. The current report updates the assessment of human development and particularly deals with the key challenge of ensuring gainful employment for our dynamic youth.

As the report portrays, Bhutan continues to enjoy significant progress in furthering the state of human development. This is reflected in notable improvements in its Human Development Index (HDI) and its relative position in the HDI ranking of countries. However, there remain some critical areas in which the country still has a lot to achieve, principally with regard to the low levels of adult literacy prevailing in the country. We fully recognise the immense, widespread development and social benefits that accrue with improved literacy levels, particularly for women. Attaching great importance to the need to improve literacy in Bhutan, we will continue to address this as a high priority. The country also faces other considerable development challenges that may have a significant bearing on human development and GNH outcomes. Among those highlighted are the closely interconnected and emerging issues of poverty, rural-urban disparities and youth employment.

Appropriately, the challenge of youth employment constitutes the key theme of this report, in view of its immense relevance not only for our times but, perhaps even more, for the future. As His Majesty the King has strongly emphasised, the youth represent our country's great hope and

are its most valuable asset. His Majesty's vision and expectations are that the youth of Bhutan will participate actively and play a vital role in all aspects of nation-building and socio-economic development and that, through their vital contributions, they will positively shape our nation's destiny.

This would, however, be extremely hard to realise without the full and spirited participation of youth in the national economy and their gainful employment. As our own and others' past experiences show, a growing economy alone is not sufficient to generate adequate jobs and the kind of quality employment to which our youths aspire. Our economic growth must translate effectively into a direct expansion of desirable, dignified employment opportunities and increased productivity levels. We are hopeful that our concerted efforts in this direction will empower our youth, lessen their vulnerabilities, harness their productivity, energy and talents, and ensure their integration with ease into adult society and the workplace.

As we reflect on how best this can be done, this report analyses diverse aspects of the issue and suggests possible arenas for action. We are confident that the relevant assessments made will contribute to the ongoing debate and wider discussions on youth employment, strengthen its prioritisation on the national development agenda, augment our ongoing activities and programmes, and help promote an enabling policy environment for more effective action.

Finally, we would like to extend our deep appreciation to the United Nations Development Programme and its Country Office in Bhutan for the extensive assistance and cooperation provided in the preparation and publication of this report. We would also like to extend our deep appreciation to the National Steering Committee and Working Group for their guidance and valuable inputs in the preparation of this report.

November, 2005

Wangdi Norbu
 Finance Minister

OVERVIEW

The Bhutan Human Development Report 2005 is the second in a series of national human development reports planned for Bhutan. The first report, prepared in 2000, focused on the theme of Gross National Happiness, while the current report covers the theme of youth employment. The Bhutan HDR 2005 consists of two parts; the first section deals with the overall state of human development in Bhutan and the second focuses on the thematic issue of youth employment.

Bhutan has embraced human development as a noble and worthy goal that is wholly compatible and in harmony with the country's own development paradigm and overarching objective of Gross National Happiness (GNH). The linkages and parallels between these two important development concepts are explored in the first chapter, in particular highlighting the fact that both concepts primarily seek to validate a human centered approach to development. The report notes that the four core pillars of GNH, namely sustainable and equitable socio-economic development, conservation of the environment, preservation and promotion of cultural heritage and good governance, are critical considerations for actualising improved levels of human development. The report further reflects the need to advance and operationalise the GNH concept further and moots the possibility and benefits of developing a quantitative measure for GNH, just as the Human Development Index (HDI) was created to reflect the key dimensions of human development.

The current state and socio-economic perspectives of human development are evaluated. The report reflects a similar rapid rate of progress in the areas of economic growth and social development. The report outlines how the sustained levels of economic growth and sound development management have largely made possible the rapid progress on the social side of human development, particularly in the areas of health and education. The country's enhanced material prosperity and significant social achievements are detailed in the report, in addition to accounts of the nation's accomplishments in the areas of environmental conservation, governance, and the preservation of culture. The report envisages that on the basis of projected investments in expanding the country's hydro-power generating capacity and the expected rise of hydro-export revenues, the Royal Government will continue improving the human development prospects for Bhutan.

In particular, the current state of human development in the country is assessed through the three human development indicators of life expectancy, educational attainment and resources necessary for a decent life. The report highlights the gains in raising life expectancy through improved access to health care and associated reductions in the high levels of child mortality. The report specifically identifies the issue of lifestyle diseases as an emerging challenge that could diminish life expectancy and the quality of life. The Royal Government's efforts to combat this by encouraging healthy lifestyles through innovative measures such as the Move for Health Campaign and the Tobacco Free Initiatives are also detailed. As a policy consideration, the report recommends the adoption of the Health

Adjusted Life Expectancy (HALE) indicator in the country's national health monitoring and evaluation mechanisms.

On the educational attainment indicators, the report details rapid growth in enrollments at all levels, resulting in an increase in the combined enrollment rate by about 6 percentage points a year between 1998 and 2004. Gross enrollment figures at the primary levels in 2004 was 84.2% and there is now virtually full gender parity for girls in primary schools. The significant gains in school enrollment though are not matched by improved literacy rates. At 54%, the report indicates that adult literacy levels remain the weakest link in Bhutan's human development performance and that future improvements of the country's HDI value will depend on the progress made in promoting higher adult literacy. The vast improvements in the country's income indicators at US\$ 834 per capita and US\$ 2,060 in PPP terms are reflective of the sustained levels of economic growth in the country. It is however stressed that household incomes, particularly in rural areas, remain much below the national average income, as corporate incomes account for a very large part of the total national income.

The Bhutan HDR 2005 reports that on the basis of the highly satisfactory progress on these three essential indicators, the country's HDI value and ranking have improved. In 1998, according to the first BHDR 2000, the HDI value was estimated at 0.550 and Bhutan emerged for the first time into the ranks of the medium human development countries. The BHDR 2005 calculates the HDI value for 2003 at 0.583, which would place the country's HDI rank at 129 among 177 countries. The report further provides for the first time an assessment on the human poverty index (HPI-1), which is estimated at 33.34, placing it at 61 from among 103 developing countries.

While there has been a steady and sustained progress in advancing the human development situation in the country reflected in the rapid scaling up of its HDI, there remain several challenges that could retard and adversely impact further progress. The report highlights some of the key constraints for human development, namely the challenges of poverty, rural urban disparities and employment, issues that are fundamentally interconnected. A key message conveyed in the report is the critical importance of maintaining the pro-poor growth policy focus; channeling adequate investments and infrastructure development into rural areas and expanding access to and quality of rural socio-economic services and facilities; and providing greater impetus to employment generation, particularly for youths.

The latter challenge of employment generation for youths serves as the core theme for the Bhutan HDR 2005. Many reasons exist for choosing youth employment as the theme. In addition to the demographic importance of this age group, constituting as they do close to one fifth of the country's population and the labor force, the rapid changes that Bhutan is undergoing in the process of modernisation and development are being most keenly felt by young people who remain a highly vulnerable group. Improving the human development and GNH outcomes for youth will depend a great deal on the success that the country has in building the capacities of youth, involving them in decision making through active public participation and providing them gainful employment. Entry into the world of work and decent employment for youth



bhutan national human development
REPORT 2005

represents perhaps the best way of integrating youth into the social and economic life and ensuring sustained human development progress for succeeding generations.

The second part of the BHDR 2005 details the employment challenge for youths. A profile of the labor market and employment patterns in the country and the specific employment context of youths are provided. The analysis contained in the report points to the fact that while unemployment levels in Bhutan are relatively low, the burden falls disproportionately on youths - whose unemployment rates are two to three times that of the general working population and who generally constitute half of all those unemployed. It is further highlighted that young people are highly vulnerable to labor market fluctuations, generally being the last to be hired and the first to be released. The underemployment situation of youths is also considered, with references drawn to the high number of youths engaged in family responsibilities who are neither engaged in studies nor are economically active and the significant numbers of youth who work as non-paid family workers.

The report analyses some of the probable causes of why Bhutanese youths are increasingly finding it difficult to secure decent employment. The report points out the factors of the youthful demographic profile, the rapid expansion of school enrollment, capital intensive growth, limited employment absorption in the public sector, the small size and underdevelopment of the private sector, rural- urban migration and the mismatch between skills and labor market demands. The potential consequences of youth unemployment as reflected in the rising trend of youth crime and manifestations of risk behavior among youth are also highlighted.

The employment prospects for youth in the private sector and how these could be enhanced are an important aspect considered. A profile of the private sector in Bhutan and its special constraints are provided. The key messages contained in this regard pertain to the need to sustain and strengthen ongoing efforts to provide an enabling environment for rapid private sector development and actively encourage self-employment through promoting youth entrepreneurship. The specific recommendations to increase the intake of young job seekers in the private sector include improving the policy environment for private sector development, providing fiscal policy incentives to stimulate business development, introducing appropriate financial sector reforms, strengthening business infrastructure, supporting industrial development, promoting tourism and the development of tourism infrastructure and services, enhancing foreign direct investment and stimulating small businesses and self employment ventures through encouraging youth entrepreneurship.

The critical aspects of enhancing youth employability through education and vocational training are other vital considerations. The report focuses on the important elements of improving the quality of education, reducing school dropouts and enhancing school retention, imparting vital life skills development and career education and expanding vocational education and training towards helping young people prepare for the world of work. The report notes that the strategic approach in resolving the employment difficulties of young people is being addressed primarily by expanding the skills base of youth through increased

access to vocational education and training. The various ongoing initiatives in this regard are treated and areas for improvement suggested. This includes the need to intensify vocational training in secondary schools, promote village skills development, expand entrepreneurship training, introduce more apprenticeship trainings in country and overseas, and develop more market oriented and relevant vocational programmes.

The prospects for and the sustainability of youth livelihoods in the renewable natural resources sector are also considered in the report. A detailed profile of the RNR sector is provided and strategies to enhance the long-term sustainability of youth livelihoods discussed. These include strategies to improve agricultural productivity and strengthen diversification into more remunerative agriculture including promoting cash crop cultivation, horticulture, and high value niche agro-forestry products. These are expected to help stimulate the rural economic base and ensure the sustainable livelihood for youths and their long-term retention and meaningful economic engagement in rural communities.

In its conclusion the report summarises the issues and imperatives in tackling the emerging concern of providing gainful employment for youth in Bhutan. The challenging aspects of addressing youth employment in the country are outlined in the report and the point is made that it is not simply about the creation of more employment opportunities, but equally about providing high quality and dignified employment to a rapidly growing youth population. Certain policy imperatives and options within the prevailing context of the youth employment challenge in Bhutan are also considered. These include the need to orient the macro-economic policy framework to be more supportive of labor absorbing growth patterns, including the adequate channeling of investments into rural development and specific areas with significant prospects for enhancing employment of Bhutanese youths. The importance of education and vocational training priorities to raise the quality of education, reduce early school dropouts, strengthen life long learning and life skills development, increase access to vocational education and training, and promote entrepreneurship and apprenticeship training and village skills development are also highlighted.

To enhance youth employment in the private sector, the need to formulate a private sector employment strategy, create enabling conditions for private sector growth and expansion, promote FDI, encourage small-scale enterprise development and effectively promote youth entrepreneurship are aspects that are emphasized in the report. The promotion of livelihoods for youth in the rural areas is also viewed as a critical and practical aspect of ensuring the long-term sustainability of employment for youth. To further this, the need to actively promote remunerative agriculture through crop diversification, promote off-farm enterprise and improve the living and work conditions in rural areas are considered to be important.

In conclusion, the report highlights that there is no single or simple solution to the issue of youth employment. Efforts must be directed on several fronts and levels - from the macro-economic policy framework level to sector specific and micro-economic strategies, from promoting sustainable rural livelihoods to easing urban migration, from making education more directly relevant to labor market needs to improving labor productivity in manufacturing, from promoting youth participation in volunteerism to enhancing the dignity and status



bhutan national human development
REPORT 2005

of blue collar jobs and self employment and from promoting decent employment in the informal sector to sustaining job creation and facilitating access to jobs in the formal sector. The report further affirms the need to move the treatment of youth employment beyond the mere provision of vocational training opportunities and skills acquisition, even as these investments in education and training continue to remain highly essential in furthering their employability. The need to improve the labor information system and strengthen data collection in the areas is seen to be vital in developing more effective strategies and solutions to ensuring full youth employment.

Chapter 1

Gross National Happiness and human development



bhutan national human development
REPORT 2005
the challenge of youth employment

Gross National Happiness and Human Development

Gross National Happiness is more important than Gross National Product. The ultimate purpose of government is to promote the happiness of its people.

His Majesty the King, Jigme Singye Wangchuck

The development ideals of Gross National Happiness (GNH) and human development are broad, comprehensive concepts that encompass a wide spectrum of human-fulfillment choices and needs. They both comprise issues of profound concern and are, explicitly or implicitly, the long-term goals of all societies, no matter what their levels of development. The seminal ideas of GNH and human development similarly derive from a deep dissatisfaction with conventional measures of development, which are based on income and consumption indicators. Instead, both concepts question the fundamental purpose of development and seek to expand the development discourse from a discussion of means to one of ultimate ends. The question inherent in their philosophies is: *What is the greatest good of development and the end purpose to which it is directed?*

This chapter explores briefly the existing parallels, divergences and powerful synergies of the conceptual frameworks of GNH and human development. The purpose is not simply an intellectual exercise but rather to draw out relevant lessons and practical policy implications. Such explorations will deepen understanding about these alternative development philosophies, provide for a mutually enriching debate and through this contribute to the progressive realisation of vital development goals. In the context of the report, the chapter provides the theoretical framework within which the state of human development progress in the country is analysed.

While the development concepts of GNH and human development differ, there nevertheless exists a deep harmony in their spirit. They also share many common priorities. The human development concept has broadened beyond its initial premise, reflecting the infinite, ever-changing range of human choices. Now, it includes issues of sustainability, culture and governance, which have significant impact on human well-being. The key priorities that comprise the essential components of GNH [Box 1.1], meanwhile, are equally important and valid dimensions within the human development paradigm. The compatibility of the four platforms through which GNH is to be realised and their equivalent human development concerns are treated here.

Sustainable and Equitable Socio-economic Development

Neither GNH nor human development rejects economic growth as irrelevant or unimportant. Rather, economic growth is viewed as essential for improving human life – but not sufficient in itself. The concepts also broadly agree that no society can realistically sustain the welfare of its people without economic growth. However, underlying the

two approaches is a distinct recognition that economic growth serves as a valuable means, while not representing an end in itself.

In addition, both approaches declare that economic growth must be matched with, and contribute to, improved levels of social development through the provision of better health care, education and other social services. GNH advocates maintaining a harmonious balance among the material, non-material and social dimensions of development, while human development strongly argues that lopsided development can never be sustainable in the long term, with either fast economic growth/low levels of social development or slow economic growth/rapid social progress. The human development approach further accentuates the need for effective management of economic growth to ensure that it is equitable

Box 1.1

Gross National Happiness

Happiness is a universally shared aspiration for all humans and can logically be regarded as the core purpose of development. While the maximisation of the happiness of the Bhutanese people was first propounded by His Majesty the King, Jigme Singye Wangchuck, in the late 1980s, many of its underlying principles have guided the country's development for much longer. The concept of Gross National Happiness now formally constitutes the key objective of national development and serves as the foundation for Bhutan's normative approach.

The GNH concept squarely places the individual at the centre of all development efforts and includes a multi-dimensional approach toward improving human well-being. It acknowledges that people are the real wealth of a nation and propounds that income alone cannot be the measure of all human endeavours, equal emphasis must be given to the spiritual, cultural and emotional needs of the people.

GNH is being pursued through the four broad platforms of sustainable and equitable socio-economic development; conservation of environment; preservation and promotion of culture; and enhancement of good governance. The progressive realization of GNH will depend greatly on how effectively the country is able to maintain a harmonious balance and synergy among these four important principles. Efforts also are under way to further strengthen the conceptual structure of GNH.

Now, GNH has become Bhutan's salient contribution to the development discourse, as it takes the idea of happiness from a utopian element to an imperative for national (and global) development. It has been argued that, along with the concept of human development, GNH provides the necessary balance to the 'growth first' paradigm of globalisation. Indeed, GNH can be said to encompass an even wider perspective than human development, as it goes beyond all conventional measures of quality of life.



**bhutan national human development
REPORT 2005**

and sustainable. Equitable sharing of development benefits among all sections of Bhutanese society, ensuring that the livelihoods of future generations are not jeopardized, is similarly a core principle of GNH. Thus, close compatibility and agreement exist between the two perspectives on this important point.

Conservation of the Environment

Natural resources and environmental conditions are significant determinants for human development and GNH prospects because they directly affect the quality of people’s lives, as well as livelihood opportunities.



Economic growth itself is heavily dependent on natural resources. In conventional models of growth, the approach to environment has centred on exploitation of these resources, with a perceived tradeoff between economic development and the environment. However, human development and GNH explicitly recognise the need to harmonise growth and ecology, livelihood and nature. Conservation and sustainable use of the environment, therefore, are vital concerns that are integral to both concepts and important for current and future generations alike.

Preservation and Promotion of Cultural Heritage

Bhutan’s cultural heritage has always been accorded a high priority on the development agenda. It is regarded as vital for the country’s survival, given that it provides a strong basis for national identity and unity. In addition, culture is viewed as a perennial source of sound human values that strengthens social bonds and provides popular support for sustainable development practices. Finally, culture serves to cushion Bhutanese society from the negative impacts of globalisation and helps it cope with associated stress. As such, culture in Bhutan is not merely regarded as an end in itself, or even a mere means to the goal of GNH, but also critically important for national independence, sovereignty and security.

The dimension of culture and its absence or denial – namely, the concern of cultural liberty – is similarly regarded as highly pertinent to human development. Indeed, human development concerns itself principally with allowing people the choices to lead the lives they want. Because cultural lifestyles are at the core of these choices, human development is as much about cultural choices as political and economic ones.

UNDP’s Global Human Development Report introduces the interesting concept of “rootless growth,” which refers to an undesirable form of growth that causes people’s cultural identity to wither and that

homogenises diverse and rich cultures. The human development paradigm advocates an inclusive pattern of growth that can nurture and enhance cultural traditions and provide significant opportunities for people to share their cultures in a mutually enriching way. On the other hand, it avoids a growth pattern that is exclusive and destroys cultural diversity, thereby impoverishing the quality of everyone's lives. An important aspect of rootless growth is the grave threat that cultures face from market forces through cultural homogenisation. Real concern exists about how globally marketed consumer products and the media tend to impose a uniform view of the world and of how these represent a new form of cultural domination through the incentives and values they inculcate. [UNDP, HDR 1996].



Good Governance

Good governance promoted through transparency, efficiency and accountability in the political processes and administration of the country, provides an enabling policy environment for the eradication of human deprivation and the progressive achievement of GNH. Good governance is also characterised by meaningful, active popular participation in the decision-making process. Equitable growth and development – an important pillar of GNH – is best achieved through good governance. Finally, achievements in enhancing social development levels, likewise, would not be possible without the effective, efficient management of public expenditures, which requires exceptionally good governance.

For the same reasons, good governance is essential to human development. The aspect of good governance – or "*humane governance*," as it is sometimes referred to – encompasses the principles of ownership, participation, equity and equality in addition to those of transparency, efficiency and accountability. *Ownership* here refers to the broad-based ownership of the governance process that requires the full and active *participation* of all people. The *equity* and *equality* principles require that all people enjoy equitable access to public goods and services as well as economic opportunities, and are equally empowered.

Policy Implications and Considerations

While sharing a broad intellectual compatibility, differences remain between GNH and human development. To spell out a key distinction, GNH boldly concerns itself with human happiness and the emotional and spiritual well-being of people as the ultimate objective of development. It affirms unequivocally the vital role that human happiness should enjoy in the development equation.

bhutan national human development
REPORT 2005

On the other hand, the human development concept makes clear that it is not happiness, but empowerment, that is being pursued. Empowerment here is referred to in the context of the ability of people to choose, shape and direct their own lives. The 1990 Global HDR states: *No one can guarantee human happiness, and the choices people make are their own concern. But the process of development should at least create a conducive environment for people, individually and collectively, to develop their full potential and to have a reasonable chance of leading productive and creative lives in accord with their needs and interests.* To that extent, GNH seeks to go beyond the human development paradigm and views human development as one of various means, albeit an important one.

Whether the ultimate objective is GNH or human development, however, the practical strategic focus is on creating an enabling environment for a flourishing of human potential at its fullest. These enabling conditions basically share the same space.

At the same time, more detailed elaboration and further exploration of the conceptual framework, substantive content and intellectual structures of GNH would greatly help in the development of practical guidelines for policy creation, implementation and evaluation to achieve the overall goal. Questions that were once asked about human development are being posed to GNH as it gains increased attention around the world and generates lively debate in the country. Is GNH operational, and can it be operationalised? Does it lend itself to measurement? Can it be planned for and monitored? Can specific policies and programmes be implemented to achieve it?

In this regard, the dynamic manner in which the human development concept emerged to become an important policy theme provides a valuable example in considering how GNH can be more effectively and practically integrated into development planning.

The evolution of the human development agenda has been an open-ended, progressive process [Box 1.2]. While the basic concept at the core is still very much about enlarging people's choices, it and its measurement has been re-examined each year and new directions explored through the Global Human Development Reports. The concept has been deepened and broadened beyond its original premise, with several other important measurements included, such as the Gender Empowerment Measure (GEM), the Gender Development Index (GDI) and the Human Poverty Index (HPI). This process further promotes suggestions that help translate human development ideas into practical action.

The Human Development Index (HDI) was constructed to reflect the most important dimensions of human development, but did not necessarily exclude other attributes. Indeed, the HDI does not and could never capture the full diversity and significance of human development. What it seeks to do, however, is to go further than the traditional income-based indicators to measure development progress. As such, the HDI was able to provide a limited but useful quantitative dimension, thus adding great value to the human development concept.

Box 1.2

Dimensions of Human Development

Human development is defined as the process of enlarging people's range of choices. The most critical of these wide-ranging choices are to live a long and healthy life, to be educated, and to have access to resources needed for a decent standard of living.

(UNDP, 1990)

Human development is not simply about an individual's capability to attain certain levels of income or consumption, but rather the quality of life that can be led, thereby encompassing virtually all facets of human life. The human development perspective thus regards people as the 'true wealth' of a nation and places the fulfillment of their aspirations and needs at the centre of development.

The formation of human capabilities, such as improved health, knowledge and skills constitute a critical aspect of human development. The other equally important aspect is the use that people make of these capabilities for leisure, productive purposes or participation in cultural, social and political affairs. As such, human development centres on the twin aspects of the building of essential life capabilities and the uses people derive from these acquired capabilities. The need for a careful balance between these aspects cannot be understated, since an imbalance could result in increased dissatisfaction. For instance, the emergence of an educated workforce through improved educational attainments must be balanced with the availability of adequate employment opportunities, or else the capability of knowledge will have limited utility and frustrate rather than fulfill.

Human development has four core components: productivity, equity, sustainability and empowerment. Productivity broadly refers to the ability to participate fully in generating income and securing remunerative employment. Equity means equal access to participate in and benefit from all socio-economic opportunities. Sustainability is understood as the need to ensure access to opportunities, not only for present generations but future generations as well. The principle additionally considers the replenishing of all forms of capital – physical, human, environmental – as equally important. The last component, empowerment, concerns the opportunity for all people to participate fully in the decisions and processes that influence their lives.

Since the concept was introduced in the 1990 UNDP Global Human Development Report, the human development perspective has moved into the mainstream of the development discourse and gained widespread popularity. It has been incorporated in the development strategies of numerous countries, since it provides a useful basis for setting priorities for policy interventions and the evaluation of progress on these objectives over time. Because the concern of human development deals with human life choices and needs that are vast and continually evolving, the concept has not been static.

To reflect the most important dimensions of human development, a composite index of three indicators was constructed to constitute the Human Development Index (HDI). The three indicators were life expectancy, educational attainment and real GDP per capita, representing a long and healthy life, knowledge and a decent standard of living. While capturing the essence of human development, the three core indicators by themselves still do not provide a fully comprehensive measurement. The picture is further supplemented by segregated HDIs by regions and other indices such as the Gender Development Index (GDI), Gender Empowerment Measure (GEM) and Human Poverty Index (HPI).



Exploring the possibilities of constructing an index for GNH could well follow a similar path [Box 1.3]. Certain key propositions and perspectives of GNH already exist, providing a useful starting basis. In addition, a healthy debate on these and other aspects is taking place. The process must be supported further. At the same time, it needs to include a wider participation of the Bhutanese public and not be limited to academia, government or development circles. The growing community of researchers interested in the idea of GNH and its operationalisation are beginning to take this idea forward.

Overall, therefore, a lively debate is ongoing on whether GNH should be measured. Some argue that the concept is immense, multi-dimensional and complex, and that any system of measurement could diminish it. Others contend that if GNH is to have more direct relevance for development planning and monitoring, then attempts must be made to provide some assessment of progress toward its realisation.

This report espouses the latter view, supporting efforts to propose a possible measure for GNH that will seek to simplify a highly complex reality. As with the human development concept, it is clear that no measure of GNH will ever do it full justice; it is likely that numerous intangible factors, qualitative and subjective aspects and values will be notoriously difficult to capture. But attempts to measure GNH through the construction of an index will certainly help initiate a more meaningful policy dialogue and further clarify thinking on core relevant issues. This also can leverage greater interest in GNH, enriching both global development debate and practice with a uniquely Bhutanese perspective.

Box 1.3

On Constructing an Index for GNH

I would like . . . to find common ground between HDI and GNH. The effort could lead us finally to a method of synthesis between GNH and HDI, with HDI becoming sensitive to GNH . . .

That brings us to an important question.....can an index be constructed for GNH, as it has been done for human development? The possible measurability of GNH has been a thought-provoking proposition. Others have suggested that it would be a speculative exercise into what is essentially a subjective experience, and will defy any statistical device aimed at its quantification. There is a broad area of analytical controversy between them. I would be very keen on any advances the workshop can make on this conceptual and methodological work.

His Excellency Lyonpo Jigmi Y. Thinley, in his opening address at the 1999 Workshop on GNH: Gross National Happiness and Human Development – Searching for Common Ground

Chapter 2

Trends in economic growth and human development



bhutan national human development
REPORT 2005
the challenge of youth employment

Trends in Economic Growth and Human Development

Prudent macroeconomic management, generous social policies, strong donor support and export earnings from hydro-power have contributed to a significant rise in human development levels

Economic growth has never been regarded in the Bhutanese development philosophy as an end in itself nor viewed as a panacea to the holistic socio-economic progress of the country and well being of its people. It is nevertheless deemed essential for furthering human development progress and for attaining GNH, the ultimate goal of the development process.

Bhutan started off as a very low-income country, a situation matched by equally low levels of human development. Strong and sustained economic growth in the country has actually provided a firm basis for the high levels of public expenditures made in improving human development conditions in the country. As a result of these significant and sustained social investments, Bhutan has experienced significant improvements in the living standards of its people, thereby raising human development levels in the country.

Examining Bhutan’s economic development and growth can help provide a deeper understanding of the state of human development progress in the country. In Bhutan, the two have been mutually reinforcing and positively interlinked. Even as economic growth has been strong, the overall human development progress has been even more rapid [Chart 2.1]. From this it may

be surmised that the country enjoys a relatively higher level of *human development efficiency* with strong growth accompanied by even more rapid human development achievements. This holistic and balanced socio-economic development has been carefully and consciously managed with due attention also provided to other non-core but human development related priorities of cultural and environmental responsibilities. This key strategic approach is popularly known in the country as the *Middle Path of Sustainable Development*.

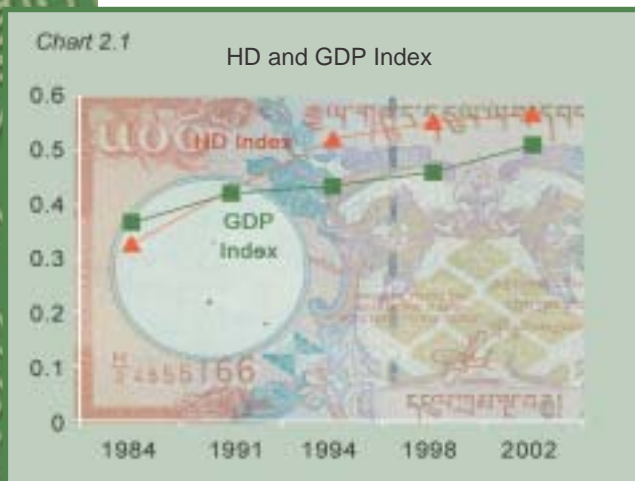


Table 2.1 Measures of Macro-economic Performance				
	1990	1995	2000	2003
Real GDP growth	6.6%	7.4%	5.5%	6.8%
GDI/GDP	35%(1991)	46.8%	48.4%	53.2% (2002)
Export Growth	-0.3%	58%	-7%	32%
Import Growth	9.5%	24%	0.5%	23%
Gross Reserves (in US\$ millions)	90.39	145	294	383.1
Revenue (in US \$ millions)	57	65	104	132
Debt (in US\$ millions)	133	136	236.8	529.2
Debt/GDP	44.3%	41.4%	51.9%	75.4%
Debt Servicing Ratio	5.4%	20.6%	4.6%	4.1%
Unemployment Rate	-	-	1.9%	2.5%

Source: National Accounts Statistics and Royal Monetary Authority Annual Reports

Growth Performance

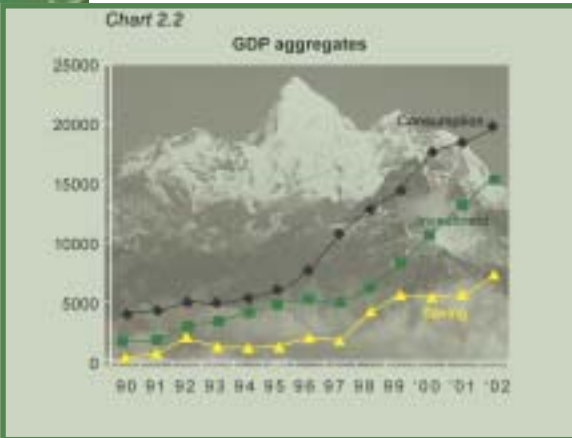
Bhutan's real annual economic growth averaged about 7 to 8% over the last two decades and grew by 6.8% in 2003. The GDP value in 2003 was estimated at Nu. 28.5 billion or US\$ 612 million at the exchange rate of Nu 46.6 to a dollar. Hydropower development and the export of surplus electricity to India has largely sustained this robust growth and fundamentally transformed the structure of Bhutan's economy. The peak growth years invariably coincide with the startup of and/or the commissioning of the hydropower projects. Future growth prospects are similarly linked to the further development of the country's hydro resources, which will not only generate revenue through electricity exports but can also provide a major impetus and competitive advantage to manufacturing. Even by modest projections, the economy is expected to continue growing at between 6 to 7% for the next decade or so.

The sustained levels of growth performance in Bhutan has been primarily underpinned by the extensive infrastructure development that has been taking place in the country over the last four decades. This has been a key strategic component of the various development plans in Bhutan, including the 9th FYP. In addition to the construction of the large hydropower projects, there has been a rapid expansion of road networks, including feeder roads to improve rural access, electricity and telecommunications facilities for numerous rural households, and the further development of the urban infrastructure.

On an expenditure basis, GDP growth over the last decade has been strongly underpinned by sustained and rising levels of private consumption and private/public investments. As reflected in Table 2.1, there is a singularly dramatic rise in both consumption and investments in the 8th FYP period between 1997 to 2002 and this is primarily linked to the construction activities of the mega Tala Hydro-power project (1020 MW).



bhutan national human development REPORT 2005



Source : National Accounts Statistic Annual Reports

Total consumption in the period between 1990 and 2002 grew at an annual average of 15% and constituted around 70% of GDP. Of this private consumption accounted for around 71% of the total and government consumption for the rest. Total investments in that period also increased at an annual average of 22% and comprised 43% of GDP. While private investments constituted a major portion at 62% of the total investments, this was matched by strong public investments over several years. Of the total savings comprising approximately 21% of GDP, public savings have been negligible at less than 1%, while private savings have grown steadily. Inflation has been

at moderate levels throughout the period and has steadily come down from 9.2% in 1998/99 to the lowest level of 1.8% over the last two decades in 2002/03.

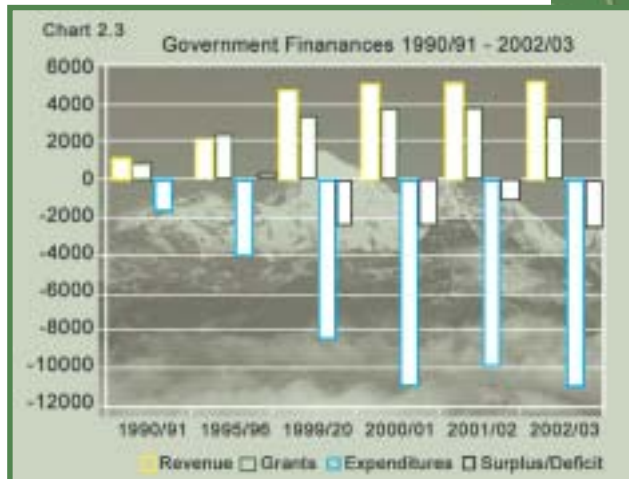
Government revenue collection has been growing strongly over the decade and rose from Nu. 996.3 million in 1990/91 or 10% of GDP to Nu. 6,162 million in 2003/04 about 22% of GDP. The strong revenue increases have been due to sustained economic growth, increases in the price of electricity exports and the improved collection systems. Over the decade, the revenue structure has also undergone a marked change with the ratio of tax to non-tax revenue improving considerably. Tax revenues constituted only around 27.5% of total revenues or 4.8% of GDP in 1998/99 owing largely to the low tax rates and the small base. Tax revenues now constitute over 54% of the total revenues and have risen to around 12% of GDP. However, the Royal Government remains keen not to introduce more or higher taxes so that the private sector growth is not stifled. The dominance of electricity as the major source of revenue remains and constitutes around 38% of total national revenue. In order to further expand the tax base and as a measure to redistribute wealth, personal income tax was introduced in the country in 2002. Collections from personal income tax though are small and constitute less than 2% of the total revenue collection.

The overall balance of payments has been consistently positive between 1990 and 2003 due to substantial inflows of grant aid and loans, even as the country has experienced chronic trade deficits. The favorable overall balance of payments position has contributed to the growth of foreign reserves taking it to US\$ 383 million in 2003/04, enough to provide import cover for over 23 months. On average imports have grown much more rapidly than exports over the period creating large trade deficits. These large trade deficits were incurred principally on account of imports for the construction of the large power projects, and as such do not reflect an unsustainable import pattern. However, there has been a perceptibly large growth trend in the import of non-durable consumer goods, particularly for those that have to be paid in hard

currency. With the major works of the Tala hydro-electric project near completion, imports have already declined and are expected to decline further from current levels. Additionally, with the generation of power from this mega project, the trade balance is expected to record significant surpluses. However, with several other mega power projects in the pipeline, this cyclic pattern of import surges and large trade deficits for extended periods of time coinciding with the construction of the projects is likely to continue.

The large capital investments in the hydro-power, renewable natural resources and social sectors have contributed to the enlargement of outstanding external debt that currently stands at US\$ 405.5 million. While the debt to GDP ratio has largely ranged between 30 to 50%, it substantially increased to 75.4% in 2003. However, debt servicing ratios have been sustained at manageable levels at under 5% over the last five years in view of sustained export growth and the fact that most of the country's outstanding debt is on concessional terms. In the fiscal year of 2004, debt servicing was at 4.1%.

Nevertheless, there is a deep concern over future debt servicing in regard to hard currency or non-Rupee debt, as there are limited prospects to generate foreign currency earnings. In recognition of this, the Royal Government has made concerted efforts to enhance the country's hard currency export earnings through various policy initiatives. It is envisaged that enlarging Bhutan's foreign trade through accession to the WTO, expanding bilateral trade with neighbouring countries, engaging in regional economic groupings such as BIMSTEC and SAFTA and promoting foreign direct investment through a soon to be enacted FDI Act, will all contribute to increased foreign currency inflows other than from development assistance and existing sources. In the case of Rupee debt that comprises roughly 58% of the total debt, this is easily sustainable as the debt servicing and repayments are closely tied into the export earnings of the hydro-power projects.



Source : RMA Annual Reports

The government continues to maintain a cautious and prudent fiscal management policy centered around meeting recurrent expenditures from current revenue streams and mobilising development assistance for most capital investments. While the budget deficit was traditionally maintained at under 1% of GDP, this has increased over the last three years due to shortfalls in grant assistance. In 1999/2000 the budget deficit was at 4% of GDP and this increased to 12% of GDP in 2000/01. It subsequently came down to 5% and 10.4% of GDP in 2001/02 and

**bhutan national human development
REPORT 2005**

2002/03. These deficits were financed out of soft borrowings, both external and internal, the latter through the issuance of government bonds. The purchase of two new aircraft for Druk Air, the national carrier, is likely to put additional strains on internal resources but improved grant flows could reduce the budget deficit. These developments reflect the country's dependence on development grants and loans and its vulnerability to fluctuations in external inflows.

Progress in Social Development

The rapid growth of the Bhutanese economy in the eighties and nineties was matched by and directly contributed to marked improvements in health and education standards, thus vastly improving the levels of human development. Additionally, as a World Bank study of 192 countries revealed, over 64% of growth in these countries was attributed to human and social capital. Thus, there is good reason to believe that the sustained human and social development progress in Bhutan has significantly contributed to the rapid growth of the national economy.

The Royal Government has from the inception of planned development, provided for well-structured social sector expenditures that have yielded large dividends for health and education. The budget allocation for social sector expenditures increased significantly each plan period and currently constitutes 24% of the 9th FYP budget, or roughly 11.5% of GDP on an annual basis. Annual budgeted public expenditures for education alone constitute around 7% of GDP, a very high level of investment by any standard. On a per capita basis, public expenditure on education and health in Bhutan is estimated at around US\$ 108 a year, which compares favourably with most developing countries. By all measures, the country's public expenditures in the social sector have been extremely generous and essentially directed towards expanding basic health care and primary education. This has been possible largely due to the significant growth in public revenues arising from sustained economic growth, and the strong donor support for social sector programs.

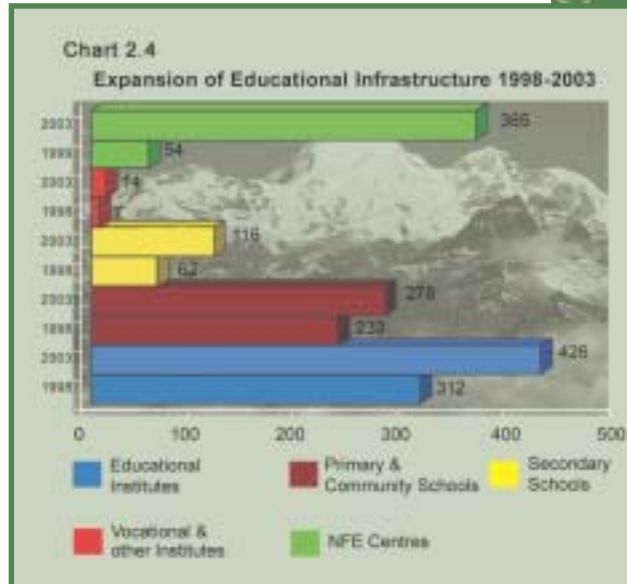


Achievements in Education

Education coverage in the country has been expanding rapidly at all levels and is still provided free of cost. This includes free tuition, textbooks and in many schools and institutes, the provision of free meals and boarding facilities. Annual school enrollments have on average grown at around 8% per annum over the last few years and primary education enrolment rates climbed from 72% in 1998 to 81% in 2003. Secondary and tertiary education enrollments are increasing

so rapidly that the available education resources are being severely stretched. The total enrolment in all schools, institutes and non-formal education programs was at 145,249 in 2003, up from 100,609 in 1998. The percentage of females in the total enrolment has marginally increased by half a percentage point from 48.4% to 48.9% in 1998. Female enrolment rates are now virtually at par with that of males except at the higher secondary and tertiary levels, though even at these levels there has been significant progress in comparison to the past.

To accommodate this sustained enrolment growth, new school infrastructure has been built and existing ones expanded. In 1998, there were 312 educational institutes consisting of 233 primary and community schools, 62 junior high and high schools, 7 private schools, 9 vocational and specialized training institutes and a degree college. There are now 426 educational institutes consisting of 278 community and primary schools, 116 junior high and high schools, 18 private schools, 14 vocational and specialized training institutes and a degree college [Chart 2.4].



Source : Ministry of Education, General Statistics 2003, 1998

The total teacher strength in all educational institutes has virtually doubled from 2,785 in 1998 to 4,746 today and this has been augmented by a noteworthy raise in the qualification level of teachers with 93% of all teachers being fully trained and certified. Most notable has been the phenomenal expansion in the numbers of the non-formal education centers in that period from 54 to 365, and the commensurate increase in enrolment from 2,176 to 15,866 current learners.

While the Royal Government's efforts in the past have largely been directed at attaining universal primary education and ensuring basic education for all, more recent efforts have focused on expanding the quality and capacity of secondary and tertiary levels of education and strengthening technical education and vocational training. Between 1998 and 2003 the secondary level education in Bhutan, comprising lower, middle and higher secondary levels, have all experienced high enrolment growth rates of 8%, 14% and 37% respectively. This has necessitated the doubling of schools catering to secondary education. Over the next three years, 29 more junior high and high schools are to be established to further expand capacity at the secondary education level.

Enrolment levels at the tertiary level have also been increasing and averaged 20% annual growth over the last few years. This does not include the growing numbers of Bhutanese students who are pursuing college education outside of the country at their own expense. While tertiary level education reflects a lower ratio of female enrolment as compared to males (30:70), this has improved from 1998 where females comprised only 22% of the tertiary level enrollment. The trend further points to a consistently higher female enrolment growth pattern for tertiary education that will greatly reduce the existing gender disparity at this level. The establishment of the Royal University of Bhutan in 2003, comprising eight member educational institutions, also represents a major milestone in furthering the development of tertiary education in the country.

Achievements in Health

The sustained investments into expanding basic health coverage and the extensive health programs implemented for the prevention and control of communicable diseases have vastly improved the health conditions of the people in the country. This is reflected in the dramatic transformation of the mortality and morbidity patterns and significant improvements in the life expectancy. This is a notable feat considering the country has always provided free medical services and taking in to account the enormous logistical difficulties of making health services accessible to a widely dispersed population.

Primary health care coverage has expanded from 65% in 1990 to over 90% in 2002. As detailed in Chapter 3, the life expectancy in Bhutan climbed from 45.6 years in 1984 to 66.1 years in 1994. Since the annual health survey in 1994, no estimations of life expectancy have been made though it is assumed to have gone up further due to declining mortality figures. The infant, under-five and maternal mortality rates have been declining rapidly and were estimated at 60.5, 84 and 2.6 per 1000 live births in 2000, down from 142, 123 and 7.7 per 1000 live births in 1984, respectively. On the basis of current levels of progress, the country is on course to achieve the MDG targets to reduce the IMR, U-5MR and MMR by two thirds by the year 2015 from their base figures in 2000.

A major factor that has helped reduce child mortality levels in the country is the highly successful Expanded Program of Immunisation (EPI) through which an immunisation coverage rate of 90% for all antigens is being sustained. No polio cases have been reported in the country for over a decade and for all practical purposes, Bhutan has attained a “polio free” status. The country is additionally on the verge of eliminating maternal and neo-natal tetanus.

The overall nutritional status of children too has vastly improved. The survey findings from the National Anthropometric Study in 1999 reflect that 17% of under-five children are underweight, 40% are stunted and that 2.6% suffer from wasting. This compares favourably to the 1989 National Nutritional Survey that reflected much higher percentages of underweight, stunting

and wasting. According to the NNS 1989, 38% of all under-five children were underweight, 56% were stunted and 4.1% suffered from wasting. In 2003, Bhutan attained the status of “Normal Iodine Nutrition Country” becoming the first South Asian country to do so. Reflecting this, there was a noticeable decline in the goiter prevalence rate from 64.5% in 1983 to under 5% at present. The micronutrient deficiency of Vitamin A is no longer regarded as a major public health problem though iron deficiency resulting in anemia remains a key public health concern, particularly in pregnant women.

The various other achievements in health include raising the safe rural sanitation coverage from 60% in 1990 to 88% and increasing access to safe drinking water from 45% in 1990 to 78% today. In the context of the latter, the MDG target of halving the percentage of people without access to safe drinking water has already been achieved. The spread of major communicable diseases such as leprosy, malaria and tuberculosis have been contained and reversed, even as the latter two remain important public health concerns.

Ensuring Environmental Sustainability

Even as the state of Bhutan’s natural environment remains a tremendous source of national pride, sustained efforts to conserve the country’s rich natural endowment continue to be made, with the farsighted approach that there can be no room for complacency in view of the extremely delicate mountain eco-system. The high standards of Bhutan’s environmental conservation practices continue to be maintained and strengthened further, even as the mounting strains of urbanisation, industrialisation, infrastructure development and population growth are increasingly felt.

With 72.5% of the country’s total area under forest cover, Bhutan has the largest forest cover in proportion to its land mass in Asia. The country further maintains more than a quarter of its total territory as protected areas with an additional 9% designated as biological corridors to connect the protected areas. Additionally, in 1995, the National Assembly mandated that the country should maintain at least 60% of its land area under forest cover for perpetuity. The latter commitment reflects the strong conservation ethic and motivation prevalent across the nation. The national efforts at conserving valuable forest resources are deeply strengthened by meaningful policy actions such as the prohibition of the export of timber and semi-finished wood products and the wide range of proactive social forestry



and afforestation programs, to consistently maintain the high levels of forest cover and the country's rich biodiversity.

Bhutan has signed 10 multilateral environmental agreements, including the Convention on Biological Diversity and the UN Framework Convention for Climate Change. In addition, the country has entered into a multilateral partnership with a few other countries under the Sustainable Development Agreement to promote sustainable development projects and activities through a unique arrangement. Numerous domestic environmental legislation and policies have been enacted and implemented, including the Environmental Assessment Act, the National Environment Strategy and the National Biodiversity Action Plan. The National Environmental Protection Act is under preparation and is to be enacted within the current plan period and will serve as a much needed umbrella law to facilitate a holistic approach to environmental conservation and management.

In addition to establishing the relevant policy and regulatory framework for environmental management, a wide range of environmental conservation activities have been implemented in the country. These include numerous activities undertaken to protect and manage the country's watershed areas, improve solid waste management, limit any perceptible deterioration in the water and air quality and promote and instill greater awareness and understanding of environmental issues among the public. A critical aspect of the national environment strategy relates to the strict enforcement of environmental impact assessment (EIA) criteria for all development and industrial projects to minimise their impact on the environment. EIA guidelines for development and industrial projects have been prepared and are actively implemented. Efforts are also underway to promote cleaner and environmental friendly technology to attain the goal of zero discharge from industries. Ensuring environmental sustainability, however, remains severely constrained by the shortage of trained environmental personnel and the limited facilities, data, capacity and capabilities for monitoring and assessing environmental impact. The generally low levels of environmental awareness among the general public, in the private industries and public corporations and agencies are other areas that have been viewed as deserving urgent attention.

Promoting Good Governance

Over the last decade, under the dynamic leadership and guidance of His Majesty the King, Bhutan has further deepened the process of democratisation and implemented far reaching political and administrative reforms to take the country forward into a new era of governance.

In 1998, His Majesty voluntarily devolved all executive powers to an elected Council of Ministers. This was followed by a major restructuring exercise in 1999 to enhance the efficiency, improve transparency and ensure accountability of the government. The establishment of the National

Civil Service Commission and the National Judicial Commission, the appointment of internal auditors in all Ministries of the Royal Government, and the creation of the Office of Legal Affairs were some of the measures introduced to strengthen efficiency, accountability and transparency in government and the rule of law. These initiatives have been appropriately supported by relevant legislation and judicial reforms, which include the Cooperatives Act 2001, the Civil and Criminal Procedure Code 2001, the Jabmi (legal representation) Act 2003 and the Bhutan Penal Code 2004. In all, more than 20 Acts have been introduced over the last five years that will considerably strengthen the rule of law in the country.

The drafting of the country's Constitution on the personal initiative of His Majesty, which began in November 2001, will greatly further the democratisation process in the country. In addition to clearly delineating and defining the legal role and functions of the Monarchy and the three branches of government, the Constitution will formally enshrine the right of every Bhutanese to participate in the democratic governance of the country. The draft Constitution, prepared by a widely representative drafting committee, was presented to the Bhutanese public in March, 2005 and is to be comprehensively discussed with people in all of the country's 20 districts before it is finally adopted.

Following the devolution of powers to the elected Council of Ministers, the traditional consensus system of selecting local leaders was changed in 2002 to a more formal process of local elections based on universal adult franchise. For the efficient and smooth conduct of nationwide elections in the country in the near future, efforts are currently underway to constitute an election commission prior to the adoption of the Constitution.

The active promotion of popular participation in decision making in the planning and implementation of the country's development activities through decentralisation have long constituted a distinctive aspect of Bhutan's approach to development. These sustained efforts continue to receive a high priority and enjoy an important policy focus of the 9th Plan [2002-2007]. The main local institutions at the district and sub-district levels, the Dzongkhag Yargye Tsogdue (DYTs) and the Geog Yargye Tshogchungs (GYTs), have been vested with considerable powers and authorities to enable them to effectively discharge their responsibilities in providing local governance. The GYTs and DYTs now decide on numerous critical local issues as ordained in their relevant GYT and DYT Acts that were revised to reflect these new institutional powers to govern in 2002. These include the power to formulate and implement local development plans; the responsibility for overseeing local service facilities; and the authority to collect and utilize rural taxes, adopt and implement relevant local regulations, appoint local tender committees and award local contract works.

These profound changes in the roles and responsibilities of the local government bodies are appropriately reflected in the fundamental change in the power structure at the local level. The



bhutan national human development
REPORT 2005

chairmanship of the DYT is now held by an elected individual from the DYT and is not, as in the past, held by the Dzongda or district administrator who was a civil servant. The Dzongda now participates in the DYT as an observer and implements the decisions of this elected body.

The decentralisation process has also been complimented with numerous capacity building measures to strengthen the DYT and the GYT. Under a Decentralisation Support Program, necessary local office infrastructure have been built, equipment provided and various study tours and in-country trainings conducted. There are also efforts being undertaken to continually improve communication, interaction and coordination between the center, district and sub-district administrations. The mechanisms for ensuring accountability are being developed and include the strengthening of audit procedures and establishing monitoring and evaluation systems. A Department of Local Governance has also been established to help support and strengthen the overall process of decentralisation, facilitate and manage good governance programmes and strengthen the institutional and human resource development of local governments.

Chapter 3

The state of human development



bhutan national human development
REPORT 2005
the challenge of youth employment

Chapter 3

The State of Human Development

A useful starting point for an assessment of the state of human development progress in a country lies in the consideration of three essential entitlements: *to be able to live a long and healthy life, to acquire knowledge, and to possess resources necessary for a decent life* [HDR, 1990]. Life expectancy, adult literacy and income are thus viewed as critical aspects that fundamentally shape the scope and quality of human choices and capabilities. Progress in furthering the state of human development in Bhutan is now examined through the national achievements in these three areas.

Life Expectancy

A primary goal for human development is for the people to live longer, more productive and more fulfilling lives. The ability and opportunity to lead full, healthy lives contributes critically to the achievement and advancement of the other human development goals.

The goal of Health for All, enshrined in the Alma-Ata Declaration, is implicit in the national plans of all South Asian countries, including Bhutan. The Millennium Declaration also has placed considerable emphasis on the time-bound improvement of a range of health indicators and vital statistics.

Box 3.1

Millennium Development Goals (MDGs)

In addition to national indicators used to measure human development progress, Bhutan has also embraced international benchmarks for improving the quality of life for its people. The adoption of the Millennium Declaration, at the United Nations Millennium Summit in September 2000, sets several numerical and time-bound goals in key development areas. The Millennium Development Goals (MDGs) are about halving extreme poverty and hunger by 2015; promoting gender equality; achieving universal primary education for both girls and boys; reducing under-5 mortality and maternal mortality by two-thirds and three-quarters respectively; halting the spread of HIV/AIDS, major communicable diseases and malaria; ensuring environmental sustainability; and developing a global partnership for development.

The first MDG Report for Bhutan reveals that the country has made significant gains toward achieving the Goals and is potentially on track for most targets. The Report particularly reflects highly commendable progress with regard to environmental sustainability, health and education targets, two of which have already been achieved. The Report further reflects a high level of political commitment and strong policy environment for achieving the MDGs, but strongly emphasises the need for sustained internal efforts backed by adequate support from external development partners.

Life expectancy helps gauge the general health status and quality of life of a population, since it indirectly reflects certain aspects of people's well-being, including their income and nutrition levels, the quality of their living environment, and their access to health care and safe drinking water and sanitation. Life expectancy at birth is defined as the number of years a newly born child would expect to live should prevailing mortality patterns stay the same throughout its life. It does not indicate the number of years an individual may be expected to live, but rather, how long a child born in a particular year could live up to, taking into consideration health conditions prevailing at the time.

Numerous factors influence life expectancy at birth. Major global gains in life expectancy are broadly attributed to improvements in medical technology and treatment; enhanced access to primary health care, safe sanitation and drinking water; and better and balanced nutrition. These health improvements have greatly helped reduce the incidence of child mortality, which has a very strong bearing on life expectancy at birth, since infants and children are often the most vulnerable to death through malnutrition and communicable diseases. Significant improvements in life expectancy around the world, including in Bhutan, have invariably been linked to sharp reductions in child mortality.

Life expectancy in Bhutan is currently estimated at 66.1 years, with life expectancy for men at 66.0 and life expectancy for women at 66.2 years. This is based on the National Health Survey undertaken in 1994. Although no survey data on life expectancy have been collected since then, national health authorities surmise that life expectancy could have increased by several years. This increase is predicated on the fact that the country has continued to experience declines in adult and child mortality rates. Primary health care coverage has also expanded and now covers well over 90% of the country's population.

Because female life expectancy generally outpaces that for males by several years, Bhutan's parity in this regard could indicate unequal health status and access to health services for women and girls. No data are available, however. At the same time, it is estimated that life expectancies in rural regions are lower than in urban areas, based on the comparison of available regional health data.

As recently as 1960, life expectancy in Bhutan was estimated at 37 years. This was not surprising in view of the complete absence of modern health services in the country at the time and extremely high child mortality patterns. Moreover, the national per-capita income, which has a significant correlation with life expectancy, was widely regarded as among the lowest in the world, at around US\$ 51. The improvements in life expectancy and the overall health status of the population after the inception of modern health services in 1961 and the start-up of development activities have been remarkable.



	1984	1990	1994	2000
Life Expectancy (years)	47.4	-	66.1	66.1
Infant Mortality (per 1000 live births)	142	90*	70.7	60.5
Under-5 Mortality (per 1000 live births)	162.4	123*	96.9	84
Crude Death Rate (per 1000 population)	13.4	-	9.0	8.64

Source: Ministry of Health, National Health Surveys

As shown in Table 3.1, the National Health Surveys of 1984 and 1994 reported an improved life expectancy from 47.4 years to 66.1 years. This phenomenal improvement, adding 18.7 years to life expectancy in just over a decade, was the result of massive investments in expanding primary health care coverage. This included the highly successful immunisation programme, which drastically cut down infant and under-5 mortality rates. After the infant mortality rate was halved in that period, from 142 to 70.5 deaths per 1,000 live births, it further declined 14 % by the year 2000, to 60.5 per 1,000 live births. Under-5 mortality rates similarly declined by about 40% during the decade and were reported at 84 deaths per 1,000 live births in 2000.

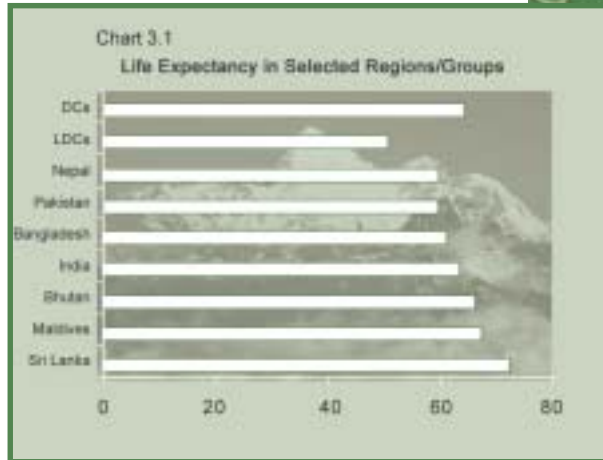
Bhutan's life expectancy of 66.1 years is higher than the regional average of 63 years and the Least Developed Country average of 50.6 years. Furthermore, it is nearly two years above the average for developing countries overall.

Bhutan's projected target is to attain life expectancy of 76.5 years by 2020, which is the 1995-2000 average for all developed countries. Attaining this will require adding an average of six months of life expectancy every year from 2000 to 2020. While ambitious, the target is not unrealistic in view of the continued huge investments being channeled into the health sector and the overall positive public health environment.

Lifestyle Diseases

Life expectancy gains will prove progressively harder to come by as they cross a certain threshold and become less sensitive to mortality aspects. Thereafter, societal lifestyle and behaviours increasingly assume a more significant role in determining human longevity. Thus, while reducing child mortality through the control of communicable diseases is still regarded as the most effective way of enhancing life expectancies in developing countries like Bhutan, the issues of lifestyle and behavioural impact are fast emerging as equally relevant. Indeed, conventional growth models indicate that as a country develops, its disease profile undergoes a change from

one that reflects 'diseases of poverty,' such as diarrhoea, smallpox, polio, malaria and cholera, to 'diseases of affluence,' or lifestyle diseases, such as cardiovascular illnesses. This transformation of the disease profile is known as 'epidemiological transition.' Developing countries such as Bhutan, however, present a picture of incomplete epidemiological transition, where lifestyle diseases coexist with diseases of poverty. This poses a special challenge for public health systems to cope with both disease typologies.



Source :Global HDR, 2004

The growth of lifestyle diseases is already a major cause of concern in Bhutan. With the decline in death rates, the country has started to experience certain signs of the epidemiological transition noted above. Most of the leading causes of death in the past were infectious diseases such as diarrhoea, respiratory infections, tuberculosis and malaria. Even as these remain important causes of mortality and morbidity, lifestyle-related diseases – cancer, cirrhosis and heart and hypertensive diseases – have emerged as prominent health problems since the early 1990s. In 2002 the leading causes of reported deaths in the country were cardiovascular disorders (14.5 percent) and cirrhosis of the liver (9.3 percent). Lifestyle diseases not only reduce life expectancy but can have serious resource implications, since these non-infectious diseases are notoriously expensive to treat.

Box 3.2

Move for Health Campaign

The Move for Health initiative in Bhutan was launched in the autumn of 2002, coinciding with World Health Day celebrations. Besides promoting physical activity, exercise and healthy lifestyles within the country, the Move for Health Walk, undertaken by the Health and Education Minister, Lyonpo Sangay Ngedup, focused national and international support on healthy living and the Health Trust Fund. The campaign successfully raised US\$ 1.7 million, a large part of which came from local contributions.

The Move for Health Walk, covering 550 kilometres from the far east of the country to the west, was an important milestone. The campaign fired the imagination of all Bhutanese. Over the 16-day trek, the Minister and his team reached out to rural communities and spread vital health messages. The effort was also in many ways a testimonial to all local health workers, who provide much-needed basic health services under often harsh conditions.

In many countries, the HIV/AIDS epidemic has, in a very short span of time, devastatingly erased the positive gains in life expectancies achieved over several decades. Not only have life expectancies decreased in these countries but this lifestyle disease has also deeply affected their social and economic development. While Bhutan still has a relatively low prevalence of HIV/AIDS, there is nevertheless a growing concern about the rising trend of HIV infection, as more and more cases are detected each year.

The HIV/AIDS epidemic in the country appears to be in an early phase and is referred to as a “nascent low-grade HIV epidemic.” Even as the numbers in themselves are small with a total

Box 3.3

Bhutan's Tobacco-Free Initiatives

Realising the grave dangers and damaging effects of tobacco use on health, longevity and quality of life, Bhutan has actively promoted anti-tobacco campaigns at both the national and international levels. The country has won numerous commendations and awards for its efforts and was among the first to sign the global Framework Convention on Tobacco Control. On 17 December 2004, Bhutan became the world's first nation to introduce a complete ban on tobacco sales, following a resolution taken by the National Assembly. Smoking also is now restricted to private areas.

Tobacco use has steadily increased in recent years, particularly among the younger generation, who constitute a large part of the country's population. In addition, the rapid rise of lung cancer and other tobacco-caused illnesses have emerged as major causes of concern. This constitutes a serious health challenge, not only from a medical perspective, but from the real possibility that these preventable lifestyle diseases could create a major economic burden on limited health resources.

With the promotion of healthy lifestyles as a strategic health policy direction in the early 1990s, tobacco control was identified as a priority focus area and was extended the highest level of political commitment. A tobacco control programme was launched in 1998 that introduced several new initiatives and integrated past tobacco control measures in a more focussed, sustained manner. Multi-sectoral task forces at the district level also were set up to implement programme activities and mobilise grassroots support.

A key element in implementing anti-tobacco initiatives was to actively involve the Buddhist clergy, considering their strong moral influence and given that religious and cultural traditions in Bhutan have always strongly opposed tobacco use. This fusion of religious beliefs and basic health care education worked particularly well and is widely acknowledged by national health authorities to have contributed to significant declines in smoking in the country.

The success of tobacco-free initiatives in Bhutan also may be attributed to the fact that regional prohibitions on tobacco sales, which preceded the nationwide ban, were initiated and enacted by local communities themselves. Without full support at the grassroots level and the use of religion as an effective medium of education, it is unlikely that the tobacco-free initiatives would have been as successful as they have proven to be thus far.

number of 72 detected cases as of February 2005, the situation represents a rapidly rising trend of HIV infection. Additionally, the country also faces several risk factors.

The Royal Government has consequently initiated several programmes to promote healthy lifestyles as a strategic health policy direction. Among some of the most innovative were the Move for Health initiative and the anti-tobacco and tobacco control campaigns [See Boxes 3.2 and 3.3], which have brought the issue of healthy living to the national forefront. At the same time, however, the Royal Government will need to focus proactively on public recreation management through further support for physical education, sports and tourism to promote development of healthy lifestyles.

HALE: Health-Adjusted Life Expectancy

HALE, or Health-Adjusted Life Expectancy¹ is a summary measure based on life expectancy at birth with an adjustment for time spent in ill health. This composite measure is broadly understood as the equivalent number of years in full health that a newborn can expect to live, based on current rates of ill health and mortality. The gap between total life expectancy and healthy life

	Life Expectancy		HALE		Expectation of lost healthy years	
Bangladesh	62.6		54.3		8.3	
	M62.6	F62.6	M55.3	F53.3	M7.3	F9.3
Bhutan	61.3*		52.9		8.2	
	M60.2*	F62.4*	M52.9	F52.9	M7.3	F9.5
India	61.0		53.5		7.5	
	M60.1	F62	M53.3	F53.6	M6.8	F8.4
Maldives	66.1		57.8		8.3	
	M66.5	F65.6	M59.0	F56.6	M7.5	F9.0
Nepal	60.1		51.8		8.3	
	M59.9	F60.2	M52.5	F51.1	M7.4	F9.1
Pakistan	61.4		53.3		8.1	
	M61.1	F61.6	M54.2	F52.3	M6.9	F9.3
Sri Lanka	70.3		61.6		8.7	
	M67.2	F74.3	M59.2	F64.0	M8.0	F10.3

Source: The World Health Report 2004

¹ Alternatively referred to as Healthy Life Expectancy

expectancy represents the lost years of good health due to diseases and injuries. As such, the measure goes beyond simply assessing survival rates and takes into consideration the burden of ill health, thereby incorporating a highly relevant qualitative aspect to longevity.

The World Health Organization (WHO) has published estimates of health-adjusted or healthy life expectancy for member countries in its annual world health reports. In the WHO World Report 2004, Bhutan's health-adjusted life expectancy is assessed at 52.9 years, with 8.2 years lost in ill health.² Bhutan's HALE figures are broadly in line with the South Asian average, as noted in Table 3.2.

The national health system currently does not use the HALE indicator for gauging the health status of the population. However, as an integrated indicator, this could be highly relevant in developing health strategies to further promote health in Bhutan. The measure has been found useful in many countries to assess the impact of health promotion and prevention policies as well as overall performance levels of the health system. Furthermore, this could be considered a relevant health-based indicator for measuring GNH, as it would provide a more complete picture of the full health experience and health status of Bhutanese.

Education and Literacy

Knowledge constitutes a critical and fundamental dimension of human development and has a vital bearing on achievement of other human development goals. Particularly in today's information society and era of globalisation, education is essential to expanding life opportunities and for enlarging people's choices to live dignified lives. In this sense, education is truly regarded as the royal road toward the empowerment of people.

Numerous empirical studies clearly show the vital role that education plays in accelerating economic growth and raising productivity. Furthermore, education contributes to generating sustainable livelihoods and employment opportunities. Various studies reflect that a 20 to 30 % increase in literacy levels can produce as much as 8 to 16% gain in GDP. One of the most important factors in explaining the East Asian 'economic miracle' was the rapid spread of basic education. In South Asia as well, a significant portion of GDP growth in several countries is linked to improved educational attainments. More importantly, because low educational attainment is one of the root causes of human and income poverty, promoting education/opportunities for all constitutes an obvious long-term solution. [See Box 3.4]

In addition to providing a sound basis for sustained, equitable economic growth, education imparts numerous social benefits. Proper education can lead to significant improvements in

² WHO uses a Bhutanese life expectancy figure of 61.3, compared to the national figure of 66.1

Box 3.4

The Link Between Education and Poverty

As in many other countries, poor educational attainments are closely linked to the incidence of poverty in Bhutan. The Royal Government's Poverty Analysis Report 2004 provides several key findings on the strong correlation between education and poverty in Bhutan, some of which are highlighted here:

- (Considerable gap in rural-urban enrolment rates [incidence of poverty deeper and more acute in rural than in urban areas]
 - 80% gross primary enrolment rates in rural areas, compared to more than 100% in urban areas
 - 65% net primary enrolment rates in rural areas, as compared to 89% in urban areas
- (Lower rates of participation in school by children from poor households, compared to those from non-poor households
 - Only 60% of poor children attend primary school, compared to 80% of non-poor children
 - Less than 40% of poor children attend secondary school, compared to 77% of non-poor children
 - School participation rate for the richest quintile is 30 percentage points higher than for the poorest quintile
- (Affordability issues constitute the major reason for children not attending school in both rural and urban areas
- (Lower educational attainments for poor, compared to the non-poor
- (Significant declines in poverty incidence with increase in education levels
- (Higher educational attainments of household heads translates into less chances of household being poor
- (A mid-secondary-level education is adequate to raise welfare levels above the national poverty line

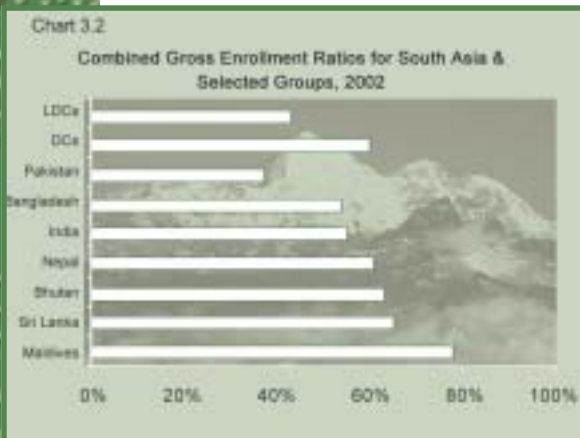
Although Bhutan is fast approaching its education goals, these findings reveal that significant income-related inequalities exist in the access to education. This must be addressed promptly if equal educational opportunities are to be ensured for all and poverty eradicated quickly.

health and nutrition status. For instance, a strong correlation exists between parents' education and child mortality rates, with the latter dropping sharply as education levels increase. This is particularly true in the context of a mother's education, wherein one year of a mother's education translates into a 9% decrease in under-5 mortality. Similarly, female literacy is strongly associated with dramatic declines in fertility rates and overall reductions in population growth rates. Education and literacy also crucially influence grassroots involvement in national and local decision-making and development activities.

Aware of these long-term, widespread socio-economic benefits, the Royal Government has placed a very high priority on education from the inception of planned development. Public expenditures on education have always constituted more than 10% of the national budget and in the current 9th Plan rose to 14.5% of the total budget. Significant and sustained investments in education have yielded high returns that are reflected in improved school enrolments, most notably at the primary level.



School Enrolment at Primary, Secondary and Tertiary Levels

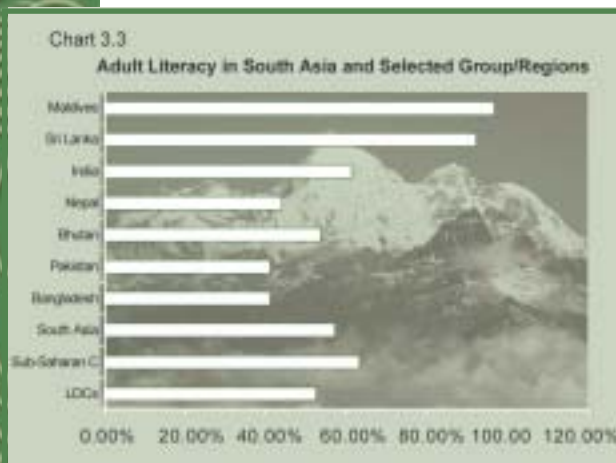


Source :Global HDR, 2004

The combined gross enrolment ratio is one of the two indices used for measuring educational attainment under the HDI. This ratio in Bhutan for all education levels in 2003 was assessed at 62.9%, up from 44% as recently as 1998. The major gains were essentially made at the primary levels, reflecting the Royal Government attaching the highest priority to expanding basic primary education.

Adult Literacy

Literacy is a basic condition for education and constitutes the first step toward learning and building an individual's education. Adult literacy levels provide a useful indication of access to education and thus constitute an important measure of educational attainment under the human development framework.



Source :Global HDR, 2004

The Gross Primary Enrolment Rate (GPER) in schools has grown steadily, from 65% in 1990 to 81% in 2003. In 2004, the GPER was assessed at 84.2%. Annual growth in primary enrolments averaged between 6 to 7% over the last decade, although this has been erratic.

At the secondary level, gross enrolment ratios in 2003 were 45.4% overall, with 49.4% for boys and 41.7% for girls. At the tertiary level, gross enrolment was estimated at 8.3% overall, with 10.8% for males and 6.4% for females; however, enrolment growth for females at this level has been nearly twice as fast as for males between 1991 and 2002.

The national adult literacy level is currently assessed at 54%. By both regional and international standards, and even allowing for significant national variations in assessing literacy levels, an adult literacy rate of 54% for Bhutan is low. South Asian countries as a group have the lowest reported adult literacy levels in the world, but Bhutan's adult literacy level is below the regional average of 57.6% and only marginally above the LDC average of 52.5% [See Chart 3.3].

Box 3.5

Literacy Through Non-formal Education

The National Women's Association of Bhutan and the Department of Education initiated the Non-Formal Education Programme in the country with the establishment of six pilot centres in 1992, serving around 300 women learners. The objective was to empower illiterate youths and adults who had either dropped out of, or never attended, formal schools, and to help improve the quality of their lives by providing relevant life skills through literacy. The NFE programme was then subsequently expanded in the 8th Plan as a means to remedy low adult literacy levels.

In little over a decade, the programme has grown exponentially, due to both increasing popular demand for non-formal education and the high policy priority that adult literacy has received. The programme now encompasses 365 centres and 15,866 NFE learners. Enrollment continues to grow more rapidly each year, with 68% of the fresh intake being women and girls. The programme has further expanded from basic literacy classes to include both post-literacy and self-learning courses.

NFE classes are mostly held in the evenings. Within the core curriculum, participants are taught about health and nutrition, hygiene, birth control, the importance of education, and other important health and social themes, with a practical view to directly improve the conditions of students' everyday lives. IT resources for NFE students are soon to be introduced in several centres. This is expected to add yet another dimension to adult education and to help improve learning.

A measure of the success of the NFE programme is reflected in the fact that among many NFE graduates are several women who have gone on to become parliamentarians at the National Assembly. As representatives of their communities, they are regarded as role models and have motivated many others to become literate. The programme has been highly regarded by local communities and its benefits widely acclaimed by participants themselves. In the words of Karma, an NFE learner in Monggar:

"I did not know anything before. Now I can read and write. I am not confused while travelling, can read vehicle numbers and signboards, do some basic calculations, and am independent. We are thankful to our teacher and to the Royal Government for this chance."

Marked differences also exist across gender, districts, and rural/urban areas. The gender and rural-urban differences are most striking: literacy levels in urban areas are 80%, compared to rural areas, where it is only 33%. Female literacy levels are similarly much lower than for males, though this figure has improved. The low level of female literacy assumes particular importance since it is widely regarded as perhaps the most significant factor in development.

The Bhutan 2020 Vision document projects eradicating adult illiteracy by 2017. Given the current low levels of adult literacy, however, attaining the goal of literacy for all in the next 12 years will require a massive, sustained effort on the part of both the Royal Government and local communities.



While providing universal primary education is considered the fundamental basis for imparting literacy, the growing numbers of out-of-school illiterate youth and adults in the country have created a great demand for alternative forms of learning. Non-formal education in Bhutan was initiated in 1992 with very modest beginnings as a pilot activity [See Box 3.5], but has since grown exponentially and constitutes a critical programme area for the Ministry of Education. In addition, the eradication of illiteracy through the NFE programme constitutes a strategic education policy direction.

Tackling adult illiteracy in Bhutan will not only require a significant expansion of and qualitative improvements to the existing NFE programme, but will also require numerous basic literacy campaigns and drives, targeting 'hidden illiterates' and regular monitoring through timely surveys and studies. These will need to be complemented by improving the quality and efficiency of primary-level education, reducing school dropouts and supporting out-of-school and lifelong education. Considerable efforts and initiatives have already been undertaken in this regard but require greater social mobilisation to translate into the significant gains needed.

Income

While income growth in itself does not capture the full complexity of human life, nor is it regarded as the sum of all human endeavour, it is still seen to be an important contributor that directly increases human capabilities and choices. Income levels have a direct, significant impact on the progress of the human development situation in a country, although in calculating for it within the HDI it is appropriately given progressively diminishing weight. Income, moreover, provides the material basis for improving the quality of human life and well-being, given that the availability or non-availability of public and private expenditures influences health and educational attainments. As such, income facilitates and indirectly determines the outcome of other human development objectives. As in many other countries, the rapid growth in national income has actually made it possible for Bhutan to channel these resources sustainably to support the country's vital social goals.

Per-Capita Income

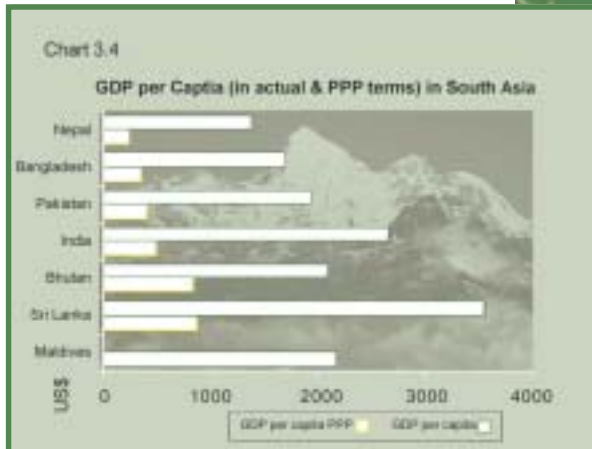
Bhutan's GDP per-capita income has been growing rapidly and consistently. In 2003, the GDP per capita was measured at US\$834 in absolute terms and US\$2,060 in purchasing power parity (PPP) terms. This may be compared to low GDP per-capita figures of US\$51 in 1961 and US\$116 in 1980. Since 1990, GDP per capita has been growing at an average of 22%, although this has only been around 3% in real terms. This growth can be attributed primarily to increase in the country's overall Gross Domestic Product, driven largely by mega-hydropower investments and electricity export revenues.

The growth in per-capita income is among the more rapid in the South Asian region. Bhutan's GDP per-capita income is also high in comparison to the regional average of US\$516 and close to that of Sri Lanka. In PPP terms, however, it is considerably lower, reflecting a much lower purchasing power.

Household Income

As noted earlier, Bhutan has substantial elements of GDP generated through electricity production, related power-intensive industries and hydropower construction activities. Hydroelectricity sales alone account for around 38% of the total national revenue.

Hydroelectricity GDP and related aggregates ultimately feed into higher levels of domestic income that is available for expenditure, but these do not necessarily translate into larger household incomes. Hence, the GDP per capita in both real and PPP terms tends to mask the situation of real income levels, since it includes the large corporate incomes that comprise a significant part of the national income. As such, this does not accurately convey a living profile of socio-economic conditions nor reflect the distribution of income in Bhutanese society. Thus, a treatment of household per-capita income is essential to offer a more balanced picture of living standards and true income levels and their distribution.



Source :Global HDR, 2004

The Bhutan Living Standards Survey 2003 reports average per-capita household expenditures³ at Nu. 20,737 per year. This is a little over US\$1 a day. The per-capita expenditure may be assessed against the national per-capita income figure of Nu. 40,598, or US\$ 834, a figure that is nearly twice as much. As such, real income per capita at the household level is much lower than national income would suggest. This is particularly low in the context of rural households, where the per-capita income is less than half of urban households. As mentioned earlier, this large difference is explained by the large public corporate incomes that accrue to the GDP.

The impact of a household's income on human development depends not just on income levels, however, but also on how households choose to spend it. Most Bhutanese households spend more than one-third of their income, or 35.6%, on food. In rural Bhutan, food expenditures account for 39.3% of total expenditures, while urban populations spend 28.4% of their income on food. This large share of expenditure on food reflects a similar pattern in many poor countries, though this is relatively less pronounced in Bhutan's context.

³ The National Statistical Bureau determines household income using the proxy measure of household expenditures.

bhutan national human development REPORT 2005

The other significant expenditure for households in Bhutan relates to housing/rental expenses, constituting 27% of total expenditures in both rural and urban areas. Expenditures on clothing and footwear were assessed at close to 10%. Not surprisingly, expenditures on health and education are nominal at 1.3% and 2.85%, given the availability of free education and health services. Although incidental private expenditures on education may represent a low figure in terms of percentages, in real terms this has been found to be highly significant, since the lack of affordability of education constitutes the major reason why students do not attend schools or drop out.

In general, the levels of national household income and expenditure patterns broadly reflect a subsistence-style livelihood, particularly in rural areas where close to 80% of the population lives.

Bhutan's Human Development Index

Table 3.3 Human Development Indicators for Bhutan 2003

Life expectancy at birth (yrs)	Adult literacy rate (%)	Combined gross enrolment (%)	GDP per capita (US\$)	GDP per capita (PPP US\$)
66.1	54	63	834	2,060

The Human Development Index is an internationally recognised calculation of several individual development indicators measuring achievements in levels of human well-being. As noted at the beginning of this chapter, the basic three indicators that comprise the HDI are longevity, as measured by life expectancy at birth; educational attainment, as measured by adult literacy and the combined primary, secondary and tertiary enrolment ratios; and command over resources required for a decent living, as measured by purchasing-power-adjusted real GDP per capita.

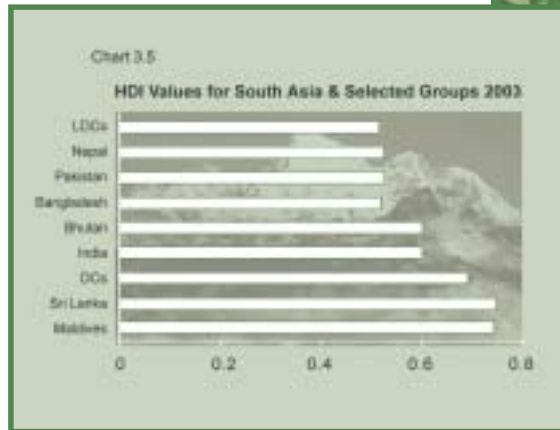
Bhutan's HDI value for 2003, at 0.583 [See Table 3.4], reflects a medium level of human development. This is slightly higher than the value reflected in the Global Human Development Report 2005, which calculates the HDI for Bhutan at 0.536⁴.

Table 3.4 Components of the Human Development Index for Bhutan 2003

Life expectancy index	Adult literacy index	Combined gross enrolment index	Educational attainment index	GDP per capita (US\$ PPP) index	Human development index
0.685	0.540	0.630	0.560	0.503	0.583

⁴ The variations stem from differences in values for all three indicators. See Technical Appendix for further details.

The basis for comparison in the HDI are by no means ideal, but still provide a useful perspective on where the country broadly stands in relation to other countries. On this basis Bhutan ranks 129th among 177 countries and is placed in the group of medium human development countries. It enjoys relatively higher human development levels compared to the Least Developed Countries as a group, but scales at 85% of developing countries and 62% of developed countries. In South Asia, Maldives, Sri Lanka and India are better placed than Bhutan in terms of HDI value and rankings, while Bangladesh, Pakistan and Nepal are behind it [See Chart 3.5].



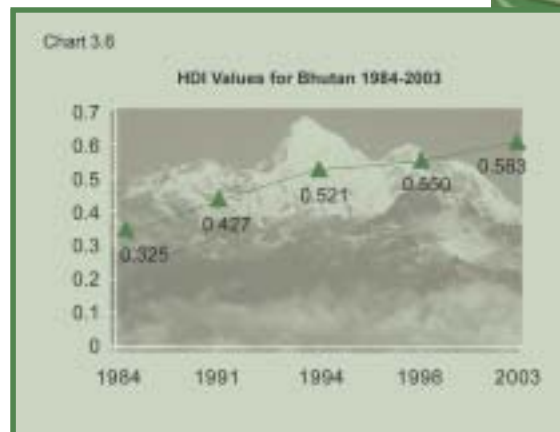
Source :Global HDR, 2005

Among the HDI components, Bhutan fares best on life expectancy. Its average of 66.1 years is comparable with Indonesia, Kazakhstan, Russia, and Maldives, countries with much higher HDI values. Bhutan also fares reasonably well in the per-capita income index. Bhutan's per-capita income of US\$ 834 in real terms compares with income levels in Sri Lanka and Indonesia. However, in PPP dollars, it is more at par with countries with much lower GDP per capita, thus reflecting the high cost of living compared to its neighbours.

In the educational components, Bhutan does much better on enrolment than on adult literacy. As detailed above, the combined enrolment ratio increased significantly from 44% in 1998 to 63% in 2003, mostly because of increased primary enrolment rates. However, Bhutan's adult literacy rate of 54% is low, even in comparison with many countries with significantly lower human development levels.

Trends in HDI

The HDI values for Bhutan between 1984 and 2003 [Chart 3.6] reflect a rapid, sustained improvement in human development throughout this period. Nonetheless, gains in human development appear to be gradually slowing, as earlier gains were essentially derived from a smaller base.



A closer look at the indices demonstrates that the attainments for health and income are relatively more positive than for education. This is largely due to the continuing low levels of adult literacy and enrolment rates at the tertiary level, both of which constitute critical areas that need priority attention. The indications are

bhutan national human development REPORT 2005

that future gains in HDI will all probably derive from sustained GDP per-capita growth. Should Bhutan attain the development targets established in its various policy documents, most notably the Bhutan 2020 Vision targets, the country could well reach the current HDI values of Sri Lanka and Maldives, both over 0.740, by 2015-2020. This will, however, require a doubling of GDP per capita in PPP terms, to around US\$4,000; attaining a combined enrolment ratio of more than 80% and adult literacy levels of 70%; and increasing life expectancy at birth to 76 years or more. An annual increase in value of 1.5% to 2.5% of the current national HDI would be adequate to cross the 0.700 level in the next 15 or 10 years respectively.

Bhutan's Human Poverty Index (HPI)

Table 3.5 Components of the Human Poverty Index for Bhutan 2003	
	2003
Probability at birth of not surviving to age 40	17.3%*
Adult Illiteracy	46%
Deprivation Levels	
- Population without access to safe drinking water(%)	22%
- Underweight children under-5(%)	19%
Human Poverty Index (HPI) Value	33.34⁵
Population below the national poverty Line	31.7%

*Source: Global HDR 2004

A highly useful measure developed for the Global Human Development Reports was the Human Poverty Index, or HPI-1. [See Table 3.5]. For the first time, Bhutan's HPI-1 value is presented. The HPI-1 value for Bhutan for 2003 was estimated at 33.34.⁶ Based on this value, the global ranking for Bhutan would be 61 from among 103 developing countries of the HPI-1 category that excludes developed countries.

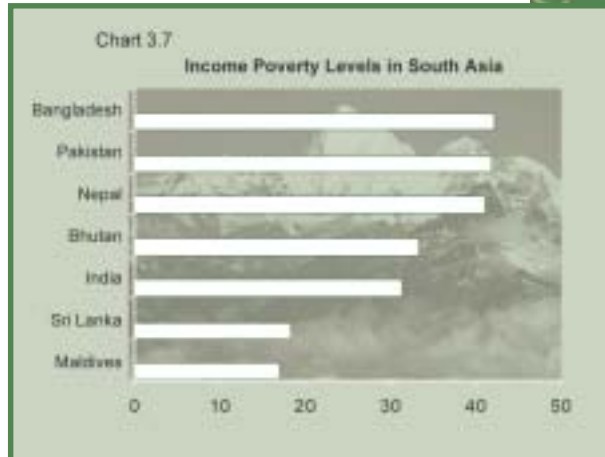
Income Poverty

The combined measures of both human and income poverty generate a more complete picture of poverty, as the latter adds an important aspect of the incidence of poverty and a headcount of those living in poverty. Income poverty in Bhutan is measured by the percentage of the population living below the national poverty line, reflected in the last row in Table 3.5.

⁵For an explanation on how the HPI-1 was calculated, see Technical Notes 2.

⁶ Higher scores reflect a greater degree of human poverty, while lower scores translate into lesser extents of human poverty.

The most recent official estimate of the percentage of Bhutanese people living below the national poverty line was 31.7% in 2003. A timeline for poverty cannot be constructed, given that poverty was not measured in the past. However, the pilot Household Income and Expenditure Survey Report 2000 made a preliminary estimate that 36% of the country's population lived below the national poverty line. Using that figure with caution, it may be assessed that income poverty has decreased slightly since 2000. Further details on the poverty situation, including income poverty, are detailed in Chapter 5: Addressing Key Challenges.



Source :Global HDR, 2004

Box 3.6

Human Poverty - Going Beyond Income Poverty

The notion of human poverty, first introduced in UNDP's Global Human Development Reports, was a logical extension of the human development concept and deeply rooted in it. The human poverty approach articulates the need to expand on the traditionally narrow definition and measurement of poverty beyond a simple assessment in terms of shortfalls in income or consumption.

Like the HDI, the HPI essentially measures the same three basic dimensions of longevity, knowledge and a decent standard of living. But unlike the HDI, it measures the deprivations relating to those basic needs, rather than their achievements. The first aspect relates to the extent of human survival and is measured by the percentage of people not expected to live beyond 40, a relatively early age to die. The second relates to knowledge and is measured by the percentage of adults who are illiterate. The third pertains to a decent standard of living; here the deprivations are measured not in the context of income, but in terms of the percentage of people without access to safe drinking water and the percentage of under-5 children who are underweight.

In Bhutan, poverty has been similarly defined and understood in a broader perspective that includes key aspects of human poverty. However, the poverty indicators used are essentially income-/consumption-related, and there are no composite human poverty indicators in use like the HPI. The HPI, in conjunction with other income poverty indicators, could serve as a useful policy tool for understanding and addressing poverty in the country and mobilising public opinion and support.

bhutan national human development
REPORT 2005



Chapter 4

Addressing key human development challenges



bhutan national human development
REPORT 2005
the challenge of youth employment

Chapter 4

Addressing Key Human Development Challenges

Even as Bhutan's improvement in human development levels has been rapid and impressive, the country still faces numerous constraints and challenges that could hinder further advancements. Some constraints, such as the harsh mountainous terrain and the highly dispersed pattern of settlements, remain perennial difficulties that limit the delivery of social services (*distance measured in hours rather than kilometres*) and greatly escalate development costs. These constitute an unchanging geo-physical reality and require sustained policy attention. In addition, as the country works toward ensuring sustainable human development and broad-based socio-economic progress, a new set of complex challenges have emerged – and more will follow. Many of these challenges are the consequences of the development process itself and the metamorphosing global scenario.

This chapter analyses some of the more pressing internal challenges that could adversely impact human development progress in Bhutan. In particular, this includes the need to address prevailing social and economic disparities, not only between geographical regions but also among segments of the population. The challenge is also one of expanding human capabilities through enhancing both these capabilities and access to resources and employment opportunities. Poverty alleviation; the reduction of rural-urban disparities in access to health; education and income opportunities; and the creation of employment, particularly youth employment, have all been identified in the Royal Government's recent policy documents as closely interlinked challenges that could impact life opportunities and human capacities. A closely related and crosscutting issue that deserves urgent policy attention is that of adult illiteracy, particularly for women.

Poverty

From the human development perspective, poverty is understood to be a state in which 'opportunities and choices most basic to human development are denied' (UNDP, 1997). Freedom from poverty is essential for human development, since poverty denies people the opportunity to enjoy long, healthy and dignified lives and fundamentally restricts their life choices. This shifts the focus of poverty from lack of income to capability deprivation. In the Bhutanese development policy, poverty is viewed similarly from a multi-dimensional perspective and includes both income and human poverty aspects. The challenge of poverty alleviation in the country is discussed broadly from these standpoints.

On the basis of data from household consumption expenditures, the Poverty Analysis Report 2004, states that 31.7% of Bhutanese live below the national poverty line. This means that 232,859 people had less than Nu. 9,000, or US\$200, to spend a year and did not consume more than 2,124 kilocalories per day. This presents a dire picture of income poverty in the country that is not readily visible.

The Poverty Analysis Report further highlights that 38% of the rural population is poor and that poverty is essentially a rural phenomenon, because its incidence, intensity and severity are more pronounced in rural than urban areas. The Bhutan Living Standards Survey 2003 also indicates that the average rural income constitutes less than half (45%) of the average urban income. This constitutes a major concern, given that almost 80% of the people live in rural areas. This does not indicate that poverty is not prevalent in urban areas, but that it is comparatively less severe and affects only 4.2% of the urban population. Indeed, with rapid

Table 4.1	Poverty Incidence (% of population)	Poverty Incidence (% of households)	Population Share (%)
National	31.7	24.7	100
Urban	4.2	3.0	19.2
Rural	38.3	31.6	80.8
Zone			100
Western	18.7	12.7	40
Central	29.5	22.2	26
Eastern	48.8	39.9	34

Source: Poverty Analysis Report, 2004

urbanisation of the country, urban poverty could emerge as a potentially serious challenge in the near future.

In addition, poverty is more pronounced in the eastern zone than in the western or central zones [See Table 4.1]. Roughly half of the eastern zone population can be regarded as poor, with around 40% of all central households living in poverty. As compared to the eastern region, less than one-third, or 29.5%, of people in the central region are poor, while a little more than one fifth (22.2%) of their households are poor. The western zone posts the lowest poverty incidence, for 18.7% of the population and 12.7% of households.

Other pertinent findings of the poverty situation in Bhutan are highlighted here:

- (Incidence of poverty increases as size of households increases. Poor households on average comprise 6.6 persons, non-poor households, 4.6 persons
- (Age dependency ratio of poor households is 83%, compared to 68% for non-poor households
- (The higher the level of educational attainment, the lesser the probability of the household being poor
- (Completion of middle school education is generally sufficient to raise the individual welfare level above the poverty line



bhutan national human development
REPORT 2005

- (The school participation rate is considerably higher for non-poor and in urban areas, compared to the poor and in rural areas, for all age levels
- (Issues of affordability constitute the main reason given by students for not attending schools and/or dropping out, in both rural and urban areas
- (The Gini coefficient at the national level – a key poverty indicator – has been assessed at 0.416 overall, with 0.374 in urban areas and 0.381 in rural areas
- (Expenditures for food account for 50% of all household expenditures, with rural poor spending 59.3%
- (Agricultural activities constitute the major source of income for 95% of the poor
- (Food poverty is non-existent in urban areas, compared to 4.7% in rural areas
- (Levels of access to safe drinking water and electricity are lower for poor than for non-poor

One notable aspect of poverty in Bhutan is that most of the poor suffer from limited access to basic services such as roads, electricity, safe drinking water and improved sanitation, although the provision of these services has risen dramatically over the years. But the poor also generally lack adequate access to, and use less of, available health and education services. The Poverty Analysis Report 2004 further depicts the poor in Bhutan as characterised by the lack of basic education, large household sizes, rural residency, geographical isolation, low resource base and dependence on subsistence agriculture.

Rural-Urban Disparities

The theme of balanced regional development has been an important objective of Bhutan's development plans. The Royal Government continues to make major efforts to provide rural communities with the social and physical infrastructure required to raise standards of living and to improve the quality of life. Despite these efforts, the situation of uneven development patterns persists and requires sustained attention. Poverty in Bhutan is often regarded as synonymous with the relative underdevelopment and deprivation of rural areas. At the same time, this situation of unbalanced development is an outcome of the geo-physical reality of the country, which results in high transportation costs, prohibitively high expenditures for the provision and maintenance of rural socio-economic infrastructure and services, and disproportionate economies of scale.

The challenge of alleviating poverty and advancing human development as a whole will depend to a large extent on the Royal Government's success in tackling rural poverty and reducing the significant socio-economic disparities between rural and urban areas. We now examine both income and non-income dimensions of this disparity and available social indicators for Bhutan's rural and urban areas.

Table 4.2 Education Indicators	Rural	Urban
Gross Primary Enrolment Rates	88.3	109
Gross Lower Secondary Enrolment Rates	47.66	84.79
Gross Middle Secondary Enrolment Rates	36.93	77.52
Gross Higher Secondary Enrolment Rates	7.03	39.9
School Participation Rate (6-12)	65.3	89
School Participation Rate (13-19)	46.3	77.3
Adult Literacy Rate	33%	80%

Source: BLSS (2003), PAR (2004)

As noted above, overall living standards in rural areas are significantly lower than in urban areas. With regard to Income poverty, 40% of the rural population lives in poverty and 4% in subsistence poverty, compared to 5% and 0% in urban areas. Consumption patterns, as reflected in the Bhutan Living Standards Survey 2003, also show an apparent spatial disparity, with consumption levels in urban areas more than twice that of rural areas. Furthermore, in rural areas, expenditures on food constitute a much higher percentage of the total consumption, reflecting a subsistence level of livelihoods that is entirely absent in urban Bhutan.

The BLSS 2003 likewise reflects a considerable gap in access to education between rural and urban areas, as reflected in the gross and net enrolment rates for primary and secondary levels [See Table 4.2], school attendance and literacy levels. This is most keenly accentuated as education levels increase, with rural enrolment rates at the higher secondary level comprising less than one-fifth that in urban areas. Reasons given by students in rural areas for not attending schools were the inability to afford the incidental costs of education, the need to work to augment household income, domestic problems, and the distance to school. Reflecting these comparatively lower rural school participation figures, close to 90% of all rural household heads have no schooling. Not surprisingly, the adult literacy rate for rural Bhutan, at 33%, is not even half that in urban areas, at more than 80%.

In addition, rural areas have much poorer access to and lower levels of use of health services, although precise figures are not available to support this. This may be attributed primarily to distance factors that greatly hinder delivery of and access to basic health services. Moreover, the health infrastructure available for rural populations and the quality of health services differ, since most doctors and hospitals are in urban or semi-urban areas.



Employment

The generation of employment opportunities is key to any human development strategy. In addition to being the basic source of income for individuals or households, employment contributes to national economic growth. It likewise is highly pertinent to any realistic strategy for alleviating poverty. Gainful employment also contributes to social integration and thus enhances human self-fulfillment, dignity and happiness.

The employment issue for youth in Bhutan is relatively recent, but one that is acquiring greater prominence. While the economy has grown steadily, the growth process has largely been capital-intensive and urban-centric, which has not helped generate adequate employment opportunities. This issue is treated in greater detail in Part II of the Report.

Policy Implications and Considerations

The Royal Government's macroeconomic and development policies have been pro-poor in spirit ever since the inception of development planning. The Five-Year Plans have at all times strongly emphasised the need for balanced, equitable development and attached a high priority to improving the welfare and living standards of the rural poor. These priorities have been consistently reflected in allocations in the national budgets. For instance, in the Ninth Plan more than 24% of the allocation was earmarked for district-level development activities. This figure would be even higher if it included the central budgets that are primarily intended for district and rural-based development programmes.

However, specific or targeted poverty reduction interventions have not been made; instead, poverty alleviation has been addressed through increasing broad-based access to social services, directing significant investments into rural development and agriculture, and promoting income and employment-generation activities. Now, poverty reduction through employment generation must emerge as a specific priority with focussed interventions, particularly for those living below the subsistence poverty line and for the most needy and vulnerable. In particular, the policy to strengthen rural infrastructure, especially roads, will significantly improve livelihood opportunities along with access to and use of crucial social services and these must be reinforced further.

Due consideration also must be given to macroeconomic policies that promote pro-poor growth [See Box 4.1]. A pro-poor growth orientation must include the encouragement of higher labour absorption intensity and the creation of gainful employment opportunities, in addition to continued high levels of public expenditures in the social sector and sustained investments in the agriculture sector. In Bhutan's context, the realistic pursuit of such a pro-poor growth strategic

approach is made all the more feasible and sustainable based on resources from the harnessing of the country's vast hydropower potential.

Box 4.1

Pro-Poor Growth

Pro-poor growth encompasses varied definitions and interpretations. Generally defined, it is understood as broad-based or equitable growth that benefits the poor disproportionately more than the rich and provides them with real opportunities to improve their economic welfare. While pro-poor growth is concerned with the inter-relationship among growth, poverty and inequality, many definitions now also include the crucial aspect of employment, which provides the strategic link between growth and poverty alleviation.

Pursuing pro-poor growth calls for a strategy that explicitly favours the poor in order to prevent the widening of inequalities. Such a strategy is essential if poverty is to be reduced further. In addition, when economic growth generates increased employment among the poor and in sectors important to them, this can greatly help alleviate poverty, since labour constitutes the poor's prime asset.

Bhutan's overall growth pattern has been pro-poor, even as the structure of the growth has been highly capital-intensive. This has been possible due to the Royal Government's redistributive policies through massive social and rural investments, which have mitigated the degree to which human poverty levels would otherwise have prevailed. This must be strengthened and incorporated formally in any poverty reduction strategy. Specifically, the role of employment generation as an important aspect of promoting pro-poor growth has not figured adequately in the poverty reduction strategy thus far, and its importance cannot be understated.

Pro-poor growth in Bhutan can be pursued further through infrastructure development in rural areas: principally roads and market infrastructure, investments in rural enterprises that promote rural incomes and employment and increased investment in agriculture. Sustainability will come through the rechanneling of vital resources arising from hydropower generation.



PART II

The Challenge of Youth Employment

Chapter 5 Youth employment



bhutan national human development
REPORT 2005
the challenge of youth employment

Youth employment has emerged as a major development challenge globally. Young people worldwide account for 18% of the economically active population but constitute more than 40% of those unemployed. The fact that the youth enter the workforce 'at the end of the queue,' and naturally have relatively lower skill levels and experience than older groups, tends to place them at a structural disadvantage in the labour market. On the other hand, social and emotional integration of youth is essential for sustaining the very fabric of society. Therefore, it is imperative to design and implement strategies for youth employment. This is especially so for developing countries like Bhutan, which have much higher percentages in the age group 15-24 – and larger numbers still to become economically active as enrolment rates and pass percentages increase. Thus far, the rapid growth of Bhutan's economy has not translated commensurately into an expansion of employment opportunities. With more than 40% of the population aged 15-24, unemployment among youth accounts for a major portion of total unemployment, which has been growing steadily. With the rapid economic and social changes, the transition to the workplace is no longer as easy and assured as it used to be, and Bhutanese youth are finding it progressively more difficult to secure a first job.

In the future, the employment scenario for Bhutanese youth appears even more grim, given the limited absorption capacity in the public and private sectors, traditionally the largest formal sector employers and the more popular workplace choices for youth. This is further compounded by the ever-increasing flow of youth entering the job market and the fact that they often have high expectations and aspirations about the quality of employment.

The increasing magnitude of requirements of youth employment in Bhutan could have tremendous implications for the future prospects of both human development and GNH. If the challenge is met successfully, it could contribute to an exponential increase in national income and human development. On the other hand, if this challenge is not met adequately, then not only will possible gains not materialise, but also the presence of an increasing number of unemployed youth – educated and uneducated alike – could jeopardise Gross National Happiness.

Since development progress in any country depends on productive output from its population, the inability to provide gainful employment for the large youth segment could translate into significant losses in national productivity and human capital. Without adequate employment generation, long-term economic growth would also be neither sustainable nor socially desirable. In addition, unemployment among youth would naturally deprive them of a vital means of livelihood and the opportunity to secure a decent living.

Box 5.1

One of the greatest concerns for the Government today is in providing gainful employment to our youth. At a time when our country is developing very rapidly and our people are becoming very prosperous every year, if Bhutanese citizens are to benefit from the progress taking place and find good jobs we will have to give priority to the establishment of industries, for which the Government must strengthen and develop the private sector. It is necessary for the Government and the private sector in Bhutan to work together hand in hand and provide employment to our people. It is an important responsibility of the Royal Government to ensure that a time does not come when Bhutanese people cannot find employment in their own country. Such a situation must never be allowed to arise.

**His Majesty the King
National Day Address,
17 December 2004**

Moreover, the long-term unemployment of youth has long-term social costs. Losses of capabilities, morale and self-esteem with long periods of unemployment or underemployment have been known to lead to vicious cycles of human deprivation. This also seriously delays the healthy integration of youth in society, with the likelihood of increased risk behaviours among frustrated, alienated youth that could negatively affect social harmony. Although these social problems are not yet pronounced in Bhutan, visible signs are already found in the growing incidence of juvenile crime, drug abuse and vandalism among unemployed youth.

This section of the Report examines the employment status of Bhutanese youth; identifies the causes, problems and constraints of youth employment; highlights and reviews current policies and programmes that address this emerging challenge; and draws out policy implications and options to supplement ongoing strategies and approaches to improve youth employment prospects and opportunities. A brief overview of overall employment patterns and trends is detailed prior to the profiling of youth employment.



Table 5.1	Trends in LFPR and Unemployment Rates	
	1998	2004
Unemployment Rate	1.4%	2.5%
Labour Force Participation Rate	58.9%	54.4%
Labour Force by Sector		
- Agriculture	76%	63.3%
- Industry	5.9%	9.9%
- Services	9.0%	16%
- Trade	5.6%	7.8%
- Others	3.5%	2.9%

Source: LFS, 1998, 2004

Bhutan's Employment Patterns and Recent Trends

According to Bhutan Labour Force Survey (BLFS) reports, the population may be classified into two core groups: economically active and economically inactive. The economically active population comprises the employed, including unpaid family workers and unemployed, who contributed to the process of production of goods and services one week before the survey enumeration. The employed are those older than 15 who worked at least one hour per day one week before the survey, who had a job or business but did not work during the reference period, or who were temporarily absent. The labour force participation rate is further defined as the ratio of the economically active population to the working-age population – in Bhutan, those older than 15.

The BLFS defines unemployment as not having a job or business one month before the survey. It considers the unemployed as those without a job or business who sought work one month before the survey, or those who are available for work but did not seek it because they believed none was available, were awaiting results or were waiting to start work. This definition does not include students, household workers or those physically disabled or unable to work.

The employment scenario in Bhutan has undergone major changes, particularly over the last two decades. This is widely seen as an outcome of the country's transition from a subsistence agrarian economy to a modern economy, with considerably faster growth rates in the secondary and tertiary sectors compared to the primary sector. Reflecting the traditional importance of agriculture to the national economy, the vast majority of the Bhutanese labour force has always been concentrated in this sector. However, with the share of agriculture to GDP diminishing over the years, the percentage of the labour force employed in agriculture witnessed a sharp decline, from 76% in 1998 to only 63% in 2004 – a decline of around 2 percentage points annually.

Not surprisingly, Bhutanese farming communities today face considerable labour shortages. This is due to a combination of several factors, such as the limited availability of arable land, increased enrolment in educational institutions, physical hardship of rural lives and work, rapid rural-urban migration and changing aspirations of new entrants into the labour force – namely, the educated youth. This latter group is often reluctant to take up farm jobs.

In the same period, the percentage of those employed in the industry, services and trade sectors has increased. This represents a perceptible shift away from agricultural employment to occupational activities based in the modern sector, notably in services. However, this does not represent a maturation of the economy into a high-value, service-based economy, but is rather more indicative of a population shift toward urban areas. Indications also exist of the growth in casual and part-time work.

While the phenomenon of unemployment was practically unknown before 1990, this is now emerging as a key concern. Prospects of ‘jobless growth’ in the country exist, aspects of which may already be surfacing. Unemployment rates, according to the annual Bhutan Labour Force Surveys reports, have steadily increased from 1.4% to 2.5% between 1998 and 2004. This level of unemployment is not high. Indeed, the rates of unemployment in rural areas between 1998 and 2004 were virtually nonexistent, reflecting the situation that many rural Bhutanese work on their own or others’ farms.

However, the Labour Force Survey Report 2004 (LFS 2004) and the Bhutan Living Standards Survey 2003 (BLSS 2003) both reveal a significant rise in rural unemployment levels, to 2.5% and 2.32% respectively, compared to less than half a percent in previous years. Available data from past labour force surveys generally reflect a higher incidence of urban unemployment.

The LFS 2004 indicates that female unemployment rates are on the whole twice as high than for males in both rural and urban areas. In urban areas particularly, female unemployment has consistently been almost three times that of males. Details of unemployment levels, disaggregated by rural-urban and male-female categories, are reflected in Table 5.2. The BLSS 2003 survey similarly reflects much higher levels of unemployment for urban females but

Table 5.2	Unemployment Rates by Region and Sex					
	BLSS 2003			LFS 2004		
	National	Male	Female	National	Male	Female
Unemployment	2.91%	3.17%	2.64%	2.5%	1.6%	3.3%
Urban	6.53%	4.22%	11%	2.0%	1.1%	4.3%
Rural	2.32%	2.94%	1.74%	2.6%	2.2%	3.2%

Source: BLSS 2003, LFS 2004



bhutan national human development
REPORT 2005

shows lower female unemployment levels in rural areas, which account for the overall higher unemployment rates for males.

There is, however, a growing perception that employment figures may be masking possibly high and rising levels of underemployment. It is widely known that many Bhutanese who are employed do not have sufficient work to engage them year-round, while others work at low levels of productivity or receive little or no remuneration. The lack of detailed data poses a problem in correctly estimating the extent of underemployment, but a rough assessment is provided. According to the LFS 2004, around 16% of those employed worked fewer than 40 hours a week. While this may not in itself reflect a serious level of underemployment, the percentage of the workforce working less than 40 hours has been steadily rising each year.

More significantly, more than 36% of those employed are unpaid family workers. This category, constitutes the largest group of the employed population when classifying the national workforce by their employment status. Most unpaid family workers either work on their family farms or are engaged in household activities.

The data on wages earned further reveal that of paid employees, 49.7% of them receive less than Nu. 2,000 a month and that 39.3% receive less than Nu. 4,000 a month. Because many paid workers support families and dependents, salaries for a large number of them may be regarded as being near subsistence levels. The labour force surveys also consistently reveal the search for better income as the overwhelmingly major reason for changing jobs, perhaps an indication of relatively low remuneration levels. Notably, close to 40% of those with the lowest remuneration are employed in agriculture. There is also a relatively higher percentage of women in both the lowest income category and among unpaid family workers.

A significant feature of the Bhutanese labour market is the large presence of an expatriate workforce, estimated at more than 34,000. The expatriate labour force is mainly engaged on construction sites, road work and production lines. It provides a cost-effective labour input into infrastructure development and manufacturing activities. This availability of a large pool of relatively low-cost expatriate labour offers considerable advantages to local industry, because such labour does not provide direct competition for Bhutanese labour as such. Most Bhutanese job seekers have higher expectations and are largely uninterested in the occupational areas where the expatriate workforce is engaged. In addition, they also possess less relevant skills.

Table 5.3 Youth LFPR and Unemployment Trends

Age Group	1998		2001		2004	
	Labour Force Participation Rate	Unemployment Rate	Labour Force Participation Rate	Unemployment Rate	Labour Force Participation Rate	Unemployment Rate
15-19	37.8%	2.5%	23.2%	8.4%	24.1%	7.2%
20-24	56.7%	2.7%	52.5%	3.8%	50.5%	4.0%
15-24	46.6%	2.6%	36.3%	5.4%	35.2%	5.5%
All age groups	58.9%	1.4%	56.5%	1.9%	54.4%	2.5%
Percent of unemployed youth to total unemployed	45.5%		60%		41%	

Source: LFS, 1998, 2001, 2004

A Profile of the Youth Employment Situation in Bhutan

In 2004, youth⁷ comprised 19% of the labour force and 20% of the country's population. As such, they represent an important segment of both the national labour force and the people. The labour participation rate of youth in the national economy has declined from 46.6% in 1998 to 36.5% in 2003, reflecting the considerable growth in school enrolments and the increased number of years spent in school. Youth unemployment levels in that period has doubled from 2.6% in 1998 to 5.5% in 2004, whereas they have only increased marginally for working adults. The youth unemployment rate is also more than three times higher than the general unemployment figure. For the last five years, youth have, on average, constituted around half of all those unemployed and in 2003, about 60% of the unemployed were youth.

It is clearly discernible that the unemployment situation in Bhutan affects youth disproportionately and that it is essentially a youth issue. This is not in any way unusual, as the higher incidence of joblessness among youth is a common phenomenon around the world. Young people most often do not possess the required working experience or the appropriate skills and usually take longer to secure their first jobs. Moreover, young people as a group are often the most vulnerable to labour market fluctuations, which partly explains their higher rates of unemployment.

As reflected in Table 5.3, unemployment levels have traditionally been the highest for those youth aged 15-19, most of them are early school leavers and are seeking work for the first time. The unemployment rates for older youth – i.e., those between 19 and 24 – are lower as they become more employable with added experience and skills. Available employment data

⁷The definition of youth used here follows the standard United Nations definition as those belonging to the 15-24 age group.

further reflects that unemployment for youth, both males and females, is more acute in urban than rural areas. The incidence of unemployment is particularly pronounced for urban female youths between 15-19, which has ranged from 11% to 23% over the years. Indications also point to a possible rise in unemployment rates for rural youth that could exacerbate the urban youth unemployment situation, given the rapid mobility of the youth population.

Female Youth Unemployment

A large number of Bhutanese youth are also reportedly engaged in 'family responsibilities' but are not regarded as either students nor economically active, or only marginally so. These youth do not form part of the category of unpaid family workers who are regarded as employed. A very large percentage of this category comprises girls and young women, who for the most part live in rural Bhutan. Anecdotal evidence suggests that a large number are underemployed and could be passively seeking secondary employment. This large group of mostly female youth could well constitute a future reservoir of additional entrants into the labour market. In rural areas, most youth who are not in school are employed in agriculture and help out with household responsibilities. Many rural youth are also engaged in *woola*, the traditional labour contribution for development activities in rural communities. In urban areas, youth are mostly employed in the service sector, mainly in public enterprises as salaried employees, or are self-employed in small family enterprises. Employment in private sector enterprises and corporations presently constitutes only a very nominal area of youth employment, but this is expected to improve.

Factors Affecting Youth Employment and Unemployment

The factors affecting youth employment and unemployment may be attributed to both demand and supply. These include rapid population growth and the youthful demographic profile; the significant growth in school enrolment; the limited employment absorption capacity in the public sector; the small size and underdevelopment of the private sector; the rising trend of rural-urban migration; the lack of employment-relevant education and training that is responsive to actual labour market needs; and the expectations of high salary, mostly white-collar employment, on the part of the educated youth entering the economically active age group.

Youthful Demographic Profile

As with most developing countries, Bhutan has a youthful demographic profile. About 59% of the country's population is currently younger than 25, with 42% below age 15 and 30% younger than age 10. With high fertility rates and marked declines in infant mortality, the population has been growing rapidly at an annual rate of 2.5% in recent years. It will be some years before the country reaches replacement levels. On the basis of this growth rate, it is envisaged that the youth population will double in 25 years. Given the distinctive pyramidal structure of the Bhutanese population, with the largest sections of the population below ages 5,

10 and 15, the proportion of the working-age population has risen rapidly. This explains the growing numbers of youth entering the labour market and the increase in unemployment levels. In the future, this is likely to be even more pronounced, with the working-age population expanding much more rapidly than decent jobs can be created, even with strong growth in the national economy.

Expansion of School Enrolment

The enormous success of enrolment in schools and the increased output of educated youth has simultaneously created a large number of youth entering the labour market in search of jobs. Most unemployed are believed to be educated youth, although no survey data are available on the background of the unemployed other than their rural or urban origins.

It has been projected that by 2020, 267,000 jobs will have to be created for educated youth alone who will enter the labour market. More than 100,000 students are expected to enter the labour market in search of jobs in the next 10 years, increasing from about 7,410 in 2004 to 13,572 in 2010. This represents a virtual doubling of the total educated workforce entering the labour market every six or seven years, the overwhelming majority of whom will have only a mid-secondary level of education. Taking into consideration available estimates of annual rural-urban migration of about 4,000, this is likely to add 40,000 migrants to the growing numbers of those seeking employment over the next decade. Many migrants are youth and between ages 16 and 30, as reflected in the recent Rural-Urban Migration Study. As such, the number of Bhutanese poised to enter the non-agriculture labour market will soon exceed 14,000 a year, the vast majority of whom will be youth. To provide a realistic perspective to what these numbers mean, this effectively translates into the need to create as many jobs annually as the entire civil service – traditionally the largest formal-sector employer.

Capital-Intensive Economic Growth

In many countries the slow growth of the economy has often been cited as a major reason for the rise in youth unemployment. Bhutan, however, has enjoyed rapid annual economic growth of some 6 to 7% consistently for close to three decades. This rapid growth has been fueled by major infrastructure development projects, principally in the hydropower, social, roads and human settlement sectors, which are highly capital-intensive and have not generated sufficient quality employment growth. These growth sectors of the economy have not created more than 7,000 jobs collectively and probably will not do so in the future. In addition, most jobs available in the implementation and maintenance phases of these infrastructure activities are short-term manual or construction labour that either do not appeal to Bhutanese youth or for which they do not possess the requisite skills.

At the same time, the agriculture sector, which provides the main source of employment and livelihood for most Bhutanese, has been growing much slower than all other sectors. The



sector's share of GDP has been shrinking each year, reflecting a deep structural change in the economy. Between 1990 and 2002, agriculture growth has averaged only around 4% annually, and its share of GDP has declined from 43% to 33%. All indications strongly point to a continued decline in this labour-intensive sector and limited growth prospects. Most educated youth would prefer to take up alternative occupations than farming. This is another factor that will seriously affect the employment situation, potentially creating a dire shortage of labour in agriculture while causing an oversupply in some sectors.

Limited Employment Absorption Capacity in the Public Sector

The civil service remains the preferred employment choice for most educated youth in view of the security, dignity, training and career opportunities associated with it. A major consideration appears to be the aspect of secure wage employment, which also explains the general preference for employment in the public sector and the formal private sector over self-employment. However, the prospects for expanding employment in the civil service, various government agencies and public sector corporations are now extremely limited, as these have virtually reached their employment saturation points.

In view of the Royal Government's stated policy to maintain a small, compact and efficient civil service, numbers of civil servants have only marginally increased, from 13,566 in 1996 to 14,528 now. Vacancies in the civil service, including allowing for replacements, are thereby likely to provide only for around 1,200 jobs a year. The only significant employment opportunities in the civil service that remain are for teaching positions in schools and vocational training institutes, a short-term demand in view of the current teacher/trainer shortages, which may be satiated in a few years.

The limited feasibility for employment expansion also holds true for the armed forces, hydropower projects, public utility corporations and other public sector organisations. Even on the basis of very favourable projections, the public sector collectively, including the civil service, will not generate more than a small fraction of the total employment demand.

Small and Underdeveloped Private Sector

In view of the limited expansion possibilities for employment in the public sector, the dynamism and growth of the private sector was expected to provide the vital impetus in generating employment opportunities. However, this has not been fully realised, as the private sector in terms of the national economy is still small and in a nascent stage of development. It will take many more years and the rapid growth and broadening of this sector before this becomes reality.

The private sector is further limited in its access to venture capital and does not have the relevant experience to make large-scale investments to establish new industries and grow more rapidly. Apart from establishment of a Coca-Cola bottling plant, no new major industries have

been started in the private sector over the last five years. Therefore, it will take considerable time before the private sector becomes the real engine of growth or the driving force behind employment. Growth and development of the private sector is further constrained by other factors that affect the sector's ability to become a more dynamic partner in creating employment. These are discussed in greater detail in Chapter 7.

An issue sometimes regarded as contributing to rising youth unemployment is the widespread use of foreign workers by the private sector, particularly in construction and manufacturing. However, rather than depressing the absorption of Bhutanese workers into the private sector, the presence and availability of a cost-effective source of both skilled and unskilled expatriate workers provides a competitive edge to many private sector activities. The viability of these enterprises actually ensures additional creation of employment for national workers, and their closure could potentially cause a loss of jobs rather than create more employment.

The fact that many Bhutanese entrants into the labour market are relatively unskilled, have higher wage reservations and are often unwilling to take up hard physical labour in key areas of private sector activities constitute additional important reasons that contribute to limiting their absorption in the private sector workforce.

Rural-Urban Migration

Over the last two decades, the pace of rural-urban migration has increased significantly and is exacerbating the rapid growth in urban population. At present levels of migration and normal urban population growth, it is estimated that the urban population will quadruple and that close to half the country's population will live in urban areas by 2020. The study *Rural-Urban Migration in Bhutan* provides additional details of this important dimension of growing urbanisation. While the study does not reflect the numerical extent of rural-urban migration, it conveys that a clear and strong perception exists among most survey respondents that such migration is rising and likely to accelerate rapidly.

The study highlights that 72% of the urban population are migrants from rural areas and that close to half (47%) of all rural households have had one or more members migrate elsewhere, mostly to Thimphu, Paro and Phuentsholing. The study notes that most migrants are aged 16 to 30, and that 63% have primary education or more. 74% are literate. Of the 'push' factors, the lack of adequate educational and employment opportunities in rural areas account for the two major reasons driving rural-urban migration. Of the 'pull' factors, the aspect of migrating after securing a job, and moving with parents or spouse, are important. Other 'pull' factors not captured in the study, but supported by anecdotal evidence, are the consumerism and popular entertainment opportunities identified with urban lifestyles.

While the study is clear that no indications presently suggest that rural-urban migration is contributing directly to growth in unemployment, this could change very quickly. In addition,



the fact that rural-urban migration adds to the pressure of creating more employment opportunities for youth in urban areas cannot be overlooked.

Skills and Expectations Mismatch

The unemployment level among youth is also explained by the mismatch between the education and skills that youth have and what the labour market needs. Most educated youth that entering the market have a mid-secondary-level education, and while they are literate and numerate, they do not possess the necessary skills, knowledge or aptitudes – nor the work experience – that could enhance their employability. This is being actively addressed as a priority through education reforms and through expanding the skills base of youth via vocational training. This subject is treated in greater detail in Chapter 6.

This skills mismatch is compounded by the apparent mismatch between expectations of Bhutanese youth on the quality and location of employment and the realities of the labour market. Most educated youth are keen for white-collar jobs in the civil service and to work in urban rather than in rural areas. It also appears that many youth would prefer to wait and prolong their period of unemployment or underemployment till they manage to get the jobs they desire or those that have better salaries and career prospects. This is made possible by the fact that many youth depend on the goodwill of parents and relatives to support them until they secure employment. However, most jobs available outside the Government sector are manual labour, which in addition to, being low pay are regarded by educated youth as low-status, with no career prospects. Even as many youth ultimately may have to adapt their aspirations and preferences to take up available jobs, the demand for quality employment is likely to remain an important factor influencing the absorption and integration of youth in the workplace.

The Potential Consequences of Youth Unemployment

As mentioned, the increase in the unemployment and underemployment situation of youth can significantly affect the prospects of furthering the goals of GNH and human development. Loss of capabilities and confidence, along with material hardship, have been known to lead to self-perpetuating deprivation and unhappiness. Early unemployment is also known to affect future employability and productive capacity prospects, potentially leading to chronic unemployment and affecting national productivity and social order. The possible advent of urban poverty, with rising levels of unemployment among urban youth, is another dimension that cannot be overlooked.

Crime in Bhutan is increasingly taking on the dimension of an urban youth problem. A disturbing development is the rise in crimes being committed by unemployed and underemployed youth in urban areas. According to the recent study *Juvenile Delinquency as an Emerging Youth Problem in Bhutan*, carried out by the Centre for Bhutan Studies (CBS), between 1984 and

2003, some 81% of juvenile crimes nationwide were property crimes. The study further points out the tremendous increase in the frequency of juvenile crimes, which are largely in urban areas, and indicates that the rise in such crimes constitutes a key factor for the increase in the national crime rate. Because the data for juvenile crime are based on conviction rates, it may be assumed that the actual crime rate is even higher.

The study further analyses the trends and patterns of juvenile crime in Thimphu. It was found that youth were responsible for more than 50% of juvenile crimes in Thimphu between 1998 and 2003. More than one-third (34.7%) of all juvenile crime in the capital was committed by jobless youth, and one-fourth (26.8%) by those employed in low-quality jobs. On the basis of these findings, the study points to unemployment and the lack of suitable jobs and adequate incomes as probable reasons leading to the risk of criminal behaviour in youth, including rural youth who migrate to towns. The study further reflects that if the factors leading to crimes by unemployed and underemployed youth are not eradicated at their roots, they could prove a serious threat to urban communities.

It is also assumed that drug usage among youth has been growing in recent years, although no surveys have been undertaken to confirm this, and the link to unemployment is unknown. The CBS study based on juvenile crime data for Thimphu reflects a 16.7% increase in the frequency of drug-related crimes by juveniles between 1998 and 2003. The jobless and those in low-income jobs accounted for more than half of all drug-related offences in that period. The frequency and prominence of reports in the media and social discussion of drug use by youth also suggest that the problem is growing and requires attention.



bhutan national human development
REPORT 2005



Chapter 6

Employment for youth in the private sector



bhutan national human development
REPORT 2005
the challenge of youth employment

Employment for Youth in the Private Sector

The private sector will be much more broadly based, with new enterprises having emerged to take advantage of an environment that encourages and rewards entrepreneurship and innovation. The image of the private sector will have changed dramatically, with our young people well prepared to work within it, associating the private sector with opportunity and advancement.

Bhutan 2020: A Vision for Peace, Prosperity and Happiness

The private sector in Bhutan is not only regarded as the major engine of growth but also an important partner in the development of the country. It is seen as the driving force behind employment growth, which is expected to generate increased levels of productive employment to absorb the rapidly growing labour force. In view of the limited employment growth opportunities in the public sector, the Royal Government has strongly emphasised the need to enhance the attraction for youth to take up work in the private sector. Given this strategic importance of the private sector in generating gainful employment for youth, the sector's role and relevance are examined in detail.

The private sector in Bhutan broadly refers to the business sector and does not necessarily include all activities that are outside the direct influence of the public sector. It includes various medium and small enterprises, as well as micro and informal businesses that may or may not be registered. It further includes all enterprises wholly owned by private individuals and institutions where government ownership does not exceed 50%. The agriculture sector, other than agro-based industries, is normally not regarded as part of the private sector.

A Profile of the Private Sector in Bhutan

The Bhutanese private sector has expanded rapidly over the last four decades of development but is still relatively small and underdeveloped. Unlike many countries with well-established mercantile traditions, Bhutan does not have any extended history of private enterprise. Before the onset of planned development activities and the recent modernisation of the economy, private enterprise was mainly limited to petty trade of small agricultural surpluses and a few handcrafted products. To a large extent, this explains the lack of a truly vibrant commercial culture and strong traditions of entrepreneurship and professional management, all of which have been identified as prevailing weaknesses of the private sector today.

Private sector development as a core objective of planned development received a major impetus during the 6th Plan period (1987-92), although earlier Plans also included ad-hoc programmes and activities to support private enterprises. Since then, the Royal Government has privatised the tourism industry, transport services and road infrastructure and maintenance, and divested a

significant portion of its holdings in many public sector enterprises. It also has corporatised airline and postal services, telecommunications and media services, and the commercial operation of power utilities. Foreign Direct Investment and trade regimes have been liberalised to a great extent and extensive reforms undertaken in the financial sector; these include the establishment of a stock exchange, liberalisation of interest rates and the removal of foreign exchange restrictions on current account payments and transfers. To create an enabling and business-friendly environment that stimulates private sector development, many relevant legal instruments have been enacted and appropriate trade and industrial policies adopted. All these efforts are directed toward the long-term objective of the Royal Government gradually withdrawing from all commercially viable areas of economic activity to focus on the provision of social services and basic infrastructure.

In view of limited data, it is difficult to provide a complete picture of the size, structure, coverage and overall composition of the private sector in Bhutan. Its GDP share is less than 50 %, with the construction sector contributing nearly one-fifth of GDP. Nonetheless, much of the GDP share actually derives from public sector-driven infrastructural development in hydropower and roads. The formal private sector has on average provided only between 7 and 8% of total national revenue in the last five years. Various estimates of employment in the private sector range from 1 to 8% of the population, with differences largely arising from whether informal sector employment is included or excluded.

As of mid-2003, a total of 32,035 licenses had been issued for commercial activities. These included 17,725 trade licenses, 9,102 construction contractor licenses, 4,478 service-based licenses and 730 licenses in manufacturing [See Table 6.1]. Based on the significant growth in the number of licensed private sector enterprises, private sector activity can be judged to have expanded quickly in the last five years, most of it in construction and services. However, more than 90% of licensed commercial entities are micro and small enterprises, with only a handful of medium-sized enterprises. Even so, the latter accounts for the major share of the private sector's business turnover and revenues.

Table 6.1	Licensed Business Establishments in Bhutan				
	1998	1999	2000	2001	2003
Manufacturing	447	486	523	569	730
Construction	1,874	2,308	2,606	4,270	9,102
Services	2,530	2,922	3,281	3,773	4,478
Trade	7,045	10,947	11,724	12,455	17,725
Total	11,896	16,663	18,134	21,067	32,035

Source: Department of Industry, Ministry of Trade and Industry



Manufacturing

The manufacturing sector may be broadly categorised into forest, agro and mineral based industries, which collectively contributed 7.2% of GDP in 2002. The sector has stagnated since 1996, when its share of GDP had reached a high of 12.1%. With the establishment of the only major industrial venture initiated by the private sector in the last decade, although there has been modest growth in the size of many small and medium manufacturing enterprises, the employment of nationals in the sector has doubled, from 3,058 in 2001 to 7,560 in 2003. In the context of overall industrial development, however, growth in the manufacturing sector has been the most modest.

Lack of relative progress in the expansion of the manufacturing sector is mainly attributed to the lack or high cost of investment capital to start up industrial ventures, as well as the lack of appropriate industrial infrastructure. This is compounded by low economies of scale, high cost of raw materials, distance from markets and low labour productivity, all of which significantly affect the private sector's competitiveness. Stringent environmental considerations have also affected some sub-sectors' output and productivity, most notably the ban on the export of timber and semi-finished wood products.

Forest-based industries consist mainly of small sawmills and furniture making units, which enjoy a modest level of value addition. The scale of mechanisation in the sub-sector is minimal; it is essentially labour-intensive. However, the sub-sector has been identified as a potential area where the country enjoys significant comparative advantages. Realisation of the potential of wood-based industries will depend on how effectively the key challenges of enhancing the economies of scale, balancing environmental concerns, improving poor-quality design skills and raising extremely low productivity outputs are addressed.

Agro-based industries in Bhutan consist mainly of fruit processing and alcoholic beverage production units. These two sub-sectors account for the largest share of turnover and employment in the manufacturing sector and are primarily export-oriented. Expatriate labour accounts for a large share of employment in both fruit processing and alcoholic beverage factories, since labour costs are critical to the viability and export competitiveness of these enterprises. Other agro-based industries consist mostly of cottage and small-scale enterprises that cater essentially to domestic market needs. These include bakery, dairy and meat products, and traditional medicine, areas distinctly characterised by higher employment of nationals. Notable constraints of the agro-based industries relate to the high cost of raw materials, logistical difficulties, low labour productivity, low levels of technology, inadequate quality standards, poor management, marketing and export market development capabilities, and weak product diversification and innovation. A particular area identified as having tremendous potential for development is organic agro-production and high-value niche agro-products for export, such as traditional medicinal herbs. The main challenges in developing this potential lie in the industry's ability

to gain appropriate accreditation and certification, secure markets and maintain strict, high-quality control measures.

The mineral-based industries sub-sector consists of a very small number of enterprises, mostly engaged in the production of cement and chemicals. However, the sub-sector accounts for close to half of all employment and production output of the manufacturing sector as a whole, comprising three of the five largest private sector corporations in the country. As with other manufacturing sub-sectors, a large majority of employment is taken up by expatriate workers who provide critical low-cost labour inputs. The latter has assumed an even more important production factor in view of the dumping of chemical products in Bhutan's export markets, which have depressed prices and lowered profitability, reducing opportunities to establish additional mineral-based industries.

In addition to formal manufacturing enterprises, several non-classified and informal manufacturing enterprises exist, a large number of which are home-based on local handicraft and textile production. Although output and employment data for the latter are not available, they are known to be significant as they provide a secondary source of employment and supplementary income for many households. This category of mainly self-employed and home-based enterprises also enjoys a high level of value addition and most notably is not dependent on expatriate workers.

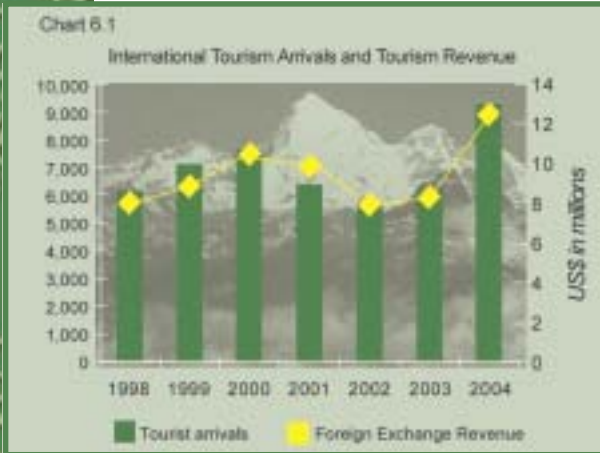
Construction

The construction sector represents the fastest growth area for the national economy and the private sector. Over the last decade, the sector has grown robustly, and its share of GDP has risen from 6.7% in 1991 to 19.9% in 2003. This is further evident from the remarkable growth of construction license registrations, which doubled between 2001 and 2003 and have increased more than fourfold since 1998. However, employment of nationals in the construction industry has grown more modestly, from 5,592 in 2001 to 7,770 in 2003, given that the sector provides employment to a very large number of expatriate workers. Indeed, most of the 32,000 registered expatriate workers are engaged as construction labourers to cater to the rapid growth in private construction and public infrastructure. Thus, the construction sector is highly labour-intensive but so far has offered limited prospects for the employment of nationals, particularly educated youth, as construction work is widely regarded as a low-status job, in addition to being poorly paid and entailing physical hardship. The lack of adequate mechanisation of the construction sector is therefore viewed as a major constraint, the removal of which is expected to enhance labour productivity, create more desirable jobs for nationals and reduce dependence on expatriate labour.

Services

Tourism in Bhutan is a vibrant growth industry that has been rapidly expanding, with the exception of 2001 and 2002, when tourist arrivals and revenue declined. International tourist





Source : Department of Tourism

arrivals in 2004 reached 9,249, with foreign exchange revenues of US\$12.5 million. Tourism now ranks as the second-largest revenue generator after hydropower and is the largest foreign exchange earner, followed by the national airline, Drukair, another tourism-linked business sector. These figures also do not include tourists from India, who do not pay hard currency. They are estimated at more than 15,000 arrivals a year. Nor does it include sources of indirect revenue generation from tourism spin-off activities and air travel.

While employment data for the sector are sketchy, direct employment is estimated to have tripled, from less than 1,000 in 1998 to more than 3,000 now. The number of licensed tour operators also increased from 35 in 1998 to 165 at present. The sector further provides seasonal employment to many more workers in both urban and rural communities and offers spin-off employment benefits and income generation for the handicrafts and transport industries. Applying the sector's well-known employment multiplier effect, it is estimated that the industry provides direct and indirect employment to around 9,000 Bhutanese workers. Tourism is thus among the largest employers in the formal private sector. Given that the full potential of the industry has yet to be realised, the sector offers significant future prospects to enhance the employment of national workers, and youth in particular.

Several key challenges need to be addressed in order to strengthen and sustain high-value tourism. These challenges relate to inadequate tourism infrastructure and services, limited tourism products and activities, high seasonality, and weak tourism marketing. Ongoing efforts directed at expanding air services, upgrading the quality of hotel accommodation and services, diversifying and expanding tour programmes and activities, and implementing more active and creative tourism marketing campaigns must be strengthened and guided by a comprehensive tourism master plan.

Promoting Sustainable Employment Growth in the Private Sector

The objective of generating employment growth in the private sector has been broadly addressed through measures intended to promote private sector development. The faster growth, expansion and development of the private sector is logically expected to translate directly and commensurately into increased employment opportunities for both youth and adults. The Committee for Private Sector Development's (CPSD) report on *Recommendations for Creation of Gainful Employment in the Long Run* by the Private Sector, along with the *Bhutan Private*

Sector Survey (BPSS) report, provides numerous suggestions to enhance employment growth through expansion of the private sector, which are briefly summarized below. The Royal Government has already taken action with regard to several of these recommendations. The promotion of youth entrepreneurship and self-employment as strategic activities to ease youth unemployment is also elaborated in detail.

Policy Environment

Even as significant efforts have been made toward creating a private sector-friendly policy environment, several reports strongly emphasise the need for more meaningful improvements. The above-mentioned reports, which largely reflect the views of the private sector, indicate the need for a clear, consistent and transparent policy environment to promote private sector development. In this regard, the formulation of a comprehensive private sector development strategy that takes into consideration practical implementation issues is deemed essential. A need also exists to develop a specific private sector employment strategy that will focus on approaches to enhance the creation of quality employment for nationals.

A critical concern of the private sector relates to the need for the sector to maintain its competitive edge through cost-effective labour inputs. Many private sector firms interviewed for the BPSS cited the cost of labour as a significant factor affecting their competitiveness. The report further emphasises that the policy trend to reduce the expatriate labour force could undermine the competitive edge that Bhutanese industries enjoy, seriously affecting their sustainability. This is a relevant concern since Bhutanese private enterprises export and import from highly competitive regional markets, where cheap labour and large economies of scale give a huge comparative advantage to their competitors. The report strongly recommends the private sector be allowed to retain the labour advantage and that expatriate labour be reduced only after careful consideration of productivity enhancements in the local workforce. In its own report, the CPSD broadly supports this position.

The private sector stresses the need for a proper review and liberalisation of existing labour policy to facilitate expatriate labour recruitment that addresses the labour shortage and seasonal requirements. This is not expected to reduce employment for Bhutanese, but rather, to increase their long-term employment prospects through the expansion of industrial enterprises that depend initially on cost-effective expatriate labour. For instance, in areas where local labour is not available or insufficient, it is suggested that administrative procedures necessary for employing expatriate labour be simplified. Because many Bhutanese industries in border areas are critically dependent on nearby expatriate labour, the CPSD has espoused allowing day workers to ease labour constraints. Other suggestions include revision of labour sanctions on the basis of needs, scope and value of construction work; the introduction of employment visas to regularise and streamline employment of the relatives of expatriate workers; and the facilitation of visas for business visitors from abroad.



Fiscal Policy Incentives

In 2002, the Royal Government provided a package of tax holidays and other incentives to stimulate business development and employment generation. These included three-year tax holidays for all newly established manufacturing industries and information technology and vocational training institutes, and five to seven year tax holidays for hotels, schools and auto workshops and for newly established manufacturing industries in interior regions. The package also included the exemption of corporate and business income taxes on the convertible currency earnings of manufacturing industries, IT services and agriculture produce exports, as well as the abolition of export taxes on cash crops. Other incentives included allowing corporations to reinvest 20% of their profits, abolishing the salary limit for corporations, and sales tax exemptions for particular industries.

In addition to the package of tax incentives provided, the CPSD has recommended that similar incentives be expanded to other business areas, particularly those with potential to generate employment. These include the reduction of sales taxes on vehicles such as trucks, taxis and tourism buses, which cater to business needs and are an important avenue for self-employment. It was further proposed that sales tax exemptions be allowed for the import of construction materials and equipment for industrial ventures, which would help lower investment costs and improve their viability.

The recommendations also include the need to explore the possibilities of refunding excise duties on industrial purchases by private sector enterprises, removing double taxation on trade goods through appropriate agreements with trade partners, and establishment of Phuentsholing as a tax-free zone. However, the CPSD report acknowledges the need to study these proposals in greater detail and consider all ramifications. The employment generation potential for nationals is an important consideration.

Financial Sector Reforms

Access to capital has been identified as a major constraint for the private sector. To reduce this constraint, the financial sector may need to introduce several reforms to promote and support the growth of enterprises. Important suggestions forthcoming from the private sector include proposals to reduce high banking transaction charges; promotion of competitive interest rates based on client credit rating systems; scaling down of high collateral requirements for loans; assessing valuation of collateral assets based on true market value; increasing the limit of consortium funding; and providing adequate foreign exchange for the import of raw materials. A keen need is also felt in the private sector for financial institutions to introduce innovative financing mechanisms and to strengthen in-house expertise to participate more effectively in projects. To further enhance the availability of finances for local businesses, it was suggested that the country's financial institutions be discouraged from making fixed deposits overseas. Several recommendations are in the process of being implemented.

Infrastructure Development

While the BPSS does not consider infrastructure development a major constraint with the exception of transport infrastructure, the CPSD report says the general and business infrastructure is 'grossly inadequate' and identifies it as a significant constraint to private sector development. The CPSD report strongly recommends the expansion and widening of road networks, particularly the north-south highways; the improvement of air services for passengers and commercial cargo transport; the mechanisation of construction activities; and the development of rural and farm infrastructure.

Expanded mechanisation of construction activities may appear to discourage employment but it is expected to reduce the construction sector's vulnerability to labour shortage, while creating higher-quality blue-collar employment opportunities that Bhutanese youth would be inclined to take up. The development of rural infrastructure through improved road access and mechanisation of farming, meanwhile, is expected to promote the rural market economy and reduce the hardship of farm work. This would presumably attract young people and youth entrepreneurs to farm and off-farm enterprises, thus stimulating both income and employment generation.

Industrial Sector Development

The private sector views licensing requirements for commercial activities as having too many cumbersome formalities that tend to discourage the start-up of new enterprises. The CPSD has recommended that the licensing procedure be reviewed and simplified to the extent possible, including de-linking endorsements from licensing. It also has been suggested that the role of regional trade offices be reoriented to promote and support local businesses, rather than simply functioning primarily to renew business licenses. In addition, increasing the license period to three years could reduce the workload of renewing business licenses and ease the process for the private sector. The appointment of economic officers in *dzongkhags* (districts) to promote business growth and the development of the local private sector is also regarded as essential; this needs to be implemented as reflected in planned activities. Lastly, the CPSD report strongly recommends an expeditious effort towards building business infrastructure support such as planned industrial estates in various towns and a dry port in Phuentsholing.

Promoting Tourism

Tourism development is viewed as strategic to enhance employment in the private sector. The CPSD report identifies several issues that require urgent policy attention to develop the tourism industry and generate significant employment opportunities. Improvements in aviation infrastructure and management have been suggested, which include the development of an all-weather airport, expansion of the national carrier, introduction of new air routes, increasing flight frequency during peak tourism seasons, and the adoption of a more efficient and practical airline scheduling and reservation system. The CPSD also recommends studying the possibility and practicalities of allowing foreign airlines to operate in the country.



The promotion and marketing of the country as a tourism destination has been regarded as essential to augment tourist arrivals, while still adhering to the high-value tourism policy. In view of the high costs for tour operators and their financial constraints in marketing, the CPSD report points out the need for financial support for these activities from the Royal Government. The reconstitution of the Tourism Development Committee into a National Tourism Promotion Board, with a mandate to focus on marketing and promoting Bhutan as a tourism destination, has also been proposed. Expansion of familiarisation tours for foreign-based tour operators is likewise expected to help market the country.

Additional measures proposed in the CPSD report include exemption of import duties for tourism-related equipment and transportation vehicles creation of a one-stop window at the Department of Tourism for all necessary tourist clearances and allowing long-term leases on government land for development of relevant tourism infrastructure.

Domestic Trade Policy Reforms

Illegal business fronting in border towns is viewed by the private sector as a major deterrent that discourages the entry of budding entrepreneurs. While this is primarily seen as a regulatory issue, it is also linked to the lack of access to financial resources for local small businesses. The CPSD report recommends enhancing self-employment opportunities in the private sector by promoting a deeper, denser dispersion of trade through the exemption of licensing for micro-trade activities and replacement with a simple registration process. Disallowing wholesale dealers' engagement in retail sales has also been proposed to foster an expansion of retail outlets.

Promoting Foreign Direct Investment

The private sector has strongly emphasised the need to encourage more foreign direct investment to broaden employment and training opportunities, promote the transfer of technology and skills, and deepen the economic and revenue base. FDI is also expected to benefit local businesses through familiarisation with, and links to, export markets that represent an area of current weakness for the private sector. The CPSD broadly advocates liberalising the foreign investment regime to create an investor-friendly climate and specifically identifies issues of access to land for foreign investors as a critical constraint.

The BPSS recommends the active encouragement of potentially high-impact FDI ventures, particularly in the early phase of implementation. Wood and wood-based industries, agro-processing industries, tourism and IT have been identified as key potential areas for FDI ventures. In addition to an FDI Act that is to be enacted, the study suggests it is necessary to formulate supporting regulations to complete the legal and policy framework for promoting foreign investment. The need for a proactive FDI promotion strategy and development of the necessary capacity for investment promotion are regarded as immediate priorities to stimulate foreign

investment inflows, since the country is a virtual unknown as an investment destination. Given the intense global competition for FDI, the study further highlights the need to reconsider existing limitations on foreign equity ownership at a 70% ceiling and the remittance of profits and dividends. Adopting more favourable taxation guidelines for foreign investment enterprises is another important consideration the study suggests. The stipulation of a minimum investment or project size, particularly for the IT and agro-industry sectors, requires review and rationalisation, since these are likely to attract mostly small-scale investments. Other important recommendations include providing fiscal incentives to encourage foreign investment enterprises to train national staff, thus accelerating localisation without affecting their operational efficiency; ensuring adequate access to foreign exchange for relevant imports by foreign investment enterprises and setting up a monitoring and evaluation system to allow for a periodic review of the FDI regime.

Promoting Small-Scale Businesses and Self-Employment Ventures

Small and cottage enterprises are widely regarded as key economic and employment stimulators, and promoting their development remains a strategic objective of the country's industrial plan. They are particularly relevant for youth employment, since they can act as business incubators that significantly enhance prospects for youth entrepreneurship and self-employment opportunities.

In its report, the CPSD stresses the need to develop an active policy strategy, a plan of action and concrete proposals to help promote the growth of small and cottage enterprises. Expediting detailed investment opportunity studies for all districts to help identify feasible enterprises is seen as a critical first step. The CPSD report further indicates the importance of creating appropriate financing and support mechanisms for establishing enterprises that are deemed viable, given that such ventures often fail because they lack these vital ingredients.

The policy focus of developing small and cottage enterprises in Bhutan has a strong rural dimension. More than their urban or semi-urban counterparts, small-scale rural enterprises are strongly affected by market access and linkages, poor access to raw materials, low productivity and economies of scale, high labour and product marketing costs, packaging and quality standards issues. The long-term sustainability of rural enterprises will depend on progress in addressing these diverse challenges.

Youth Entrepreneurship

Among youth who are unemployed or underemployed or who may be economically inactive, many possess the potential to become self-employed entrepreneurs. Already, an increasing number of Bhutanese youth start up small businesses each year, although they represent only a fraction of those seeking paid employment. Youth entrepreneurship has not received meaningful policy attention or support so far. A real need exists to actively promote and support youth



Ngawang Choden's Story

Ngawang Choden is a 23-year-old young woman from Khaling in eastern Bhutan, currently living with a cousin in Thimphu. She has been unemployed ever since she dropped out from Class X. She attended and completed a nine-month computer and management course and also participated in a youth exchange programme in the Netherlands. She has not actively sought employment, as the few jobs she interviewed for in the private sector did not pay enough. Ngawang's perspective on her employment situation is that it is far better to be self-employed than to have to work extremely hard for someone else without adequate remuneration. She chose to take up a training opportunity in South Korea to become a baker.

On her return in 2004, Ngawang attended the first Basic Entrepreneurship Course for youth. Following this, she applied for a loan from a financial institution to set up a bakery in Thimphu. In view of the significant costs for the imported equipment, the loan amount sanctioned was not enough, but she was promised additional funds once the bakery unit was established. Ngawang is presently deliberating whether to purchase the equipment from India, as it is a more cost-effective alternative. However, had there been enough funds available, she would have preferred to import the equipment she had been trained on. She remains unemployed and spends most of her time helping out with her cousin's household chores and activities. Should her attempt to start her own business not succeed, she has decided that a viable option would be to seek employment as a junior baker or apprentice in one of the recently established luxury resorts in the country. This, she says, would allow her to gain practical work experience and additional skills while also earning seed money to ultimately pay for her own small bakery.

entrepreneurship, because it can help generate quality self-employment for many young people. In turn, this can potentially create more employment for others.

The following section traces some of the difficulties and constraints that Bhutanese youth face in establishing their businesses and outlines particular areas of support. Several of these suggestions have been drawn from discussions at meetings and seminars of the Youth Employment Summit (YES) network chapter of Bhutan. They also draw on the recommendations by the CPSD for the creation of gainful employment in private enterprises, oriented with a specific youth perspective.

i) Access to Finance

Securing financing for business ventures is a concern for all new businesses, but it is a major constraint for youth. The financing of young entrepreneurs by financial institutions is regarded as a high-risk investment, since youth often do not have the assets required for collateral nor the necessary credit guarantees. Most youth are also viewed as possessing little business experience, knowledge and skills. Even when financing is considered, the amounts sanctioned are small and often inadequate to cover establishment and other start-up costs.

Providing adequate access to finances for youth would vastly improve their prospects to become successful entrepreneurs. To ease this constraint, the Royal Government recently initiated the Credit Guarantee Scheme (CGS) for youth entrepreneurs in collaboration with the Bank of Bhutan and Bhutan National Bank. [See Box 6.2].

While the CGS represents an important start, the scheme's scope, capacity and reach is presently limited and must be expanded if it is to have any significant impact. It would also be beneficial if other 'soft' and more flexible loan schemes were introduced and wide awareness created

Box 6.2

The Credit Guarantee Scheme

The Credit Guarantee Scheme (CGS) is a collateral-free small business loan that has recently been made available for Bhutanese entrepreneurs aged 18 to 30 to start up a business venture. Under the scheme, the Royal Government, in partnership with the Bank of Bhutan and the Bhutan National Bank, guarantees the business loan and shares the financial risk at the ratio of 60:40.

To receive this loan, youth must participate in the Basic Entrepreneur Course, a four-week programme that covers the basics of entrepreneurship and small business management skills and knowledge. Other criteria include having being trained in a particular vocational or traditional craft, with the business initiated being based on that skill.

The CGS loans provided by the two banks extend to Nu. 2,00,000, although after the start-up of the business an additional Nu. 1,00,000 may be given if required. While normal interest rates apply, efforts are being explored to reduce them and bring them to par with the lowest interest rates offered by the financial institutions. The banks also carefully vet the CGS youth entrepreneur loan proposals and only approve loans after they are assured of a schemes' economic viability.

Since the inception of CGS in 2004, only seven youth entrepreneurs have availed of the loans and established small enterprises, in areas such as incense making, metal fabrication, tailoring and embroidery, traditional footwear and hair styling. It is envisaged that the numbers of youth participating will increase significantly as more become aware of the opportunity.



among youth about their availability. In order to further encourage banks to expand similar micro-credit initiatives for youth entrepreneurs, appropriate incentives in the form of tax credits and suitable recognition awards may be required.

Critically, the facilitation of finances for youth businesses needs to be complemented with adequate entrepreneurship training and strong business support and guidance. These inputs could improve the success rate of businesses initiated by youth entrepreneurs. In turn, this could determine the prospects for more youth engaging in entrepreneurship and influence their future access to finances and additional support measures.

ii) Entrepreneurial Training and Skills Development

The development of business and entrepreneurial knowledge, attitude and skills for aspiring youth entrepreneurs is essential if they are to succeed in their enterprises. Unfortunately, the school system in Bhutan still does not have a curriculum that imparts and inculcates these relevant attributes. As such, many of the educated young people who aspire to be self-employed entrepreneurs are already at a considerable disadvantage. Moreover the lack of a vibrant commercial culture has largely precluded transmission of a business- relevant education through informal learning from one's family or community.

The education curriculum at all levels would benefit from modifications that cater to such entrepreneurial skills and knowledge, which are crucial in a modern economy. Inculcating an entrepreneurial spirit and honing such skills beginning in the school environment would be useful not just for those who go on to become entrepreneurs, but also for those who go into other professions. An inherent bias in the system educates and orients children and youth toward salaried employment. With the changing reality of employment prospects in the country, schools and educational institutions must equally prepare their students for self-employment and entrepreneurship career options, and must make known the significant prospects that exist.

Specialised training programmes to help develop these much-needed entrepreneurial and business skills would benefit youth entrepreneurs immensely. Under the Entrepreneurship Promotion Centre (EPC), several entrepreneurial training programmes have been conducted since 1990. However, these were not specifically targeted to youth. In 2004 the Small Business Resource Centre (SBRC) was established under the EPC to implement basic entrepreneurial training for youth [See Box 6.3] and provide mentoring and support services.

The youth entrepreneurial training programme, as with the CGS, could benefit from greater media coverage and stronger advocacy to enhance its awareness among youth. The lack of widespread awareness about the course among the intended beneficiaries severely diminishes its potential reach.

Box 6.3

The Basic Entrepreneurship Course

The Basic Entrepreneurship Course (BEC) is a training programme offered by the Small Business Resource Centre (SBRC) for youth entrepreneurs in conjunction with the CGS financing scheme.

The two-week course provides the basics of entrepreneurship and small business management skills and knowledge. It supplements the specific vocational training that the youth entrepreneurs have already undertaken. Youth are taught the fundamentals of establishing and running a small business, including the basic aspects of marketing and financial management. The youth also learn how to prepare simple business plans and project proposals. While core instructors provide the theoretical underpinning of the course, this is considerably enriched by the participation of guest speakers from the private sector, who share with participants their real-world business experience and practical insights. Feedback from participants indicates this is one of the most useful aspect of the course.

The first BEC was conducted in spring 2004 with 18 candidates. Following positive feedback from the first batch of participants, the SRBC plans to organise two courses each year instead of one and to conduct refresher sessions.

With the recent significant rise in rural unemployment levels, and considering the strong policy emphasis on stimulating off-farm rural enterprises, similar youth entrepreneurship courses can be made available in rural areas by a mobile training team from the EPC or *Dzongkhag* business incubator units. This will facilitate the increased participation of rural youth, who otherwise may be excluded given the costs of coming to Thimphu. The course content may also need to be fine-tuned to suit the local context and a degree of flexibility could be included in considering eligibility.

iii) Business Support for Youth Entrepreneurs

The extent and quality of business support available for young entrepreneurs may be the vital difference between success and failure of an enterprise, particularly in the initial few years after the start-up. The valuable lessons learnt from the Entrepreneurial Development Programmes (EDP) strongly reflect the need for close business monitoring and advisory inputs. Such post-training and business support services, particularly guidance and mentoring, are likely to be even more pertinent in the context of youth entrepreneurs, given their relative inexperience. For instance, the youth entrepreneurship experience in many countries reflects a better entrepreneurial performance record for those youth who participated in programmes that had effective mentoring components.



The SBRC, which conducts the Basic Entrepreneurial Course, is responsible for providing small business support and mentoring services for Bhutanese youth entrepreneurs. The two participating banks are also available in principle to provide counseling and post-training business services for youth clients. In reality, the small business support that is so critical for youth entrepreneurs remains a weak link. Areas that need strengthening are briefly reviewed below.

Mentoring and counseling activities could be powerfully reinforced through the involvement of interested, experienced business people from appropriate backgrounds to help youth entrepreneurs through the crucial phases of establishing their businesses. Mentors would provide practical business advice and function as sounding boards for discussing business strategies. This would complement what backup support both the SBRC and lending banks offer and, more importantly, would provide young entrepreneurs with much-needed intimate knowledge of a particular business and would offer helpful contacts. These are aspects that neither the banks nor the trainers of the SBRC may be able or be inclined to provide.

The SBRC's function of providing business support services mainly for its trainees necessarily excludes a very large number of youth entrepreneurs who do not participate in its entrepreneurship programme. An equal need exists to further improve the quality of the business support services and expand them to all youth entrepreneurs. This is severely hampered by the limited staff, facilities and in-depth professional experience at the Centre. Institutional strengthening and development of human resources of the SBRC would thus go a long way towards improving the quality, scope and reach of the small business support services it provides.

Finally, business support can also include financial incentives provided by the Royal Government to encourage youth to engage in entrepreneurship. The tax policy and regulations currently do not offer any preferential tax treatment for youth-based enterprises. Allowing a tax holiday in the start-up years for small enterprises begun by youth would benefit and encourage young entrepreneurs. To avoid possible misuse of this incentive, it could initially be linked with the SBRC's entrepreneurship training and the Credit Guarantee Scheme, then expanded as appropriate checks and balances are developed.

Chapter 7

Enhancing youth employability through education and vocational training



bhutan national human development
REPORT 2005
the challenge of youth employment

Chapter 7

Enhancing Youth Employability through Education and Vocational Training

Despite the progress we have made in the field of education, many of our young people are not equipped with the skills required for productive employment ... and some may have aspirations that may be difficult to fulfill.

.....[This] raise[s] broader issues about the effectiveness of the nation's policies in the fields of education and human resources development. [It] point[s] to the need for us to reassess the role and functions of education with the aim of correcting conceived imbalances and removing impediments to the nation's further development. This reassessment must go beyond 'training plans' ... [and] greater attention will need to be given to demand-side considerations aimed at achieving an improved match between the social demands for education and the future requirements of the economy, on the one hand, and the imperative of creating productive employment, on the other.

Bhutan 2020: A Vision for Peace, Prosperity and Happiness

Even as unemployment levels among youth are gradually rising, there has been a strong demand in Bhutan's labour market for skilled workers and those with market-relevant educational attainments. This presents a paradoxical situation where youth unemployment co-exists with chronic labour shortages. It also gives rise to a situation of a segmented, almost dualistic, labour market, based on differential wage levels and expectations, as well as a gap between skill requirement and existing manpower availability. Many early school leavers who enter the labour market each year are regarded as unemployable since they lack the skills and/or the levels of functional literacy required. In addition, it is known that many youth choose to remain economically inactive simply because they believe they do not have the relevant skills to be employed. Unattractive remuneration, lack of incentives and poor working conditions are some of the other probable reasons. This structural predicament has been widely regarded as a major explanation for the present levels of youth unemployment even while jobs are still available.

Recognising this mismatch, the Royal Government has introduced several reforms in the education system and initiated numerous vocational and skills-based training programmes to enhance youth employability. This is expected to provide youth with suitable opportunities to develop skills and aptitude essential in the workplace. An overview and analysis of the ongoing educational, vocational and skills development activities geared towards improving the employment prospects for youth is provided.

Education

It is widely accepted that Bhutanese youth, even while lacking the skills or sufficient educational attainments, strongly desire high-quality employment that pays reasonably well, is regarded with dignity in Bhutanese society, has career growth and training prospects and enjoys some degree of security. This is not in any way unusual or unreasonable and reflects an aspiration of youth around the world. If these aspirations are to be realised, however, they must be realistically matched with higher, qualitative and market-relevant education. Moreover, education has a defining role in preparing young people for the workplace through inculcating good values and attitudes and imparting a broad range of essential life and workplace skills; all have an enormous bearing on employability and employment. Research in many other countries has shown that education levels have a strong relevance to the ability of youth to obtain and retain full-time employment, which translates into higher incomes, more training opportunities and overall career prospects, including promotions. In Bhutan as well, the rise in income and reduction in poverty have a strong correlation to educational attainment, as reflected in Chapter 3. Thus, higher educational attainments and the reductions in early school dropouts are important determinants for young people's success in the labour market.

The Bhutan 2020 Vision document urgently highlights the imperative for the education system to respond more effectively to job market needs for the productive employment of youth. The policy document *Education Sector Strategy: Realising the Vision 2020* details strategic policy actions to be taken to address this and other important educational concerns. Key elements of these employment-relevant considerations are highlighted here. In particular, the vocational education and training aspects are treated separately since they have special relevance and often take place outside the formal school system.

Improving the Quality of Education

More than ever, a good education constitutes an essential condition to improve prospects for youth employment and boost productivity. While the Royal Government's core education priority is to enhance access to basic education for all, the education strategy now includes a much stronger emphasis on qualitative improvements at all education levels. Of the six strategic objectives enumerated in the education sector strategy, three are directly concerned with raising the levels of education quality, with two more indirectly linked.

Development of a highly motivated, competent teaching cadre is seen as a vital step that will eventually contribute to significant improvements in the quality of education. To a large extent, quality education depends on the quality of teaching and of teachers. To this end, the Royal Government regularly appraises the qualification standards for those who undergo teacher training. Pre-service teacher training and education programmes are periodically revised to include pertinent subjects such as IT, agriculture, career guidance and counseling, and to



incorporate appropriate new teaching techniques. Under the Teacher Learning Programme, the skills, knowledge and qualifications of in-service teachers are upgraded constantly through in-country and overseas trainings and distance education modules. This includes academic, managerial and leadership training programmes.

Innovative, relevant teaching methods are being further incorporated where necessary to improve the quality of instruction. For instance, a multi-grade teaching strategy has been adopted to address the shortage of teachers in schools, particularly those in remote areas that usually have low enrolments. Such measures are intended to ensure that education quality does not suffer unduly and is not neglected in distant areas, where considerable educational disadvantages already exist. To further stimulate upgrading of education quality, innovation grants for schools are soon to be available to around 160 schools. These are expected to help advance student achievements, develop the learning environment, and address specific constraints that impede the delivery of quality education.

Simultaneously, the objective of quality education is being pursued through increasing the number of teachers in schools to bolster the teacher-student ratio, and through quantitative and qualitative improvements in school infrastructure and education facilities. The shortage of teachers remains a critical problem, particularly in rural areas. Financial incentives need to be enhanced, in addition to the subsidised housing and small hardship allowance that rural teachers receive.

The capacity of the two teacher training institutes in the country have been enhanced considerably, in addition to maintaining minimal standards for selected teacher trainees. As a short-term measure, the training of teachers in regional institutes on a cost-sharing basis or through available scholarships could be explored, as was done in the past. Meanwhile, in expanding and improving school infrastructure to deal with increased enrolments and reduce class size, care is being taken to rationalise expenditure of the limited resources.

While the physical learning environment remains important, education ultimately has more to do with content. Efforts to improve the curricula and textbooks are being made, and education content is gradually being adapted towards the needs of a modernising economy while maintaining a strong cultural orientation. A major review of the school curriculum, particularly for the subjects of English and mathematics, is under way. IT is also being incorporated in the curriculum.

The extent and scope for improving the quality of education is influenced by the effective capacity for organisational self-introspection to evaluate the system's strengths, weaknesses, constraints and challenges. This can provide realistic assessments of what needs to be, and can be done. Evaluation, monitoring and feedback processes can significantly augment this self-assessment capacity. Within the education community, annual education conferences provide an

important national forum for wide-ranging and detailed discussions; deliberations feed directly into education policy. This is normally preceded by district-level education conferences and internal school meetings that provide essential inputs. Besides informal interaction between parents and teachers, engagement of parents and the community in improving education standards is also carried out through institutional arrangements including the parent-teacher association and school management board. Such interaction among relevant stakeholders must continue to be strengthened and promoted.

Reducing the Numbers of Early School Leavers

Students dropping out of school early remain a significant challenge for education in Bhutan. This has implications for potential declines in functional literacy levels, the loss of scarce resources and, notably, premature introduction into the workforce without proper skills. As the annual labour force surveys consistently reveal, joblessness is especially acute among early school leavers.

The overall dropout rate has been increasing gradually, from 3.8% in 1995 to 4.29% in 2004. In absolute terms, the number of school leavers has virtually doubled in this period, from 2,872 to 5,267. The highest percentage of school leavers occurred at Class X, with more than one-third of students in this grade dropping out. The main academic reasons appear to be that many students fail in the tenth standard examinations or are unable to acquire sufficient academic marks to continue to higher secondary education. On the positive side, student survival rates to at least Class VIII have been improving, from 48% in 1996 to 67% in 2003. Furthermore, indications are that girls have better chances to complete their lower secondary education compared to boys. However, both these developments need to continue to middle and higher secondary education.

Various studies provide additional insights into causes of school dropout, some of which lie outside the school system. According to a study by the Ministry of Education, Status of Access to Primary Education of the Girl Child in Bhutan, the most widespread reasons for dropping out at



the primary level for both boys and girls were failure in examinations and refusing to go to school. For boys, the most frequently cited reason was to join monastic schools. For girls, the most important reason appeared to be that their help was needed at home. The study notes that only a marginal gender difference in the dropout rates existed, with slightly higher dropout rates for girls.

The study further identified underlying factors responsible for leaving school early. These appear to be mainly related to the inability to pay nominal school costs; difficulties at home; parental attitudes that perceive a weak link between education and employment prospects; lack of boarding facilities and school feeding; safety concerns for children traversing difficult paths and poor quality of education. An interesting observation contained in the study is that the active promotion of non-formal education could have the unexpected effect of increasing dropouts, since many parents actively consider continuation of their children's education through NFE centres as a good substitute.

Life Skills Development and Career Education

The formal curricula in schools are being changed to promote the acquisition of a broad range of life and job skills. Life skills education, promoting lifelong learning and imparting basic vocational skills and knowledge through vocational clubs have already been introduced and are being strengthened. These are additionally supported by career counseling services now available in many schools.

Efforts are being made in schools to augment the learning of valuable life skills through integration with academic subjects as far as possible and through the scouting programme, career counseling, vocational clubs, games and sports and other activities. So far, 1,160 peer leaders from 47 schools have been trained to assist scoutmasters in implementing the life skills education programme and 5,165 scouts have participated in it. The programme is also to be expanded to all schools featuring scouting. Meanwhile, values education is closely related to life skills education and is being actively promoted at all levels, particularly at the secondary level.

An important aspect of life skills education relates to the ability to learn throughout life, which can prove invaluable for young Bhutanese in a rapidly evolving job market. As the Bhutan 2020 Vision articulates, educational institutions need to imbue in students a natural curiosity for learning and the acquisition of new knowledge and skills that will help them in the world of work. This will depend to a great extent on how effectively the education system can promote a culture of lifelong learning and provide continued access to learning resources and opportunities, particularly for those who may have dropped out or never enrolled. The Royal Government has initiated several activities intended to support lifelong learning, including promoting reading programmes in schools, strengthening and expanding non-formal education,

Box 7.1

The School-Based Vocational Club Programme

Basic vocational training was introduced in several schools in 1999 through the creation of vocational clubs. The programme was implemented to help promote interest in vocational training and careers and to provide basic skills training. It was further intended to instill a sense of dignity and acceptance of vocational trades and provide an opportunity for students to creatively use their leisure time. This was seen as helping prepare students for formal vocational training or making an easier transition into the workplace. Since the programme was initiated, 1,256 students have participated.

Fourteen schools currently hold the programme and have more than 500 active club members. Participating schools have multi-skilled instructors, are provided with small revolving and training-cum-production funds for club activities and are modestly equipped. The latter has been identified as a particular constraint.

Vocational clubs provide basic orientation and skills training in carpentry, masonry, plumbing, weaving, electrical wiring, agriculture and bookbinding. Themes of the vocational clubs can be more diverse and are determined by the interest of students, but this is limited by equipment requirements and the availability of qualified instructors.

Evaluations of the programme have been extremely positive and indicate that the vocational clubs are generally successful in imparting basic skills, building students' self-esteem and providing useful services to the community. On the basis of these positive assessments, the Royal Government is considering expanding the programme to all middle and lower secondary schools.

and introducing continuing education programmes. Continued support and improvements for these and other innovative programmes must be provided in order to enhance lifelong learning.

In addition to life skills education, basic skills education is being carried out in schools through the school agriculture programme, basic skills training through vocational clubs [See Box 7.1], and temporary winter employment for students. These are intended to provide students with an orientation to the world of work and allow for an easier transition from school to workplace. While it is too early to assess the impact, as many of these programmes have just been introduced, certain difficulties are already evident.

One particular aspect of career education deserves special attention. This is the need for schools to reorient student attitudes so that they regard self-employment and entrepreneurship as viable employment options, which may even offer better prospects than salaried employment. This will need to be complemented with entrepreneurship-oriented education that fosters appropriate skills and values at an early age.



The shortage of teachers with relevant career education backgrounds to conduct these important life skills education and career development activities also remains a prime concern. However, the real challenge and difficulty will lie in how successfully life skills education and relevant basic skills are effectively integrated into the school curricula, particularly at the secondary level, without overburdening students.

Vocational Education and Training

The skills endowment of the Bhutanese labour force is particularly weak. Between 2001 and 2004, about 56% of the labour force had no education, including non-formal or religious education. Even for youth, close to half of those employed were uneducated. In addition, a common complaint about young job seekers in the private sector concerns their lack of appropriate skills. While no data exist on the share of the labour force having vocational skills, it is considered to be very low, particularly among youth.

The mismatch between youth skills and labour market demands is partly related to the preference for general education over vocational education and training among youth. Traditionally, the former has been associated with employment in the civil service, vocational education and training did not enjoy sufficient prestige in Bhutanese society and was widely regarded as a lesser option. Now, however, the limited intake capacities of vocational training institutes is increasingly becoming a bottleneck, with institutes not being able to accommodate the growing numbers of youth seeking vocational training. Questions have arisen in the private sector on the quality of vocational training courses, as to whether or not they sufficiently reflect market demand.

These important issues are at the heart of the Royal Government's efforts to expand, diversify and improve vocational education and training under the 9th Plan. In recognition of the gravity of the youth employment situation, vocational education and training has received a much higher priority under the current Plan period than in the past. It is increasingly viewed as a critical instrument through which youth employability and productivity can be significantly enhanced. Numerous activities are being implemented that are expected to equip new entrants for the labour market with appropriate skills and expertise, an overview of which is provided below.

Strengthening the Institutional Framework for Vocational Education and Training (VET)

The Royal Government is developing and implementing a comprehensive vocational education and training system that includes design of a vocational qualification framework, on which modular training courses for different vocational occupations will be based. Under the national system, the accreditation and quality assurance aspects are to be implemented and monitored under the recently established Bhutan Vocational Qualifications Authority (BVQA).

In addition to operationalising the national vocational qualification framework, a detailed VET policy and appropriate strategic plans of action are being drawn up. These will further improve and expand vocational education and training, based on the needs of the market. Efforts are also being directed at strengthening partnerships and coordination among concerned stakeholders to continuously upgrade and fine-tune vocational training programmes. In addition to undertaking initiatives to support vocational programmes within the education system and promote the image of trade vocations, the Department of Human Resources is implementing programmes to upgrade the aggregate skill levels of the labour force. It is also working to increase access to vocational education and training and to improve its quality, as detailed below.



To effectively discharge all of these responsibilities, institutional strengthening of the Department of Human Resources is considered vital. As such, various initiatives have been undertaken to strengthen management control systems and develop the organisation's human resources and capacity.

Increasing Access to Vocational Education and Training

Only a handful of vocational training institutes (VTIs) exist in the country, and these combined have a small intake capacity. This greatly limits the availability of vocational training opportunities to only a tiny fraction of youth who enter the labour market each year. Moreover, the VTIs are severely constrained by a shortage of training instructors. Increasing access to vocational education and training has thus become an urgent priority for the Royal Government.

Several new vocational training institutes are scheduled during the 9th Plan, ranging from tourism to local crafts training. Intake capacities of existing VTIs have also been doubled. With the establishment of new VTIs, the expansion of existing ones and the introduction of several innovative vocational training programmes, it is expected that by 2007, about 4,800 trainees will receive vocational training each year. While this represents a fourfold expansion in access, it is still likely to be inadequate; presently, for every applicant admitted, two must be turned away. Moreover, the demand for vocational training is expected to grow even more rapidly.

In addition to developing infrastructure for more VTIs, alternative modes of increasing access to vocational education and training need to be explored. An option being actively promoted is to involve the private sector and civil society to impart relevant vocational training. Several

privately-run IT training institutes, a driving school and a traditional crafts school have already been established, with quality standards and accreditation to be monitored by the BVQA. The Royal Government is also working on developing the capacity of the private sector to deliver vocational and education training. The recent five-year tax holiday scheme introduced to promote vocational education and training enterprises by the private sector is an extremely positive initiative. Similar support measures are needed to further expand vocational training implemented by the private sector.

Providing vocational education and training for Bhutanese through scholarships in regional vocational institutes and work apprenticeship programmes overseas could prove highly feasible; this may not be possible, however, for students learning more traditional crafts. Overseas work apprenticeship programmes hold special potential, as they would be highly attractive to youth. Students would receive moderate levels of income while learning on the job, and this would give them valuable exposure, work experience and a high level of technical skills that otherwise would not be possible. The identification of relevant legal apprenticeship work arrangements with selected countries such as Japan, South Korea and Singapore could be explored.

Expanding access to vocational education and training is not simply about numerical growth in enrolment in vocational institutes, but equally about increasing its reach and relevance to groups such as villagers, rural women and the disabled. Village skills development and special skills development are two non-formal training programmes initiated by the Royal Government to ensure more equitable access to vocational education and training through broadening trade choices, providing flexible delivery modes and appropriately placing training venues. In view of their special importance, a description of these programmes is included in the following.

Improving the Quality of Vocational Education and Training

Improving the quality of vocational education and training is to be mainly addressed through the Bhutan Vocational Qualification Framework (BVQF). Under this framework, the development of occupational standards, testing, certification and accreditation of vocational courses will be carried out to maintain strict quality control of all in-country programmes. Occupational standards and profiles for 15 occupations have been developed. As noted above, a separate body, the BVQA, is mandated with the responsibility of monitoring and ensuring the quality and relevance of vocational trainings.

In addition, a Skills Training Resource Division has been created under the Department of Human Resources as a quality control centre to develop, disseminate, review and improve vocational training curricula, material and training of trainers. Continual upgrading of the skills and knowledge of vocational training instructors thus constitutes a major activity for the unit. Several staff in the unit have already been trained in curriculum development and entrepreneurship training. The latter assumes particular importance in view of the need to

integrate entrepreneurial knowledge and skills as part of the vocational education and training package, since many vocational trainees are expected to start their own enterprises.

An important criterion for judging the quality of a vocational programme relates to its employment orientation. This is being pursued through a widely consultative process and engagement of relevant stakeholders in virtually every stage of the design and development process. Bodies that influence labour training policy, such as the Industry Training Committees, are widely representative and include relevant experts with in-depth practical knowledge and insight in a particular field. Promotion of private sector partnerships in vocational education and training additionally allows for frequent interaction on training issues and facilitates the free flow of formal and informal feedback. This is critical to making vocational education and training more employment- oriented and relevant to market needs.

Meanwhile, a comprehensive labour market information system (LMIS) that monitors needs and changes in the market can not only help make important labour policy decisions, but is also essential for developing relevant, quality vocational programmes and improving existing ones. A small LMIS unit has recently been created in the Department of Employment and preliminary activities are being carried out. However, the unit is short-staffed, inadequately equipped and requires considerable support before it can initiate the activities and functions it is expected to fulfill.

Apprenticeship Training

The Apprenticeship Training Programme (ATP) was introduced in 2000 as a non-formal programme to further promote skills development of out-of-school youth in order to mitigate youth unemployment and ease the transition from school to workplace. This was further expected to reduce the shortage of skilled workers in the private sector, particularly in occupations for which no training mechanisms exist. An additional objective was to promote a wider acceptance of such occupations.

Since 2002, 155 trainees have undergone a year's apprenticeship in various occupational trades with a large number of private sector enterprises. Apprentices are paid a small monthly stipend; most are trained as computer hardware technicians, auto mechanics and small electronics repair specialists.

An impact assessment analysis found the programme effective, relevant and cost-effective and recommended it be expanded to include a greater number of apprentices and an increased number of trades. The analysis conveyed that, in general, this had been a very positive experience that provided significant benefits for apprentices and participating enterprises alike.



The analysis further highlighted the need to improve some aspects of the programme and raised certain issues. More than half of those trained under the ATP were employed, but no information was available on the others, the study noted. The need to maintain proper documentation and records of apprentices and improve the selection process was highlighted. The study further stressed the need to monitor labour market conditions to help determine new trades to include under the programme. The 9th Plan estimates that more than 1,500 apprentices will be trained by 2007. However, to achieve this target and have a more meaningful impact on alleviating youth unemployment, the programme intake must be expanded significantly. A need exists to understand why interest is currently limited.

Village Skills Development

Before 1996, rural communities and rural youth had little access to basic skills training. The Village Skills Development Programme was initiated nine years ago to provide these communities with needs-based skills training to promote income and off-farm employment generation prospects. The programme also was intended to contribute to the long-term retention of people in rural areas and reduce rural-urban migration; promote sustainable rural development through meaningful participation of rural communities in local development activities and revive and preserve traditional arts and crafts.

While participation was open to all, the programme sought to target school dropouts, unschooled individuals, women and the poor. Under the programme, 665 villagers have been trained in 40 villages, and there appears to be a very clear demand for these trainings in rural and semi-rural areas. The trainings imparted are generally of two kinds: General Basic Skills Training includes carpentry, furniture making, electrical wiring, plumbing, tailoring, brick and stone masonry, rammed mud wall construction and electric stove repair and maintenance. Village-Specific Trainings, meanwhile, focus on traditional arts and crafts such as textile weaving. Some training courses have been complemented with orientation classes that generate an awareness of entrepreneurship and self-employment opportunities. Others have sought to integrate basic education goals such as literacy (including numeracy) and life skills education into skill development trainings.

A formal evaluation⁸ of the Village Skills Development Programme in three villages, along with the Royal Government's experience in implementing activities in other villages, provide useful assessments of benefits, strengths, constraints and challenges. Generally, there appears to be a clear need and strong demand for the programme. The assessments also reflect that the skills imparted are being effectively acquired and used, but that the scope of training needs to be diversified.

⁸*An Evaluation of the Pilot Project Findings and Recommendations. UNESCO, 2003.*

Box 7.2

YDF's Carpentry Skills Training Programme for Out-of-School Youth in Zhemgang

In 2004 the Youth Development Fund (YDF) initiated a Carpentry Skills Training Programme for out-of-school youth in Zhemgang. The project represents a notable example of the engagement of a Non-Governmental Organisation in addressing the country's youth employment issues – one that clearly illustrates the benefits of directly linking vocational training to employment opportunities.

Zhemgang was chosen for the project implementation because rural communities in the district are among those with the lowest household income levels in the country. A high number of school dropouts also exist. Sixteen youth from different villages were selected to participate in a four-month carpentry training programme. In addition to the core carpentry training, the youth also received instruction in starting a small business and environmental management. They were provided with basic carpentry tools and equipment, along with local mentors from the district engineering units, who advised the trainees and helped them build their carpentry careers. The trainees were further organised as a self-help group to enable them to undertake larger work orders, extend each other mutual support and provide an example in the community to stimulate more self-employment practices.

To ensure that the trainee carpenters gain valuable on-the-job experience and an initial start-up, these youth are to be contracted to supply and repair furniture and perform relevant maintenance work at schools in their areas. The youth are thus assured of at least a few years of gainful employment that could prove critical as they acquire fuller proficiency. This direct link from training to employment and the mentoring/support processes could be replicated for other vocational programmes. Many such programmes often do not have adequate linkages into the workplace, either through access to finance, business support or employment opportunities. In turn, this can significantly affect attrition levels of young people from vocations they train for, particularly in the first few years.

Training of the first batch of 16 has only now been completed and the trainees attached to schools in their villages. An impact assessment study will be conducted after several years; on the basis of the findings, a decision will be taken by the YDF whether to introduce similar projects in other parts of the country.

bhutan national human development
REPORT 2005

Notwithstanding resource constraints, the programme is seen to be cost-effective and clearly feasible. Strong community support for these activities, a network of VTI instructors to implement trainings and train local trainers, and the widespread availability of community learning centres or community halls as training venues have been cited. It was further found that the broad educational approach of combining skills development with basic education and entrepreneurial awareness is highly relevant, since it fulfills pressing rural community needs for basic and entrepreneurial education as well as productive skills. Indeed, a strong argument has been made for expanding the current entrepreneurial awareness sessions to include more detailed instruction in marketing, basic accounting and management, and ways to start micro-enterprises.

Several areas of concern need to be addressed to improve the programme, according to the assessments. These include strengthening professional inputs and support for trainers, improving training material, expanding on-the-job training and training-cum- production and incorporating post-training follow-ups consistently.

The evaluations further point to some product marketing issues that are not immediately or directly related to village skills training, but that have an important bearing on the economy of rural communities and their enhanced employment opportunities. This is expected to influence the design of diverse village skills training programmes in the long term, since rural communities will seek to gain skills for which there is maximum potential for income and employment generation. The assessments highlight the imperative to enhance market access for village products and produce, given that this will fundamentally determine the sustainability of farm and off-farm activities. The importance of developing a more diverse range of ideas beyond weaving, carpentry or furniture making is stressed. The development of small handicraft and agro-processing industries and implementing of related training in these areas are seen as having significant potential. However, the assessments point out a major need for proper market surveys and relevant research, which can effectively help, identify and link village production and skills training to real market demands.

On the organisation and management of the Village Skills Development Programme, the assessments call for the development of an operations manual; improved coordination and collaboration among relevant government agencies; increased support and engagement from the district and/or regional administrations; an internal evaluation process of the training; and facilitating contact between participants of different programme areas to enhance learning and skills development. The assessments further argue for a greater integration and strengthening of linkages between non-formal education and Village Skills Development Programmes.

Chapter 8

Sustainable livelihoods for youth in the renewable natural resources sector



bhutan national human development
REPORT 2005
the challenge of youth employment

With 79% of the population living in rural areas and 75% of the workforce engaged in the RNR sector, youth unemployment and migration can best be addressed by measures promoted in RNR.

9th Plan Main Document [2002-2007]

The renewable natural resources (RNR) sector including agriculture, livestock and forestry, remains a hugely important part of the national economy even as the country makes the rapid transition from a basic agrarian economy to a more modern one with the emergence of strong industrial and service sectors. The RNR sector still accounts for a large share of the GDP, remains the major source of livelihood and employment for most Bhutanese and generates significant hard currency export earnings. At present, the sector contributes about one third of GDP and remains the single largest contributor to the gross output of the economy. Around 80% of the country's population currently depends on agriculture for their livelihood, while the sector further provides employment for about two thirds of the national workforce. Additionally, horticultural exports generally account for more than half of all hard currency earning exports and constitute a vital source of rural household incomes. Apart from these, agriculture is critically important from the perspective of national food security and nutritional intake.

The further development of viable economic opportunities within the RNR sector can be pivotal in the context of generating decent rural employment and sustaining livelihoods, particularly for rural youths. As the 9th Plan document emphasises, youth employment concerns can best be addressed through measures promoted within the RNR sector. This will additionally help alleviate poverty in rural Bhutan. It further assumes even greater significance in the light of the limited employment absorption capacity in the faster growth areas of the modern economy and the ever-quickening pace of the rural-urban migration. Moreover, the continued sustainability and success of Bhutan's agricultural base will depend crucially on the availability of a regular supply of interested and educated young farmers and the ability of rural farming communities to retain some of their youth. As it is, farming communities are already suffering from acute labor shortages, which may only be exacerbated with time.

Even as the RNR sector will not be the dynamo of economic growth, promoting the expansion of productive agriculture and the sustainable utilisation of renewable natural resources to help secure the sustainable livelihoods⁹ for many Bhutanese youth will be vitally important. This in turn is likely to have a significant impact on the national efforts to maximize GNH and realise its human development objectives.

⁹The discussion of youth employment prospects in the RNR sector is subsumed within a larger treatment of sustainable livelihood perspectives as this is more appropriate in a rural context

A Profile of the Renewable Natural Resources Sector

In 1990, the RNR sector constituted 44% of the GDP but this has been steadily declining and stood at 27% of GDP in 2003. The relatively slower growth in the agriculture and forestry sub sectors and the much faster growth of the industrial and service sectors have contributed to this fundamental shift. In 2003, the RNR sector grew only by 1.7% in contrast to growths of 9% and 10.2% in the secondary and tertiary sectors, and as compared to the overall real GDP growth rate of 6.8%.

Agriculture Production

Agriculture proper accounts for 11.5% of the total GDP and 43% of total sector output. Overall, agricultural production has nevertheless grown modestly despite the limited arable land available for cultivation and growing farm labor shortages owing to rural urban migration trends. As reflected in Table 8.1, despite the significant fluctuations in production, cereal crop production increased modestly between 1992 and 2003. This modest expansion of agricultural production was largely derived from improved yields, but agricultural productivity is still regarded to be low for all cereal crops.

Paddy and maize are the major staple crops in Bhutan and together constitute around 90% of the total cereal crop production. Paddy production increased from 43,000 MT in 1992 to 45,805 MT in 2003. This modest production decline is linked to the reduction in the total land area cultivated for paddy. The percentage of farm households in Bhutan cultivating paddy

Table 8.1		Agricultural Production		
		1992	2000	2003
Major Cereal Crops	Production In 1,000 MT	Production In 1,000 MT	Production in 1,000 MT	Production in 1,000 MT
Paddy	43	68.6	45.8	45.8
Maize	40	77.3	49.7	49.7
Wheat	5	4.4	4.6	4.6
Barley	4	1.7	2.18	2.18
Millet	6.5	3,793	2.9	2.9
Buckwheat	6.1	2,887	2.2	2.2
Major Cash Crops				
Apple	3.7	5.1	5.7	5.7
Oranges	31.2	29.6	36.3	36.3
Potato	32.7	35.4	40.5	40.5
Vegetables	-	-	6.9	6.9

Source: FAO, RNR Statistics, MoA, 2000, 2003

bhutan national human development
REPORT 2005

dropped from about 67% in 1989 to 56% in 2003. This has been attributed to several factors such as the fragmentation of land holding, conversion of paddy fields for alternative crop cultivation and the expansion of urban and development infrastructure into traditional paddy cultivation fields.

Maize production virtually doubled from 40,000 MT in 1992 to 77,298 in 2000, but declined to 49,681 MT in 2003. The land under maize cultivation has also declined and this would suggest an improvement in productivity. Both paddy and maize production were utilised for own consumption and less than 1% of the total production was sold in either the domestic market or exported. Subsistence cereal crop production has never been sufficient to meet the domestic consumption needs for a rapidly growing urban population and the country remains a net importer of food grains. While rice and wheat imports have been fluctuating, food grain imports have been increasing on the whole and the country imported 54,911 MT of rice and 34,917 MT of wheat and wheat products in 2003. The increase in rice imports reflects the growing consumption needs of a large expatriate labor force and the changing dietary patterns in the country from other food grains to rice as a principle staple.

A noticeable trend in agricultural production is the declining share of cereal crop production to agricultural GDP and the increase in the share of horticultural production. The share of cereal crop production to agricultural GDP declined from 63.5% to 58% between 2000 and 2003, while the share of horticultural production grew from 31.6% to 37.7%. Vegetable production remained about the same in that period, between 4.9% and 4.3% of agricultural GDP.

The potato has emerged as a major cash crop for most Bhutanese farmers and its cultivation has spread to virtually all parts of the country. The area brought under potato cultivation has been steadily expanding. About one third of all farmers in the country are now cultivating potato as compared to less than a quarter in 1992. As a result, potato production has grown from 32,700 MT in 1992 to 40,532 MT in 2003, about half of which is exported and constitutes the single largest crop export for Bhutan in both volume and value.

The other two principle horticultural products cultivated in the country are apples and oranges, accounting for 93.5% of the total fruit production. While apples are mainly grown in the Thimphu and Paro valleys, oranges are grown in the foothills of all five southern districts where there cultivation is possible. Apple production in the country has expanded from 3,700 MT in 1992 to 5,692 MT in 2003. Moreover, there are excellent prospects for increased production through the introduction of cultivation in other suitable areas in the country as road access to markets improves. Orange production grew marginally from 31,300 to 36,311 MT in 2003. Apple and orange production are both expected to increase significantly over the next few years as many non-fruit bearing trees start producing.

Over 91% of the production of these two tree crops are sold in the local and outside markets and have emerged as important foreign exchange earners. In 2003, the exports of apples and oranges contributed to 63% of all hard currency exports and were valued at Nu.165 million. The sale of other horticultural products to India including fruits, potatoes and vegetables accounted for 4.3% of the total Rupee trade in 2003 and was valued at Nu. 254 million. The price of cash crops has fluctuated, though on the whole price trends have been upward. The significant price fluctuations for both food grain and horticultural products over the years reflect the significant market vulnerability and risks that farmers continue to face.

Livestock Production

Livestock production accounted for 8% of GDP in 2003 and 30% of sector output. Around 78% of all farming households in the country own and rear livestock to provide meat and dairy products and for use as draught animals and manure source. Cattle constitute the main livestock reared and account for close to half of livestock head. Other livestock include yak, sheep, pigs, equines, goats and poultry. With the steady introduction of new and improved cattle breed, 11% of all cattle in the country are currently of improved breeding stock, which has helped increase livestock productivity. While a significant portion of meat and dairy products is still retained for own consumption, surpluses are increasingly sold in domestic urban markets. Livestock products provide around 21% of the total incomes of rural households and constitute a valuable source of cash income for rural households.

The Royal Government's strategy to strengthen livestock production for enhancing rural livelihoods has focused on improving livestock breed, supplying these improved breeding stocks to farmers and providing the necessary animal health services. As livestock productivity is highly dependent on the quality of feed and fodder, considerable efforts have been devoted to improving livestock pastures through provision of free fodder seeds and necessary equipment, subsidising the cost of transporting fertilisers and providing support for fodder tree plantation and fodder conservation. More recently, several initiatives have been undertaken to stimulate more commercial level operations of livestock production through promoting a wider establishment of dairy farms, milk cooperatives and marketing systems throughout the country, with the long term goal of fully meeting the growing urban demands for animal products, currently met through imports.

Forest Production

Bhutan has rich tracts of forest land with 72.5% of the country's total land area under forest cover. The country's forests constitute a valuable livelihood source for its people and provide firewood, timber, fodder, and non-wood produce such as medicinal and



aromatic plants and exotic mushrooms that have a high economic value. These high value niche forest resources could emerge as a key growth area and major source of revenue for rural communities. Forest products presently account for 7.2% of GDP and 27% of sector output.

Revenues generated from forestry in the past constituted a major source of national revenue but declined drastically following the intentional downscaling and control of logging activities in the early nineties in the interests of forest conservation. Following a national ban on the export of raw timber and logs in 1999, forest revenues declined further. In 1994, forest revenues from logging were assessed at Nu. 111.66 million. This declined to Nu. 61.85 million in 1998 and was at Nu. 39.21 million in 2003, which constituted about 0.77% of the total national revenue. With the country's strong environment policy to conserve its forest resources, the harvesting of timber is likely to be limited to domestic market consumption and thereby will remain a limited source of growth in the RNR sector. The future prospects of growth in the forestry sub-sector are therefore clearly linked to the sustainable utilisation of non-wood forest resources.

Promoting Sustainable Livelihoods for Youth in the RNR Sector

The RNR sector offers considerable scope and potential for sustaining employment and livelihood opportunities for Bhutanese youth, even as many of them have strong preferences for careers in the modern sectors. In addition to stimulating employment generation in the private sector and enhancing employability through education and vocational training, the promotion of sustainable livelihoods for youth in the RNR sector must remain a core element in the country's national strategy to address the concern of youth employment.

The relevance and importance of the sector for the livelihoods and employment of youth cannot be overemphasised as the employment strategies being nationally debated and popularly suggested often overlook the genuine possibilities that exist in the RNR sector, simply because it is regarded as a low or non-growth sector with limited potential to expand employment. With the appropriate interventions and investments, the RNR sector, particularly agriculture, can and must become more than just a residual employer or the last career option for Bhutanese youth. To that end, considerable efforts need to be channeled into improving the quality of employment and sources of livelihoods in the sector and creating favourable social conditions in rural areas in terms of better health and education opportunities, to sufficiently motivate and attract young people.

Raising Rural Livelihoods through Agricultural Productivity and Diversification

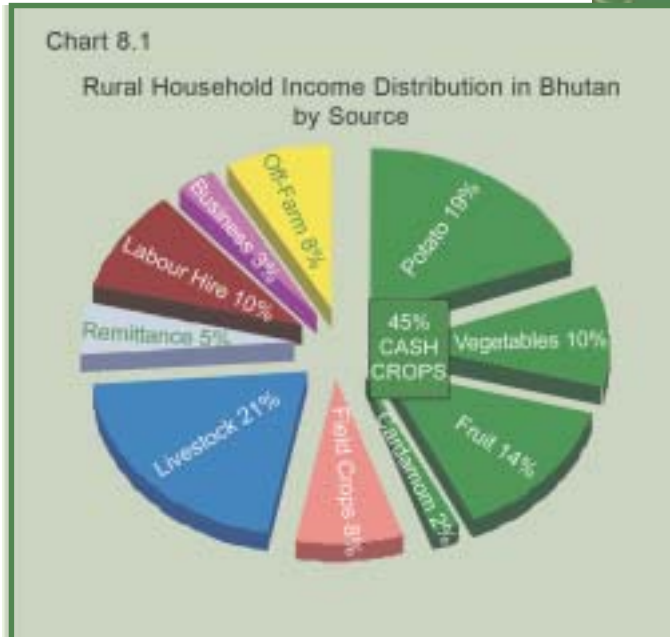
An agricultural strategy centered on the promotion of small farm development through increased productivity and adoption of cash crop and high value niche crop cultivation can significantly improve rural livelihoods and enhance the efficiency of resource use in agriculture. Improved agricultural productivity and the diversification of crop cultivation resulting in increased farm

output and incomes can also have beneficial spin-off multiplier effects on other off-farm and downstream rural economic activities thereby contributing to a strengthening of the rural economy.

While agricultural productivity has increased in Bhutan, it is still very low in comparison to world averages. There is ample scope to further raise agricultural productivity despite the well-known difficulties of productive farming on steep mountain slopes. The Royal Government is actively pursuing this through various measures such as introducing high yielding crop varieties and improving quality of seeds; undertaking extensive agronomy research; supporting appropriate farm mechanisation through the supply of agricultural machinery, tools and implements and providing a wide range of agricultural extension services and inputs. The development of farm infrastructure such as irrigation channels, farm roads and market/storage facilities must continue to be strengthened in order to enhance agriculture production and productivity and links to markets.

The diversification of agricultural activities to embrace a more widespread cultivation of high value produce such as cash crops and exclusive niche agricultural items provides an even more compelling argument for sustaining rural livelihoods and raising the household incomes of farming communities. A gradual shift away from cereal crop cultivation to more commercial oriented agricultural produce is already discernible and the trend reflected in the growing share of cash crop production in the agricultural GDP. At the household level, about 45% of the total income of a rural household in Bhutan derives from cash crop cultivation as compared to 8% for cereal crop production [Chart 8.1]. As iterated, horticulture products also constitute a major portion of the country's convertible currency exports and provide rural farming communities with much needed cash incomes.

The wider expansion of cash crop cultivation around the country, though, is severely constrained by the limited access to markets. Generally, farm incomes and the viability of cash crop cultivation tend to decline as the distance of farms from markets increases. Many farming communities in Bhutan are distant from existing road heads and this adds to the transportation costs and involves very real risks of crops perishing en route to markets. These considerations can deter farmers from cultivating more remunerative crops. With increasing distance, access to the



necessary agricultural inputs and services become even more restricted. Expanding the feeder and farm road network to enhance the access of rural farming communities to markets and goods and services is, therefore, a highly necessary pre-condition and is a top rural development priority for the Royal Government.

There are several other constraints known to inhibit the wider dispersion of cash crop cultivation and that affect its returns. These relate to the low economies of scale of cultivation due to the high fragmentation of land holdings and limited household capacities; frequent crop damage by wild animals, pests and insects; the lack of basic modern entrepreneurial and farm management skills; inadequate access to financial resources and the high cost of capital from informal rural credit sources; weak market linkages and vulnerability to price fluctuations; and deficiencies in maintaining adequate product quality standards, particularly those that are destined for export markets. Addressing these constraints adequately, particularly those relating to marketing and quality standard issues will determine the level of success that Bhutanese farming communities enjoy in enhancing their sales in export markets and within the discerning urban markets in the country.

Enhancing Rural Livelihoods through Livestock Production

Livestock are valuable assets of farming communities in Bhutan and as Chart 8.1 shows, livestock rearing generates about one fifth of the total income in a rural household. As with crops, improving the production and the productivity of livestock and moving it from subsistence levels to more commercial scale operations will greatly improve rural livelihoods and reduce the extent of poverty in rural households.

A major challenge to furthering livestock productivity in the country relates to the need to further improve the breeds of farm animals and expand the provision of animal health services. Several innovative programs are being initiated in this regard and need to be strengthened further. Even as the supply of improved breeds of animals to villagers are subsidised to an extent, the purchase of livestock still involves large cash investments that can take up the entire savings of farming households. Many of the poorer households still retain much of their inferior quality livestock as they are unable to afford the full payment to purchase the improved breed of cattle or other livestock. Improving rural credit access for the purchase of improved livestock breeds and the introduction of cattle swap initiatives could help increase the numbers of cross breed cattle and other livestock in rural communities. The need for adequate financing will probably be even more critical in the context of those farmers desiring to set up small dairy farms or simply a larger scale of dairy operations.

Box 8.1

A Small Scale Dairy Farming Success Story

Phub Dorji and Tandin Wangmo were a young couple who resettled from Thimphu and started a small dairy farm at Bunur Sasungsa in Chukha Dzongkhag in 1995. With some savings and the employment benefits that Phub Dorji collected on retiring from his job at the Department of Tourism, they started a dairy farm with 14 heads of local cattle. The poor milk production of these cattle barely sustained the family and they were compelled to purchase a Mithun bull. This rapidly increased their herd size and the quality of his cattle breed. The family was also supplied a Jersey cross as a breeding bull from the district livestock authorities. To cope with a growing herd, they further developed his farm infrastructure with a loan from the Bhutan Development Financial Corporation (BDFC).

Phub Dorji and Tandin Wangmo now boast a herd of 75 cattle and production levels of between 40-50 bottles a day in summer and 20-30 bottles a day in winter. With the sale of dairy products, the family comfortably earns Nu. 24,000-30,000 a month, besides meeting their own consumption needs. This is tantamount to more than five times what earned when he was in the civil service.

The couple attribute their success in establishing their dairy farming enterprise to the wide range of support services and the active guidance of the livestock extension authorities, the availability of financial support from the Bhutan Development Financial Corporation and their own enthusiasm, attitude and hard work. Phub Dorji and his wife strongly believe that there is enormous potential for others, including youths, to emulate their singular achievements.

High Value Niche Products: A Future Growth Area

The cultivation or harvesting of exclusive and high value niche non-wood forest resources for exports such as medicinal plants, mushrooms and essential and aromatic oils, hold promising economic opportunities for rural communities.

Bhutan has around 400 medicinal and aromatic plant varieties and it is in this area that the country truly enjoys a distinctive comparative advantage. It was not without reason that the country was popularly known in the region as the land of the medicinal herb. However, while the country's neighbours of Nepal, India and China account for close to half of all herbal exports to a 160 billion US\$ global herbaceutical market, Bhutan at present does not have any significant herbal exports. With the global herbaceutical industry expected to grow into a trillion dollar industry by 2020, the Royal Government has begun to explore the possibilities of sustainable commercial cultivation or harvesting of high value herbal plants. Some of these



Cordyceps Sinensis: Yartsa Goenbub or the Winter Worm and Summer Grass

Cordyceps or Yartsa Goenbub as it is locally known in the country, is an extremely rare species of plant with enormous commercial value in view of its highly acclaimed rejuvenating, therapeutic and aphrodisiac properties. Cordyceps grows in the wild in the higher regions of nine districts in Bhutan and its harvesting was legalized in 2004.

To help and protect the interests of local farmers and herders who harvest the plant, the Ministry of Agriculture established a minimum floor price for the medicinal plant at Nu. 37,000 a kilogram in 2004. The record price paid for a single lot of the annual harvest touched Nu. 87,100 a kilogram that year and reached Nu. 98,000 in 2005. In 2005, on the basis of the taxes paid, the total annual harvest of Cordyceps sold in June 2005 was calculated at Nu. 6 million, which with time could well match the export earnings of other horticultural products.

This has already helped vastly improve the living standards of people living in the higher regions. As a village elder from Lingzhi, Dorji Drakpa, was reported in the national newspaper, Kuensel, saying that the collection of Yartsa Goenbub had become the main source of cash for the people living in higher regions and that the Legalisation [of the Yartsa Goenbub] has changed the living standards and that they are able to buy more rice, better clothes and renovate their houses.

The harvesting process of Cordyceps is being closely monitored and studied to help ensure its long-term sustainability. Market research missions are also being undertaken to collect hard trade data and facilitate linkages with outside markets.

species of medicinal and aromatic plants identified include aconites, star anise, jatamansi, sweritia chirata, pipla and cordyceps. The legal harvesting of the latter, the *Cordyceps sinensis*, and the recent public auction of this high value product highlighted the enormous commercial potential of these medicinal and aromatic plants [Box 8.2].

An issue of major concern is the long-term sustainability of harvesting these high value medicinal and aromatic plants and mushrooms from the wild. Serious concerns exist about the over exploitative harvesting and collection practices that could severely affect the natural regeneration and growth of these plants. There is an imperative to ensure the proper utilisation and management of these valuable resources. Additionally, the possibility of introducing its sustainable cultivation through artificial propagation deserves to be investigated through research and experimentation.

Promoting RNR based Education and Vocational Training for Youth

The education system and curriculum in the country has little practical orientation and relevance suited for pursuing a livelihood in the RNR sector. Most educated youth, including educated rural youth, are disinclined to take up farming as it is seen as an occupation with less prestige and lacking in prospects. Recent efforts to remedy this include the introduction of school agriculture programs to educate youth about agriculture and inform them about the significant opportunities that exist in the sector. Under the School Agriculture Program, student groups in boarding schools are provided agriculture implements, vegetable seeds and fruit tree saplings, basic training and necessary support.

For a more meaningful impact, these activities should be supplemented with a deeper integration of agriculture knowledge and skills in the school curriculum. Appropriate vocational training to develop relevant skills for employment in the RNR sector should be introduced and actively supported. There is a further need to introduce both vocational and school based programs to encourage and train educated youth to become agriculture entrepreneurs.

Improving the Quality of Life for Rural Farming Communities

Promoting sustainable livelihoods for youth in the RNR sector encompasses more than just creating economic opportunities that exist in it. It must be accompanied by vast improvements in the quality of rural life at all levels, including ameliorating the major livelihood constraints faced by rural households and improving access to and utilisation of social services.

The RNR Statistics 2000 Report details the major livelihood constraints faced by rural farmers as relating to crop damage by wild life and pests and diseases, the lack of irrigation water, labor and land shortages and market access difficulties. Many of these are already being addressed through various measures, but need more direct public investments and interventions and could benefit from a more efficient allocation of agricultural resources.



bhutan national human development
REPORT 2005



Chapter 9

Future prospects and imperatives



bhutan national human development
REPORT 2005
the challenge of youth employment

Future Prospects and Imperatives

At the 1995 World Summit for Social Development (WSSD), held in Copenhagen, Denmark, 191 Governments reached a consensus to put people at the centre of development. Participating countries, including Bhutan, pledged to make the eradication of poverty, full employment and fostering of social integration the overriding objectives of development. These commitments were reaffirmed and furthered at a special session of the General Assembly of the United Nations (WSSD+5) in Geneva in 2000.

The third commitment of the Copenhagen Declaration deals specifically with promoting full employment as a basic priority of national economic and social policies and enabling all men and women 'to attain secure and sustainable livelihoods through freely chosen productive employment and work.' This constitutes a solemn pledge by countries to maintain the sustained creation of productive work and quality employment at the centre of national strategies and policies. Here, the goal of full employment is not understood to imply zero unemployment, but rather, the wider interpretation of the adequate availability of employment opportunities for all active job seekers. Full employment is further viewed as a natural, integral function of social development and a critical aspect of it.

Bhutan was among the 189 nations that endorsed the Millennium Declaration in 2000 and is fully committed to achieving the Millennium Development Goals. An important target under Goal 8 of the MDGs emphasises the urgent need to develop and implement strategies to promote decent and productive work for youth. More recently, at the 12th SAARC Summit in Islamabad in 2004, Bhutan and other member countries signed the SAARC Social Charter; under Article V, this Charter endorses a deep commitment to enhance productive employment opportunities for all groups of people, particularly youth.

Bhutan's commitment to these global and regional compacts reflects the immense importance that the Royal Government attaches to the issue of providing gainful employment for all of its citizens, especially youth. The latter issue assumes special significance not only because the goal of full employment is inextricably linked to, and contingent on, the situation of youth employment, but because youth remain a highly vulnerable group whose social integration through productive work is essential for realising the larger goal of GNH.

As this Report has shown, the national issue of youth employment has particularly come to the fore in Bhutan over the last few years, following the exponential increase in the numbers of young educated people entering the labour market in search of quality employment. Addressing the pressing issue of youth employment is likely to pose an enormous challenge for the country. Bhutan's current economic and demographic trends suggest that the gap between the demand for, and availability of, employment for Bhutanese youth is expected to widen, given the nature

and composition of GDP growth in favour of sectors with lower employment co-efficients. While the national economy is expected to continue growing rapidly, growth trends do not suggest it will be labour- intensive or create sufficient numbers of high-quality job opportunities. Employment in the public sector is expected to remain largely at present levels in view of the policy to maintain a small, efficient administration.

In addition, while the country's small private sector has contributed toward alleviating unemployment pressure, this has fallen short of expectations. Indeed, the private sector has been unable to fully fill the employment void created by the lack of employment growth in the public sector. Even though the private sector still represents the best hope for meeting future employment demands, it is highly unlikely that it will be able to generate the vast number of jobs required to cater to the growing numbers of youth entering the labour market. That the youth themselves are reluctant to take up available jobs in the private and rural sectors – and may also not be appropriately skilled for such work – compounds the situation further.

These, then, represent some of the highly challenging aspects of addressing youth employment in the country – challenges that are not simply about the creation of more employment opportunities, but equally, about providing high-quality and dignified employment to a rapidly growing youth population. This final chapter explores certain policy imperatives and options within the prevailing context of the youth employment challenge in Bhutan. Suggested policy considerations are highlighted in boxes.

Employment Creation in Development, Macro-economic and Employment Policy

The employment imperative for youth has been an important focus area of development policy and activities in the country. However, the issue has largely been addressed as a structural predicament, an outcome of the mismatch between available skills and the demands of the labour market. On the basis of this supply-side focus, which represents merely one aspect of the challenge, much of the policy advocacy and efforts have been exclusively focused on vocational

Box 9.1

Priorities

- (Orient macro-economic policy to be more supportive of labour-absorbing growth patterns that will increase the rate of quality employment generation
- (Employment strategy to focus adequately on job creation by and in the public and private sectors



and skills-based training and on facilitating access to jobs. The demand side task of employment creation, however, has not been adequately addressed and has essentially been left to the country's small and undeveloped private sector.

It is widely acknowledged that the overall increase in aggregate demand through appropriate macroeconomic stimulation can directly improve the employment prospects of both youth and adults – but is likely to be more pronounced for youth. Still, the youth employment challenge in the country has not yet been addressed through macro-economic policy tools. This is partially explained by the relatively recent emergence of the youth employment issue, as well as the fact that existing national unemployment figures are hardly alarming by international standards.

Nonetheless, given the projected growth of the numbers of job seekers, future considerations will need to include an orientation of the macro-economic policy framework that effectively promotes employment-friendly economic development. Macro-economic policy must be actively managed to play a more effective role in maximising the full potential of anticipated economic growth, such that it creates a job-rich economy as much as a cash-rich one. This may be done by directing sustained investments into labour-intensive sectors such as RNR, services and niche exports; diversifying the economic and export base; reviving or introducing micro-credit and other innovative small business finance programs; adjusting fiscal and tax policies to provide incentives for enterprise development; and increasing national labour absorption through existing work programmes and large-scale infrastructure development activities.

While a national employment policy is being formulated, a specific youth employment strategic action plan or agenda would also be highly beneficial. Employment strategies and labour market interventions likewise could benefit from a more diverse, innovative approach.

Enhancing the Employability of Youth through Education and Vocational Training

Education and vocational training will remain the foundation for enhancing the employability of youth and preparing them for the world of work. However, efforts to promote the employability of youth through education and vocational training can only be truly meaningful if they are matched by the adequate availability of quality employment.

Greater policy attention needs to be directed towards continually raising the quality of education in schools at all levels and reducing the numbers of those who leave school early. This can be done through significantly reducing the teacher-student ratio, enhancing the quality of teachers and learning resources, raising the basic standard of education, and increasing access to higher secondary education.

Box 9.2

Priorities

- (Continually raise the quality of education
- (Enhance the retention of early school dropouts
- (Strengthen lifelong learning and life skills development in schools
- (Increase the intake capacity of VTIs
- (Encourage the active engagement and participation of employers particularly in the private sector – in developing relevant trainings
- (Incorporate entrepreneurship training along with relevant vocational training
- (Expand support for village skills development and the Apprenticeship Training Programme
- (Explore the possibilities of sending youth for apprenticeship training abroad

Addressing a major concern of employers in the country, young people need to secure significant improvements in their literacy and numeracy skills and acquire a more holistic education that incorporates practical skills, knowledge and attitudes that are relevant for the workplace. This would include instilling in them a sense of the dignity of labour for non-white-collar jobs and livelihoods and ‘breaking the association that appears to exist in the minds of many young people that manual work and skilled trades are the reserve of the illiterate and a sign of “backwardness” ‘ [Bhutan 2020: A Vision for Peace, Prosperity and Happiness].

Activities to promote lifelong learning and life skills and values education are already being initiated in schools, but they need to be considerably intensified and more innovative approaches developed. It is essential that such activities be integrated more effectively into the core curriculum, rather than being largely promoted as extra-curricular. Existing career education programmes in schools can be vastly improved through providing better qualified and trained career counselors, disseminating information and linking up with the private and public sector work environments. A dire need exists to bolster practical skills development activities in schools – which are currently minimal – since these activities can greatly facilitate the school-to-work transition.

Apart from education, vocational training has a vital role to play in enhancing young people’s employability, given that a large number of youth do not have skills required by the labour market. Over the last five years, major efforts have been directed at



instituting a professional technical and vocational education system in the country and at expanding the intake capacities of vocational training institutes. However, the limited intake capacities of local VTIs have proven to be a severe bottleneck. Even with significantly enhanced capacities, about two-thirds of all applicants seeking admission in the institutes still cannot be accommodated. With the projected large increase in young people coming out of the education system and the anticipated demand for vocational training, the expansion of VTIs is an imperative. The necessity exists to design and impart vocational training courses that reflect the demands of the market in order to maximise trainees' prospects for employment. This requires close surveillance and feedback on labour market needs and constant interaction and engagement with employers, particularly in the private sector. Because most vocational trainees establish their own enterprises after training, it would be useful for them to undergo a basic course in entrepreneurship.

Lastly, village skills development and the national Apprenticeship Training Programme are two other vocational training programmes that show great promise and need to be strengthened. In the case of the ATP, a need exists to build up awareness of the programme in order to attract more candidates, as well as to include larger corporate business houses as participating partners. The informality of the arrangement, inadequate remuneration and perception of a lack of credentials could explain the slow uptake of the programme among youth. Exploring opportunities for apprentices to participate in apprenticeship training programmes abroad could greatly stimulate interest in vocational training and help confer more dignity to blue collar jobs.

Employment in the Private Sector

Because the private sector remains small and underdeveloped, the creation of adequate quality employment in the sector remains largely unrealised. The rapid growth and expansion of the private sector will help create more quality jobs and improve wage and working conditions, thus also increasing the attractiveness of employment there among youth. Ongoing efforts to provide the enabling conditions for a more dynamic, vibrant private sector can be accelerated and made more meaningful. More policy attention should be directed towards removing the constraints and barriers that still limit the growth of business and commercial activities. These include the need to continue liberalising the policy environment for private sector development, particularly through more active labour market interventions; introducing relevant reforms to further streamline business licensing and bureaucratic processes and facilitate business growth; improving access to, and lowering the costs of, business finance; upgrading and expanding business and allied infrastructure; and promoting and supporting small and cottage enterprises.

In particular, Foreign Direct Investment has a vital role to play in the growth of the private sector and the expansion of its employment opportunities. The private sector needs strategic partners that can help raise production standards and productivity and enable access to, and

linkages with, overseas markets. Further liberalisation of the Foreign Direct Investment regime will go a long way in creating a more investor-friendly climate. A more proactive and vigorous promotion of FDI is necessary as well, and hence, the urgency to strengthen national capacity to do so.

While the growth of the private sector in general will expand employment opportunities, a need also exists for consideration of specific employment generation activities within the sector. A comprehensive private sector employment strategy is required that takes into detailed consideration the various sectors and approaches that have the best potential for generating future private sector employment.

In particular, a closer look must be taken at the tremendous scope of employment expansion possibilities in small-scale and cottage enterprises and other informal private sector enterprises. Self-employ is likely to emerge as a major avenue of private sector employment generation for youth. Therefore, developing and encouraging entrepreneurship among young people and helping them start their own businesses can be an important part of the sectoral employment strategy. This will entail the revision or redesign of educational and training curricula and vocational programmes to include aspects of relevant business and entrepreneurial knowledge and skills, expansion of the apprenticeship programme among private sector corporations and manufacturing enterprises and adequate provision of finances and support measures such as mentoring to help youth in their start-up. Youth Business International (YBI) is a highly successful model of youth enterprise development that is being replicated in many countries; perhaps the most notable YBI success story is in India, where the local affiliate has helped more than 60,000 young people start up, with a phenomenal business survival rate.

While the construction and manufacturing sectors will remain dependent on low-cost expatriate labour for some time, significant prospects are found for increasing the absorption of youth in these sectors. This may be done through raising youth labour productivity levels via skills training and appropriate technological upgrading, as well as providing more incentives to local industries to use national labour.

Box 9.3

Priorities

- (§Formulate a private sector employment strategy
- (§Provide enabling conditions for private sector growth and expansion
- (§Promote FDI
- (§Encourage small-scale enterprise development
- (§Promote youth entrepreneurship

Promoting Sustainable Youth Livelihoods in the RNR Sector and Off-Farm Rural Enterprises

Box 9.4

Priorities

- (§ Actively promote remunerative agriculture
- (§ Promote off-farm enterprises and support these through village skills development and other inputs
- (§ Improve living and work conditions in rural areas

In rural areas, the active promotion of both farm and off-farm enterprises needs to be encouraged and the rural economy diversified. Increased horticulture production, the cultivation of high-value cash crops and organic produce for export, development of rural tourism and promotion of local craftsmanship and village skills development are key activities that will provide rural incomes

and stimulate employment. Most are at the core of ongoing rural development efforts but need to be strengthened considerably and fast-tracked in cases where implementation has lagged. The development and expansion of various small and cottage manufacturing enterprises in rural areas is also vitally important for the rural economy to grow and provide adequate levels of local employment. However, this goal remains severely constrained by factors such as poor access to capital, lack of modern entrepreneurial and production skills, market access and other issues. Greater efforts need to be made to remove these chronic constraints. In addition, the identification of viable rural enterprises for diverse communities could help facilitate the establishment of more rural manufacturing enterprises. As such, there is an urgent need to expedite the undertaking of business feasibility studies for different districts.

In addition to the above measures towards enhancing rural youth employment, it will be important to create among youth a greater awareness of, and sensitisation to, the significant prospects of the agriculture sector and other rural enterprises. Initiatives need to be taken to capture the interest and commitment of youth and dispel stereotypical notions of agriculture and related activities as having limited prospects. The modernisation of agricultural activity and raising productivity through appropriate mechanisation will help ease drudgery and upgrade the employment quality of farm work. It also will be important to ensure that young people have adequate access to land and other inputs.

Raising the standards of living in rural life through improved access to, and quality of, social services and training is further expected to increase the ability of rural communities to retain youth. This will both ease the pressure on urban employment and reduce critical labour shortages in rural areas. A detailed analysis of 'push' and 'pull' factors that underlie youth migration from rural to urban areas could help remedy this. For instance, review of the *woola* system, which is the labour contribution to community development work, is necessary, since this could have a vital bearing on the future retention and participation of youth in the rural economy.

Youth Employment Programmes

Primarily because increased unemployment is relatively recent, no employment creation/ generation programmes or schemes have been initiated thus far. However, in view of the potential magnitude of required employment generation in the future, specific youth employment programmes directed toward providing wage or self-employment opportunities should constitute part of the overall employment strategy. Youth-focused programmes by themselves may not contribute to an expansion of total employment, since there may be competition between age groups for jobs. Nonetheless, dedicated youth employment interventions can provide supplementary employment, help in the development of useful work skills and experience, and facilitate the entry of youth into the labour market or their own small businesses, in terms consistent with the principle of decent work. A few small employment programmes with focused targeting could be initiated on a pilot basis, in collaboration with the private sector and/or NGOs. These could even be linked to existing vocational and skills training programmes, at the end of which participants are employed for a specific time period. Careful monitoring of pilot programmes or schemes would provide useful lessons learnt for future interventions.

Labour Market Information System and Research

Consideration of policy options for youth employment is severely limited by the quality and availability of data on young people. Developing a meaningful youth employment agenda and appropriate strategies can only be as good as the information they are based on. The information available on youth employment is currently sketchy, however, and requires further improvement, including segregation from the general employment situation in order to capture a more detailed picture. While both the labor force surveys and the BLSS provide some basic information, they do not allow for an in-depth understanding of the youth employment situation based on which important policy decisions can be made. A systematic employment database would further help reduce the extent of the mismatch in skills and needs of the labour market.

A detailed, specific youth employment survey would help address this lack of clarity on the true extent of youth unemployment and underemployment. In addition to carrying out periodic youth

Box 9.5

Priorities

- (Apply consistent, coordinated national efforts to collect, research and analyse data on the participation of Bhutanese youth in the labour market
- (Strengthen the country's labour planning and the labour market information systems through adequate institutional support
- (Promote private employment agencies

employment surveys, this could be supplemented by statistical profiles, qualitative studies and research on pertinent youth employment issues that merit more detailed attention.

For instance, research is needed to determine accurately whether youth are rejecting available blue-collar or manual jobs in the private sector because of cultural or other factors, such as remuneration, job security or the lack of career prospects. Moreover, while it is widely accepted that the youth have high job expectations, there are no supporting data on the specifics of these expectations. The availability of such information would help in labour planning and in building youths' skills and capacities to take up preferred occupations. Many small private sector companies complain of extremely high turnover rates of youth employees, an issue that warrants further scrutiny. It is possible that this high turnover may even contribute in some measure to frequent unemployment or underemployment among Bhutanese youth. Annual labour force surveys also do not provide any data on, nor differentiate between, short- and long-term unemployment. As the latter has more serious consequences, filling in the data gaps on these dimensions will be extremely useful for designing appropriate policy interventions. Other relevant issues that require more study or data include:

- (*Youth underemployment*
- (*Occupational distribution of youth labour*
- (*Wage structures/labour conditions for youth in the private and informal sectors*
- (*Duration of unemployment for youth and long-term unemployment*
- (*Youth employment in the informal sector and future prospects*
- (*Female youth unemployment in urban areas*
- (*Mapping of youth employment opportunities*

The Bhutanese labour planning and labour market information systems are underdeveloped and require strengthening. To this end, institutional strengthening of the agencies responsible for labour force surveys and the labour force database will be essential. In addition, improved collaboration among the statistics collecting units of various agencies, research institutions and youth-focused government and non-government agencies would greatly facilitate more accurate information and analysis and improved policy action.

The extent of unemployment can also be mitigated through the effective dissemination of information about available jobs. While the Department of Employment and local media, including the new internet job portal, provide information about job vacancies, this can be facilitated through the establishment of private employment agencies.

Conclusion

As the experience of many other countries shows, no single or simple solution exists for the issue of youth employment. Efforts to enhance decent employment for youth for their economic empowerment must be directed on several fronts: from the macro-economic policy framework to sector-specific and micro-economic strategies; from promoting sustainable rural livelihoods to easing urban migration; from making education more directly relevant to labour market needs to improving labour productivity in manufacturing; from promoting youth participation in volunteerism to enhancing the dignity and status of blue-collar jobs and self-employment; and from promoting decent employment in the informal sector to sustaining job creation and facilitating access to jobs in the formal sector.

As the Bhutan Vision 2020 document emphasises, the treatment of youth employment must move beyond the mere provision of vocational training opportunities and skills acquisition, even as these investments in education and training for young people continue to remain essential to furthering their employability. Important as these are in the present context, simply facilitating access to jobs and easing the transition of youth into the workplace, without direct job creation and increasing the demand for national labour, will not be sufficient.

The pro-active and integrated treatment of youth employment will necessitate the active participation of many actors and the forging of strong mutual partnerships among them. The responsibility cannot simply lie with either the government or the private sector, but must also more actively involve civil society. Youth themselves and the communities they live in need to be consulted, and their views and perceptions must be built into the national employment agenda. Only then can Bhutan achieve the objectives of Gross National Happiness and constructive human development.

TECHNICAL NOTES 1

Computing the Human Development Index for Bhutan

The Human Development Index (HDI) is based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as a combined measure of adult literacy (two-thirds weight) and the combined gross primary, secondary and tertiary enrolment ratio (one-third weight); and standard of living, as measured by real GDP per capita (PPP\$). The methodology adopted, along with the definition of variables and their measurement, in calculating the HDI for Bhutan is illustrated below.

Fixed minimum and maximum values

To construct the index, fixed minimum and maximum values are established for each of these indicators.

Life expectancy at birth:	25 and 85 years
Adult literacy:	0 percent and 100 percent
Combined gross enrolment ratio:	0 percent and 100 percent
Real GDP per capita (PPP\$):	US\$100 and \$40,000 (PPP\$).

For any component of the HDI, individual indices can be computed according to the general formula:

$$\text{Index} = \frac{\text{Actual } x, \text{ value} - \text{minimum } x, \text{ value}}{\text{Maximum } x, \text{ value} - \text{minimum } x, \text{ value}}$$

If, for example, the life expectancy at birth in a country is 65 years, then the index of life expectancy for this country would be:

$$\text{Life expectancy index} = \frac{65 - 25}{85 - 25} = \frac{40}{60} = 0.667$$

The construction of the income index is a little more complex. Income enters into the HDI as a surrogate for all dimensions of human development not reflected in a long and healthy life and in knowledge; in a nutshell, it is a proxy for a decent standard of living. The basic approach in the treatment of income has been driven by the fact that achieving a respectable level of human development does not require unlimited income. To reflect this, income is discounted in calculating the HDI according to the following formula:

$$\text{Income Index} = \frac{\log y - \log y_{\min}}{\log y_{\max} - \log y_{\min}}$$

The actual construction of the HDI for Bhutan in 2003 is based on the following calculation and values of the HDI components.

A. Life Expectancy Index

The Life Expectancy Index is calculated using life expectancy at birth and the fixed minimum and maximum values. The expectation of life at birth in Bhutan for the year 2003 was estimated at 66.1 for both sexes, 66.2 for females and 66 for males.

The fixed maximum and minimum values were 85 years and 25 years respectively. For Bhutan, the life expectancy index in 2003 would be:

Life Expectancy Index

$$\text{Bhutan (2003)} = \frac{66.1 - 25}{85 - 25} = \frac{41.1}{60} = \mathbf{0.685}$$

B. Educational Attainment Index

B.1 Adult Literacy Index

The Adult Literacy Index is calculated using the adult literacy rate and the fixed minimum and maximum values. Adult literacy in Bhutan for 2003 is estimated at 54%. The fixed maximum and minimum values are 100 and 0. For Bhutan, the adult literacy index in 2003 would be:

Adult Literacy Index

$$\text{Bhutan (2003)} = \frac{54 - 0}{100 - 0} = \frac{54}{100} = \mathbf{0.540}$$

B.2 Combined Enrolment (primary, secondary and tertiary) Index

$$\text{Bhutan (2003)} = \frac{63 - 0}{100 - 0} = \frac{63}{100} = \mathbf{0.630}$$

The Education Attainment Index for Bhutan in 2003 with the appropriate two-thirds weightage for the Adult Literacy Index and a one-third weightage for the Combined Enrolment Index works out to:

$$\text{Bhutan (2003)} = 2(0.540)/3 + (0.630)/3 = \mathbf{0.560}$$



C. Income Index

Adjusted Real GDP Per-Capita (PPP\$) Index

The Adjusted Real GDP Per-Capita Index for Bhutan in 2003 works out to:

$$\text{Bhutan (2003)} = \frac{\text{Log (2,060)} - \text{Log (100)}}{\text{Log (40,000)} - \text{Log (100)}} = \mathbf{0.503}$$

The real GDP per capita (PPP\$) for 2003 is a crude estimation on the basis of the GDP per capita (PPP\$). As no proper evaluation study to determine the PPP\$ value in Bhutan has been undertaken, the figure used here is a rough approximation arrived at solely for the purposes of calculating the HDI value for Bhutan.

The HDI value on the basis of the above calculations is estimated at 0.583.

TECHNICAL NOTES 2

The Human Poverty Index for Developing Countries (HPI-1)

While the HDI measures average achievement, the HPI-1 measures *deprivations* in the three basic dimensions of human development captured in the HDI:

- , *A long and healthy life - Vulnerability to death at a relatively early age, as measured by the probability at birth of not surviving to age 40.*
- , *Knowledge - Exclusion from the world of reading and communications, as measured by the adult illiteracy rate.*
- , *A decent standard of living - Lack of access to overall economic provisioning, as measured by the unweighted average of two indicators, the percentage of the population without sustainable access to an improved water source and the percentage of children underweight for age.*

Calculating the HPI-1 is more straightforward than calculating the HDI. The indicators used to measure the deprivations are already normalised between 0 and 100 (because they are expressed as percentages), so there is no need to create dimension indices as for the HDI. Originally, the measure of deprivation in a decent standard of living also included an indicator of access to health services. But because reliable data on access to health services were lacking for recent years, deprivation in a decent standard of living has been measured by two rather than three indicators - the percentage of the population without sustainable access to an improved water source and the percentage of children underweight for age.

Calculating the HPI-1 for Bhutan

Following the technical note in the Human Development Report 2004, the formula for calculating the HPI-1 is as follows:

$$\text{HPI-1} = [1/3 (P_1^a + P_2^a + P_3^a)]^{1/a}$$

Where:

P_1 = Probability of not surviving to age 40 (times 100)

P_2 = Adult illiteracy rate

P_3 = Unweighted average of population without sustainable access to an improved water source and children underweight for age

$a = 3$

For Bhutan, the P_1 , P_2 and P_3 values are as follows:

$P_1 = 17.3$ percent

$P_2 = 46$ percent

$P_3 = 1/2 [22 \text{ percent} + 19 \text{ percent}] = 20.5$ percent

The HPI-1 value for Bhutan for 2002 is then constructed using the above formula.

$$\text{HPI-1} = [1/3 (17.3^3 + 46^3 + 20.5^3)]^{1/3} = \mathbf{33.34}$$

ABBREVIATIONS

AIDS	Acquired Immunodeficiency Syndrome
ATP	Apprenticeship Training Program
BCCI	Bhutan Chamber of Commerce and Industry
BHU	Basic Health Unit
BIMSTEC	Bangladesh, India, Myanmar, Singapore, Thailand Economic Cooperation
BPSS	Bhutan Private Sector Survey
BVQA	Bhutan Vocational Qualifications Authority
BVOF	Bhutan Vocational Qualifications Framework
CBR	Crude Birth Rate
CDR	Crude Death Rate
CGS	Credit Guarantee Scheme
CMR	Child Mortality Rate
CPSD	Committee for Private Sector Development
DC	Developing Countries
DoP	Department of Planning
DYT	Dzongkhag Yargye Tshogchung
EDP	Entrepreneurship Development Programme
EFA	Education for All
EPI	Expanded Program of Immunisation
EIA	Environmental Impact Assessment
FDI	Foreign Direct Investment
FYP	Five-Year Plan
GDI	Gender Development Index
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
GER	Gross Enrolment Ratio
GNH	Gross National Happiness
GYT	Geog Yargye Tshogchung
HALE	Health-Adjusted Life Expectancy
HDI	Human Development Index
HPI	Human Poverty Index
HDR	Human Development Report
HIV	Human Immunodeficiency Virus
IMR	Infant Mortality Rate

IT	Information Technology
LEB	Life Expectancy at Birth
LFPR	Labor Force Participation Rate
LDC	Least Developed Country
MDGs	Millennium Development Goals
MMR	Maternal Mortality Rate
MoF	Ministry of Finance
NER	Net Enrolment Ratio
NFE	Non-Formal Education
NHDR	National Human Development Report
NHS	National Health Survey
NNS	National Nutritional Survey
NWAB	National Women's Association of Bhutan
NGO	Non-Government Organisation
NSB	National Statistical Bureau
Nu.	Ngultrum [the Bhutanese currency unit]
NTTA	National Technical Training Authority
PHC	Primary Health Care
PLP	Post-Literacy Programme
PPD	Planning and Policy Division
PPP\$	Purchasing Power Parity in US dollars
PSD	Private Sector Development
RGoB	Royal Government of Bhutan
RMA	Royal Monetary Authority
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
STD	Sexually Transmitted Disease
TFR	Total Fertility Rate
TVI	Technical Vocational Institutes
U5MR	Under-5 Mortality Rate
UNDP	United Nations Development Programme
VET	Vocational Education and Training
VSDP	Village Skills Development Programme
WB	World Bank
WHO	World Health Organisation
WSSD	World Summit for Social Development
WTO	World Trade Organisation
YES	Youth Employment Summit



REFERENCES

- Bhutan, Royal Government of "Bhutan 2020: A Vision for Peace, Prosperity and Happiness." Planning Commission (1999).
- Bhutan, Royal Government of. "Bhutan Living Standard Survey 2003." National Statistical Bureau (2003).
- Bhutan, Royal Government of "Bhutan Millennium Development Goals Report 2002." Ministry of Finance (2003).
- Bhutan, Royal Government of. "Bhutan National Human Development Report 2000: Gross National Happiness and Human Development – Searching for Common Ground." Planning Commission (2000).
- Bhutan, Royal Government of. "Education Sector Strategy: Realizing Vision 2020 Policy and Strategy." Ministry of Health and Education (2003).
- Bhutan, Royal Government of. "Employment Creation Strategies for the First Year of the 9th Five Year Plan." Ministry of Health and Education (2003).
- Bhutan, Royal Government of. "General Statistics 2004." Ministry of Education (2004).
- Bhutan, Royal Government of "General Statistics 2003." Ministry of Education (2003).
- Bhutan, Royal Government of. "Human Resource Development Master Plan for Private and Corporate Sectors (2002-2007)." Ministry of Health and Education (2002).
- Bhutan, Royal Government of. "National Accounts Statistics 1980-2003." National Statistical Bureau (2004).
- Bhutan, Royal Government of. "National Labour Force Survey 2004." Ministry of Labour and Human Resources (2004).
- Bhutan, Royal Government of. "National Labour Force Survey 2003." Ministry of Labour and Human Resources (2003).
- Bhutan, Royal Government of. "National Labour Force Survey 2001." Ministry of Labour and Human Resources (2001).
- Bhutan, Royal Government of. "National Labour Force Survey 1998 & 1999." Ministry of Labour and Human Resources (1999).
- Bhutan, Royal Government of. "Ninth Plan Main Document [2002-2007]." Planning Commission (2002).
- Bhutan, Royal Government of. "National Health Survey 1994." Department of Health Services, Ministry of Health and Education (1994).
- Bhutan, Royal Government of. "National Health Survey 2000." Department of Health Services, Ministry of Health and Education (2000).

- Bhutan, Royal Government of. "Poverty Assessment and Analysis Report 2000." Planning Commission (2000).
- Bhutan, Royal Government of. "Renewable Natural Resources Statistics 2000." Ministry of Agriculture (2000).
- Bhutan, Royal Government of. "Selected Economic Indicators – June 2003." Royal Monetary Authority of Bhutan (2003).
- Bhutan, Royal Government of. "Selected Economic Indicators – December 2004." Royal Monetary Authority (2004).
- Bhutan, Royal Government of. "Statistical Yearbook of Bhutan 2004." National Statistical Bureau (2005).
- Bhutan, Royal Government of. "Statistical Yearbook of Bhutan 2003." National Statistical Bureau (2004).
- Bhutan, Royal Government of. "The Middle Path: National Environment Strategy for Bhutan." National Environment Commission (1998).
- Bhutan, Royal Government of. "National Revenue Report 2003-2004." Ministry of Finance (2004).
- Bhutan, Royal Government of. "National Revenue Report 2002-2003." Ministry of Finance (2003).
- Bhutan, Royal Government of. "Recommendations for Creation of Gainful Employment in the Long Run by the Private Sector." Committee for Private Sector Development (2002).
- Bhutan, Royal Government of. "Walking the Extra Mile. Selected RNR Statistics 2003." Ministry of Agriculture (2003).
- United Nations Development Programme. "Human Development Report 2003 - Millennium Development Goals: A Compact Among Nations to End Human Poverty." Oxford University Press, (2003).
- United Nations Development Programme. "Human Development Report 2000." Oxford University Press (1990).
- World Bank. "Bhutan Private Sector Survey." (2002).

